February 1988

**OFFICIALLY SUPPORTED
EXPORT CREDITS**
Developments and Prospects

**K. Burke Dillon and Luis Duran-Downing
with Miranda Xafa**

World Economic and Financial Surveys

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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., 1984–85 or January–June) to indicate the years or months covered, including the beginning and ending years or months;
- / between years (e.g., 1985/86) to indicate a crop or fiscal (financial) year.

“Billion” means a thousand million.

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

Preface

This study is based on discussions of Fund staff with export credit agencies and government authorities of the ten major industrial countries plus Spain during April and May 1987. The discussions were attended variously by one or more of the authors, who are all staff members of the Fund's Exchange and Trade Relations Department. Jorge Marquez-Ruarte of the Asian Department participated in the meetings in Japan.

Developments in officially supported export credits have been the subject of two earlier papers prepared by Fund staff. The first staff report on this subject, "Export Credit Cover Policies and Payments Difficulties," was published as Occasional Paper No. 37 in August 1985. The second report, "Export Credits: Developments and Prospects," was published in the World Economic and Financial Surveys series in July 1986. These papers were prepared on the basis of staff visits to Group of Ten governments and their export credit agencies in the spring of 1984 and the fall of 1985.

The agencies participating in the present review were the Export-Import Bank of the United States (Eximbank); Export Credits Guarantee Department (ECGD), United Kingdom; Compañía Española de Seguros de Crédito a la Exportación S.A. (CESCE), Spain; Compagnie Française d'Assurance pour le Commerce Extérieur (COFACE), France; Hermes Kreditversicherungs—Aktiengesellschaft (Hermes), Federal Republic of Germany; Export-Import Insurance Division, International Trade Policy Bureau, Ministry of International Trade and Industry (EID/MITI), Japan; Export Import Bank (JEXIM), Japan; Export Development Corporation (EDC), Canada; Exportkreditnämnden (EKN), Sweden; Nederlandsche Credietverzekering Maatschappij, N.V. (NCM), the Netherlands; Sezione Speciale per l'Assicurazione del Credito all'Esportazione (SACE), Italy; and Office National du Ducroire (OND), Belgium. The staff also had discussions with the secretariat of the International Union of Credit and Investment Insurers (Berne Union) and with staff of the Organization for Economic Cooperation and Development (OECD).

The paper has benefited from comments by the export credit agencies and the national authorities of the 11 countries visited, as well as by Executive Directors of the Fund. The descriptions of policies and practices and the discussion of issues reflect the views of the staff and should not be attributed to any individual agency or national government nor to the management and Executive Directors of the Fund.

The paper is organized as follows: Section I provides an overview of the role of export credits in the debt situation. Section II describes the general stance of export credit and cover policies at present and reviews recent developments in export credit policies and programs. Section III opens with a discussion of certain properties of available export credit statistics which preclude a reliable estimate of export credit flows, but then goes on to assess, on the basis of information gathered during the staff visits, trends in export credit and cover commitments, developments in the financial situation of agencies, and prospects for export credit flows. Section IV discusses certain issues that arise regarding the impact of export credit flows on the development process, particularly with respect to

PREFACE

the quality of projects financed and the availability of export credits and cover to support private investment. In Section V the staff sets forth certain concluding observations in view of the findings of the study.

Appendix I reviews the evolution of export credit and cover policies toward 14 developing countries. Appendix II describes certain shortcomings of the statistics available on export credits and outlines the approach adopted in this paper to make very rough adjustments for the impact of exchange rate movements on the reported statistics. Appendix III outlines the main provisions of the OECD Arrangement on Guidelines for Officially Supported Export Credits. Appendix IV provides a glossary of terms commonly used in the area of export credits.

Research assistance was provided by Amelia Wu and Hassanin Ali Ismeail of the Exchange and Trade Relations Department. The authors would like to acknowledge the methodological contributions of David Lipton of the Asian Department in the area of exchange rate adjustments. They wish also to thank the editor, Jennie Lee Carter, of the External Relations Department.

I

Role of Export Credits in the Debt Situation An Overview

The *raison d'être* and the primary mandate of official export credit agencies is to facilitate and promote national exports through the direct provision of export credits and/or the guarantee of privately financed transactions. At the same time, each agency operates within the objective that its activities be self-supporting over time. A clear distinction is generally drawn between export credit and cover facilities, which are to be provided on a commercial basis, and aid programs, which are intended to provide concessional finance for development.¹

Until the emergence of widespread debt-servicing problems in 1982, export credit agencies encountered little difficulty in reconciling their dual objectives. All of the export credit agencies covered by the present study had until that time recorded cumulative surpluses on their operations and, while certain debtor countries had encountered payments difficulties and sought a rescheduling of their obligations to official creditors, these situations were viewed—and responded to—as isolated events. In this environment, the export promotion objective predominated and competition among the agencies was strong.

From 1982 onward the agencies faced a dramatic change in their operating environment. While over the five years 1976 through 1980 only 8 countries had

sought a rescheduling of debts to official creditors, in 1983 alone Paris Club agreements were concluded for 16 countries (Chart 1). These reschedulings, as well as the accumulation of arrears by other debtor countries, resulted in substantial claims payouts on insured supplier credits and guaranteed bank credits, and the agencies recorded large operating deficits. It was at this time, and against a background of sharply contracting bank flows to developing countries, that the Fund began to focus attention on the activities of the agencies and the role officially supported export credits could play in the new, more difficult economic situation. It was considered that, in an environment of increased risk, the demand for officially supported export credits, particularly guarantees and insurance, would increase and that the export credit agencies could play an important role in maintaining trade finance and, over time, facilitate the transition back to normal debtor/creditor relations. It was in this context that the staff undertook, in the spring of 1984, what was to become the first of a series of visits to the main export credit agencies and their governmental authorities.

The study prepared on the basis of that first series of visits emphasized in particular the policy reaction of the agencies and their authorities to countries in various stages of debt-servicing difficulties. It was found that, largely for competitive reasons and provided that significant arrears had not emerged, agencies as a group had tended to remain quite open for debtors pursuing policies that could be expected to lead to payments difficulties, thus facilitating the postponement of necessary adjustment by the debtor and increasing the likelihood of eventual debt-servicing difficulties. When, however, significant arrears emerged or the debtor requested a rescheduling, agencies normally (and most, automatically) went completely off cover for medium-term business.² Some agencies were

¹ The institutional arrangements for providing official export credit support differ widely from country to country. The export credit agency itself can be a department within a ministry, an independent governmental agency, or even a private firm operating under instruction from, and for the account of, the government. Of the cases studied here, the Federal Republic of Germany and the Netherlands conduct their export credit insurance programs through private companies (Hermes and NCM). In most cases, agency activity is subject to ministerial, and usually interministerial, guidance and review. Throughout this paper, the convention is adopted of referring to the activities, policy stance, and financial position of the agency. It should be understood that the agencies have varying degrees of independence in these matters and that, where the agency is a private firm, the reference is exclusively to its government-mandated business. The term "governmental authorities" is used to refer to the ministry or ministries under whose guidance the agency operates or that are represented on its Board of Directors.

² "Medium term," as used in this paper, refers to all commitments other than short term.

Chart 1. Official Multilateral Debt Renegotiations, 1976–June 1987¹

(Consolidation periods of successive rescheduling agreements)

Source: Agreed Minutes of debt reschedulings.

Note: Numbers (1, 2, 3, etc.) represent start of successive consolidation periods. Representation of dates is approximate. An asterik (*) indicates conditional future rescheduling actually effected. The symbol < indicates dates when arrears were consolidated.

¹ The number of consolidation periods may exceed the number of rescheduling agreements owing to conditional future consolidations becoming effective.

² For rescheduling agreements 2 and 3, consolidation period overlaps with previous consolidations.

prepared to maintain short-term cover if short-term debt was excluded from the rescheduling request and serviced on a timely basis, and such an approach was gaining wider acceptance among the agencies. Once an agency had gone off cover for a rescheduling country, it tended to maintain that restrictive position

until it considered that the debtor's payments difficulties had been overcome and its creditworthiness re-established. In practice, this meant that agencies were typically off cover until two to three years after the Paris Club agreement.

For countries that had experienced debt-servicing

difficulties but were undertaking Fund-supported adjustment programs, the agencies' tendency to go off cover when a Paris Club rescheduling was requested meant that officially supported export credits and cover were often withdrawn just at the time the country was beginning to implement its adjustment program and were not restored until the program had succeeded in improving the payments position and outlook. This reaction by the agencies and their authorities reflected their concern that, until a debtor had clearly passed its period of payments difficulties, any new credits would be caught up in future reschedulings. For this reason, and recognizing that most countries encountering payments difficulties would require a series of reschedulings, a key factor in agencies' decisions about cover resumption was their assessment of the likelihood of a change in the cutoff date.³ If the original cutoff date was maintained, new credits would be protected. However, for the 12 cases in 1983 and early 1984 in which the Paris Club agreed to a second or subsequent rescheduling, the cutoff date was advanced in 10 agreements.

During that first series of visits the staff also explored with the agencies and their governmental authorities the reasons why efforts to mobilize export credit support in the context of concerted financing had been largely unsuccessful, despite the cooperation of the creditor governments concerned. The discussions focused in particular on Brazil and Mexico, where creditor governments had indicated amounts of officially supported export credits that could be available to these countries in the context of their Fund-supported programs, and also on the efforts undertaken for Turkey under the OECD Consortium agreement and for Yugoslavia within the 1983 Berne Agreement. Several factors were identified as contributing to the limited success of these efforts. First, for project financing there is generally a lag of several years between a credit or cover offer and disbursement, making such credits an ineffective vehicle for near-term balance of payments financing. Second, the volume of new credits and cover depends not only on the stance of the agencies but also on the volume of imports, particularly capital goods imports, which had tended to drop sharply in the countries concerned. Third, in several instances the effort to mobilize export credit support had taken the form of each agency establishing a special credit line outside its normal cover procedures and programs. This approach proved

administratively cumbersome and the lines were little utilized or used much more slowly than anticipated.

The study prepared after the 1984 staff visits, being the first such staff study, covered a wide range of issues, including the importance of project selection (see Section IV below). Certain of its conclusions had particular relevance when seen in the light of the evolution since then of export credits and their role in the debt strategy. First, efforts in the area of export credits had to focus on the stance of credit and cover policies, that is, the availability of official support; consequent flows would depend on demand and come with a lag. Second, export credit agencies and their authorities needed to reflect more closely in their credit and cover stance the evolution of economic policies in debtor countries, rather than responding to the delayed consequences of those policies; such a change in approach would not only support the adjustment process but also better serve the needs of the agencies and of exporters. Third, maintenance of the cutoff date was essential if agencies were to resume cover for debtors requiring a series of reschedulings.

These conclusions were broadly shared by the export credit agencies and their authorities and were reflected in subsequent developments. Most important, the Paris Club developed, and negotiated rescheduling agreements in accordance with, a debt subordination strategy specifically intended to facilitate the maintenance or more timely resumption of cover for rescheduling countries. The cornerstone of that strategy was a decision to fix the cutoff date firmly at the outset of a series of reschedulings and to give clear priority to the servicing of post-cutoff-date credits, even where that necessitated very comprehensive rescheduling, and even re-rescheduling, of medium-term loans contracted before that date. From mid-1984 through the time of the staff visits in the spring of 1987, there had been 39 Paris Club agreements for Fund member countries that represented the second or more in a series of reschedulings, and in none of those agreements was the cutoff date changed. This firm fixing of the cutoff date, combined with the practice of giving priority to the servicing of short-term trade credits, provided a framework in which export credit agencies generally considered they could have greater confidence that new credits would be serviced on a timely basis.

A second important development was the decision in early 1985 to initiate, within the framework of the OECD Export Credit Group, what was to become a regular exchange of views both on broader issues related to export credits and on policies toward and the outlook for specific debtor countries. While information on actual cover policy stance had for years been exchanged within the Berne Union, whose members are the individual export credit insurance agen-

³ In each Paris Club Agreed Minute a cutoff date is established, and loans contracted after that date are not subject to the rescheduling. During a series of reschedulings, the original cutoff date can be maintained, thus protecting new credits, or the cutoff date can be advanced, thus subjecting new credits to rescheduling.

cies, the absence of governmental representation had, at least for certain creditor countries, precluded a more forward-looking or policy-oriented exchange. In the OECD Export Credit Group, however, it is the governments that are represented. The increasing attention being paid to these questions was also reflected in the discussions at the spring 1985 and subsequent meetings of the Interim and Development Committees. For example, the April 1985 Interim Committee communiqué stated:

For those countries whose external debt has been rescheduled, whose prospects of economic progress are good, and which are undertaking satisfactory adjustment policies, the industrial countries should consider resuming export credit cover, subject to standard national policies.

By the time of the second series of staff visits to the export credit agencies and their authorities, in the fall of 1985, there had indeed been a noticeable shift in cover policy attitudes toward countries that had experienced debt-servicing difficulties. First, the practice of maintaining short-term cover when a rescheduling of short-term debt was not requested had become more generalized. Second, provided the debtor was adhering to its adjustment program, most agencies were prepared to reopen medium-term cover after they had concluded with the debtor the bilateral agreement implementing the Paris Club rescheduling, and provided any payments due under that agreement were being made. While this was an important change, the fact that most reschedulings are on an annual basis and that, typically, bilateral agreements are not concluded until six to nine months after a Paris Club, meant that even this more open stance generally left only a very small "window" during which cover applications could be considered and offers made. Although a number of agencies reported at the time of these staff visits a noticeable decline in applications and offers, the weakness did not appear to be general and data available through 1984 indicated a strong increase in officially supported export credits.

Against the background of the strengthened debt strategy that had been proposed by U.S. Treasury Secretary James Baker III at the 1985 Annual Meetings of the Fund and the Bank, the Berne Union decided at its general meeting in February 1986 to establish a task force on the role of export credits in the debt situation. The report of that task force, which was submitted to the June 1986 Berne Union meeting, concluded:

There appears to be general agreement that, for a country which has concluded a rescheduling agreement and is beginning to implement a recovery program, the provision of new credits can help ensure the success of that recovery

program and that it is in the interests of the export credit agencies to play their part, in parallel with the IMF, IBRD, the regional development banks and the commercial banks.

The report noted the important flexibility that agencies were already exercising in such cases and identified a number of areas where further efforts could be made. With respect to the bilateral "window" problem discussed above, the report noted the importance of speeding up bilateral negotiations and suggested certain procedures that agencies might wish to consider to avoid or minimize the interruption of cover where the bilateral agreements from the previous rescheduling had been negotiated smoothly and were being implemented. The report recommended that, in resuming cover, support should be concentrated on exports that would contribute to the debtor's recovery. Finally, the report suggested that the efforts of agencies might be facilitated by the convening of ad hoc meetings for a timely exchange of information and views in certain cases for debtors undertaking adjustment programs; it was considered that such meetings, which would not be meetings of the Berne Union, should be exceptional and take place only with the agreement of three of the five agencies that had the largest exposure in the market.

In September 1986, shortly after the Fund had approved in principle a stand-by arrangement for Mexico, a group of 12 export credit agencies convened a two-day meeting on Mexico in Brussels. This meeting was attended by staff of the Fund, the World Bank, and the Inter-American Development Bank, and specific sessions were devoted to exchanges of views with the Mexican authorities and with a representative of Mexico's bank advisory committee. The discussion focused not only on Mexico's adjustment strategy but also on Mexico's investment program and the identification of projects and sectors where official export credit support could contribute most effectively to the recovery of the Mexican economy.

The findings of the most recent series of Fund staff discussions with the export credit agencies and their authorities, undertaken in April and May 1987, are presented in the following sections. Most important, agencies' attitudes and actual policy stance toward countries that have experienced debt-servicing difficulties have changed substantially from those that the staff encountered in the spring of 1984. This is true particularly for countries that are in the process of a series of reschedulings and following through on their adjustment strategy. Provided such countries have established a good track record in concluding and implementing bilateral agreements from previous Paris Club agreements, most agencies are now prepared to remain on cover without tightening policies either before the Paris Club meeting or during the subsequent

negotiation of bilaterals. Where cover is temporarily withdrawn for such countries, a number of the agencies are now prepared to continue processing applications on a conditional basis during the off-cover period. Furthermore, several agencies had recently decided, or were considering decisions, to, in one stroke, open cover or reduce restrictions for debtors meeting certain criteria. Short-term cover is now generally available except for countries that have significant short-term arrears or for which short-term debt has been rescheduled.

The agencies and their authorities were virtually unanimous in citing, as the most important reason for this more open stance for rescheduling countries, the successful efforts of both debtors and Paris Club creditors to keep cutoff dates firmly fixed and, in most cases, ensure that short-term debt is serviced on a timely basis. On the other hand, for countries undertaking a first rescheduling, it is still the general practice to maintain a very cautious stance until the debtor has established a track record of implementing both its adjustment program and its rescheduling agreements.

For debtors that have been erratic in their adherence to an adjustment strategy or lax in implementing previous rescheduling agreements, agencies are generally off cover.

Juxtaposed against this increased willingness of agencies to provide new credits and cover was a reported decline in new business. It was the general view that business had been sustained through 1984 or 1985 by projects initiated before debtor countries, including those that had not had debt-servicing difficulties, had begun to respond to the more difficult international environment by cutting back sharply on public expenditures, particularly the very large projects for which official export credit support had typically been sought. More recently, this trend had been compounded by the spending cutbacks in oil producing countries. While the experience differed somewhat between agencies, the overall picture was generally one of a slowing in disbursements, a fairly marked decline in new commitments, and a precipitous drop in new applications and offers.

II

Export Credit Policies and Programs

General Stance of Credit and Cover Policies

The overall trend since the fall of 1985 has been a distinct movement toward a further liberalization of export credit and cover policies. This trend can be seen not only in changes in various programs introduced by the agencies and in their use of policy instruments but also in the evolution over the period since 1982 in their policy stance toward a sample of 14 debtor countries. The evolution of policies toward these 14 countries was reviewed with each agency.⁴

The sample of debtor countries was selected with a view to geographical distribution and to the inclusion of countries in a wide range of circumstances regarding their external position and their relations with official creditors. (Brief case studies for these 14 countries are provided in Appendix I, and a summary of the policy stance of the 11 agencies toward each of these countries at the time of the staff visits is presented in Tables 1 and 2.) In only one of the creditor countries visited did the governmental authorities indicate that the intention was to move toward more restrictive policies, and even then the more cautious position was not yet readily apparent in the actual stance toward individual debtor countries.

The move toward a more open stance has taken various forms. For some agencies it is reflected in specific decisions which, in one step, liberalized the policy stance toward a broad group of countries. More typically it has been the result of decisions taken on a case-by-case basis. This trend is evident in the policy stance regarding both short-term and medium-term

credits and cover, and it is seen most particularly in the stance toward countries that have had debt-servicing difficulties but are undertaking adjustment programs and have regularized their position with official creditors by concluding and implementing Paris Club rescheduling agreements. Also, while the present study is focused on export credit and cover policies toward developing countries, an important current development is that many agencies are making efforts to increase their activity in covering trade with other developed countries. This trend is motivated by a desire to increase premium income, or maintain it at a time when exports are being increasingly directed toward OECD markets.

Policy attitudes and reactions can vary markedly from agency to agency, and for any one agency the stance can be quite different toward individual debtor countries that might appear to be in similar circumstances. Numerous caveats must, therefore, apply to any generalization. Nevertheless, certain characterizations of agencies' stance toward various groupings of countries would appear to be broadly valid.

For debtor countries that have not experienced debt-servicing difficulties, the agencies generally maintain a very open stance and, indeed, are competing aggressively for new business. Policies toward such countries had, in some cases, been tightened in the immediate aftermath of the events of 1982 but were subsequently liberalized as it became apparent that the spread, and particularly the regionalization, of payments difficulties had been contained. Of the countries in the sample discussed with agencies, five had not sought an official debt rescheduling, that is, Algeria, Colombia, Indonesia, Kenya, and the People's Republic of China. For two of these countries at least some agencies had earlier gone off cover, or tightened policies sharply, in response to a temporary emergence of arrears and/or the payments difficulties of neighboring countries. All agencies were by mid-1987 quite

⁴ The discussion here is couched largely in terms of policies on guarantees and insurance, that is, "cover" policies, and the associated policy instruments. For those agencies that also provide direct export credits (see "Instruments of Export Credit Cover Policy," below), the stance on direct credits is generally in line with that on cover, although the instrumentation may differ.

Table 1. Summary of Medium-Term Cover Policy Toward Fourteen Countries

(In number of agencies recording indicated stance)

	General Policy Stance ¹			Types of Restrictions Imposed			
	Open without restrictions ²	Open with restrictions ³	Off cover	Ceilings ¹	Transactions limits	Reduced percentage cover	Extended claims-waiting period
China	9	2	—	2	—	—	—
Indonesia	8	3	—	3	—	—	—
Colombia	4	7	—	6	4	—	1
Algeria	3	8	—	5	4	1	2
Turkey	3	8	—	7	1	4	—
Côte d'Ivoire	3 ⁴	9	—	7	4	2	—
Kenya	2	9	—	4	3	1	—
Mexico	1	10	—	7	5	1	2
Yugoslavia	1	9	1	8	4	2	—
Chile	1	6	4	6	2	—	—
Egypt	—	7	4	5	2	1	1
Argentina	—	6	5	5	3	1	1 ⁵
Brazil	1	3	7	2	2	—	—
Nigeria	—	—	11	—	—	—	—

Sources: The 11 export credit agencies visited (see Preface). Reflects position as of April/May 1987.

¹ If cover is provided over and above ceilings or under the national interest account, the agency is classified as "open with restrictions" and as having a nonrestrictive ceiling.² Includes cases where only security requirements are imposed.³ Includes agencies that consider applications only on a case-by-case basis.⁴ For one agency, applies to private sector only; restrictions apply on public sector.⁵ Private sector only.**Table 2. Summary of Short-Term Cover Policy Toward Fourteen Countries**

(In number of agencies recording indicated stance)

	General Policy Stance			Types of Restrictions Imposed			
	Open without restrictions ¹	Open with restrictions ²	Off cover	Ceilings	Transactions limits	Reduced percentage cover	Extended claims-waiting period
China	11	—	—	—	—	—	—
Indonesia	11	—	—	—	—	—	—
Colombia	9	2	—	—	—	1	1
Côte d'Ivoire	9	2	—	—	—	2	—
Kenya	9	2	—	1	—	1	—
Algeria	7	4	—	1	1	—	3
Chile	7	4	—	2	—	1	1
Brazil	6	5	—	2	1	2	—
Yugoslavia	6	5	—	2	—	3	—
Mexico	5	6	—	1	—	2	2
Egypt	4	7	—	3	1	3	3
Turkey	4	7	—	2	1	1	2
Argentina	3	6	2	1	—	2	1
Nigeria	—	4	7	1	—	1	2

Sources: The 11 export credit agencies visited (see Preface). Reflects position as of April/May 1987.

¹ Includes cases where only security requirements are imposed.² Includes agencies that consider applications only on a case-by-case basis.

open for both short- and medium-term cover for these five countries, although for three of them policies had recently become somewhat more cautious in response to sharp declines in commodity prices.

Credit and cover policies are also quite open for countries that have had a Paris Club rescheduling, provided that the debtor has established a record of fairly consistent implementation of adjustment policies, prompt conclusion of bilateral agreements under previous Paris Club reschedulings, and regular payment of amounts due under those reschedulings. For example, at the time of their most recent Paris Club reschedulings, only one agency had gone off cover for Chile and none had gone off cover for Côte d'Ivoire. Agencies were somewhat more restrictive where countries were implementing previous Paris Club agreements, but it was considered that more time was needed to judge the firmness of the authorities' policy implementation. Also, the governmental authorities visited believed that export credits on commercial terms were not the appropriate form of support for the development efforts of heavily indebted low-income countries. Such support is provided instead through development assistance programs on concessional terms. Most agencies were, however, open for short-term trade cover to such countries provided that the debtor was servicing such credits on a timely basis.

For countries that have only recently initiated an adjustment effort and have yet to conclude or implement the bilateral agreements from their first Paris Club rescheduling, the agencies and their authorities generally take a very cautious stance (see, e.g., Egypt and Nigeria, Appendix I). Agencies tend to maintain that cautious stance at least until there is firm evidence of the authorities' willingness to take needed measures and, sometimes, until there is a record of consistency in implementation. Agencies generally also adopt quite restrictive policies for countries they consider not to have been consistent in their pursuit of an adjustment strategy, or where there have been substantial delays in concluding and implementing Paris Club agreements (see, e.g., Argentina and Brazil, Appendix I). In all of these types of cases the agencies may, however, remain open for short-term cover provided that the debtor has continued to service short-term debt regularly.

As discussed above, the first Fund staff study on export credits had concluded that agencies had tended to stay too open for too long in the debt buildup phase, enabling debtors to postpone adjustment and, thereby, contributing to the eventual emergence of payments difficulties. Agencies and their authorities had generally agreed with this assessment but argued that competitive pressures were such that agencies normally could not tighten significantly without hard evidence of payments difficulties. Although some agencies have

subsequently made efforts to base their policies on more forward-looking assessments, this is one area in which attitudes and practices have changed little since 1984. Most agencies acknowledge this and, indeed, some cited recent examples where they had been fully cognizant of growing internal and external imbalances in the debtor country but had stayed quite open and continued to bid aggressively for new business right up to the time when arrears escalated sharply and substantial claims payouts were made. Then they tightened policies sharply.

This section has set out in broad terms the general response of agencies and their authorities to countries in differing circumstances. The following sections describe the various policy instruments used by agencies and discuss more specifically how cover policies and export credit programs have been adapted to meet the changing objectives of export credit authorities.

Instruments of Export Credit Cover Policy

In all of the countries visited, a system for the guarantee/insurance (jointly referred to as "cover") of suppliers' credits or bank-financed buyers' credits is a key element of the export promotion system. For Belgium, the Netherlands, and the United Kingdom, such guarantee/insurance programs are the only regular vehicle for official support of export financing on commercial terms. However, most creditor countries also stand ready to provide direct commercial finance for exports, usually in the form of buyers' credits. Only in the United States and Canada is the export credit agency the main provider both of guarantee/insurance programs and of direct credit facilities. In the other countries visited, direct credits are provided by a different arm of the government, but in these cases the entity actually doing the direct lending normally requires the insurance of the export credit agency. In this way the cover policy stance of the agency is reflected in the direct lending activity and the direct credits provided are picked up in the statistics on officially supported export credits.⁵

The discussion in this section focuses on the use of policy instruments either to limit the supply of officially supported export credits and cover or to reduce the effective demand of suppliers and banks for cover. Most guarantee and insurance operations are undertaken for the agency's own account. At times, how-

⁵ The present study does not encompass the activities of either the Canadian Wheat Board or the United States Commodity Credit Corporation. Credits granted by the latter are, however, included in the BIS/OECD statistics on officially supported export credits.

ever, its governmental authorities may, for political or commercial reasons, wish to support certain transactions involving greater than normal risks or unusually large amounts. For this reason, five of the countries visited have in place a "national interest account" system; in most, business conducted under these accounts is undertaken explicitly at the direction of the government, and it is sometimes directly for the account of the government.⁶ Export credit guarantees/insurance normally cover both political (i.e., transfer) risk and commercial risk, although different provisions generally apply regarding claims payouts against these two types of risk.

Premiums

Agencies maintain structures of premiums and charges for export credit cover that are not readily comparable across agencies. Premiums vary with the maturity of the export credit, both between short-term and medium-term and, for medium-term credits, generally with—but not in proportion to—the length of the credit. Most agencies also have a system of country risk categories, and the premium increases with the perceived country risk. One agency sometimes classifies public and private buyers in a given country in different country risk categories and may differentiate premiums by exporter for short-term transactions, in light of the payments experience with that exporter's buyers. More generally, within any country risk category, agencies' rate structures also distinguish among buyers, for example, sovereign buyers and one or several categories of nonsovereign buyers. Aside from the basic premium, premium surcharges can be imposed on an ad hoc basis to help limit exposure or to compensate partially for the increased risk of providing cover on certain projects or in certain circumstances.

In the period 1982–84, export credit agencies made upward adjustments in both the level and the progressivity of the premium rate structures in an effort to reflect more clearly the changed pattern of country risks and to offset the financial losses related to the payment of claims arising from debt rescheduling and arrears. More recently, increases in premium rates have been rare, and no agency has made a general upward adjustment in the rates since mid-1985. However, the trend toward further differentiation among market risks has continued.

Until recently, Germany and the United States had been the only countries among those visited that did

not differentiate premiums according to perceived country risk. In May 1987, however, the U.S. Eximbank introduced a new premium structure based on five country risk categories. In announcing this change in policy, Eximbank officials said the new premium structure would enable them to remain open longer and in more markets and charge for the associated risk.⁷ In early 1986, another major agency introduced a system of discounts and surcharges which also have the effect of changing the structure of premiums by making it steeper.⁸ A number of other agencies have undertaken reviews of the country classifications which have changed the effective structure of charges and, in some cases, increased the average premium.

While the general upward adjustment in rates over the past few years has resulted in a significant increase in the premiums charged for cover to most developing countries, for most agencies actual premium income has declined as the increase in premium rates has been more than offset by the falloff in new business (see Section III). Nevertheless, agencies are generally of the view that the increase in premium rates has not been an important factor contributing to the decline in business. This assessment is based on their experience in reclassifying individual debtor countries where, particularly for countries that have had debt-servicing difficulties, even fairly large increases in premiums have had little or no apparent effect on the demand for cover by exporters and banks. At the same time, a number of agencies thought that they might be able to increase their coverage of exports to industrial country markets by reducing the premiums charged on these transactions. The new premium structure announced by the U.S. Eximbank resulted in lower rates for industrial country markets and, as noted above, one other major agency has begun to offer discounts in low-risk markets. Three other agencies were considering lowering premium rates for countries in the one or two lowest risk categories, while keeping the rest of the premium structure unchanged.

Country Ceilings or Guidelines

Most agencies will employ country ceilings where they wish to limit their exposure in a particular market, and the frequency with which such ceilings are applied

⁷ The prior premium schedule did not differentiate by country, and included all private borrowers in one category. Under the new schedule, exposure fees will be based on three factors: the risk category of the country; the class of buyer (sovereign borrowers or guarantors; parastatals, banks; and highly creditworthy private firms, and all other borrowers); and the term of the transaction.

⁸ Discounts of 25 percent can apply for countries in the lowest risk category, while surcharges of 10 percent have been introduced for certain countries included in the highest risk category.

⁶ In addition, in Germany and the Netherlands all officially supported export credit cover is effectively provided under government direction and for government account.

has increased sharply since 1982. Ceilings can take various forms, but there are three basic types: ceilings on outstanding commitments ("exposure" ceilings); annual ceilings on new commitments; and cumulative ceilings on new commitments, counted from the date the ceiling was set and running until the limit is approached or the policy is reviewed for other reasons.⁹

Ceilings may or may not be restrictive. Most appear to be set to provide ample room for the anticipated volume of business. In such cases they serve more as warning lights, intended to trigger a review by the agency's board or the governmental authorities as the ceilings are approached. The result of such a review might simply be a decision to increase the ceiling in line with the increased volume of business. If the decision is to accommodate the increased demand only partly, a strategy might be adopted of raising the ceiling somewhat and, at the same time, bringing into play some of the instruments discussed below to reduce or ration demand. It might be decided that the ceiling should in fact be maintained, in which case the ceiling would be restrictive and the agency would normally begin reviewing applications carefully on a case-by-case basis. When the ceiling was reached, the agency would be effectively off cover; even then, additional business might be undertaken for the "national interest account." For the 14 country cases reviewed with agencies, ceilings were rarely in practice restrictive. In part this may have reflected the low level of demand, but it also reflected that the true restrictive "ceiling" is an off-cover position.

Given that ceilings are rarely in practice the effective restraint as long as an agency remains on cover, two of the agencies visited were considering shifting explicitly to a concept of "exposure guidelines," against which the actual course of new commitments would be reviewed periodically.

Transactions Limits

Another instrument used fairly frequently by some agencies is a limit on either (a) the value of each insured transaction or (b) the amount of insurance provided per transaction. In the latter case, insurance on a large transaction can still be obtained, provided that the exporter is willing to accept the risk on the uninsured part of the transaction. Also, some agencies are making increasing use of risk-sharing arrange-

ments, where all or part of the risk that is not covered by the agency is borne by banks and/or private insurance companies rather than by the exporter.

Transaction limits are most often used to ration business among exporters when the agency is trying to limit or slow the growth of its exposure; in this case, transaction limits may permit the agency to stay on cover and yet remain within its country ceiling. Generous transactions limits may be imposed when an agency is willing to cover regular exports to a market but wants to trigger a review for any large projects that might arise. Also, one agency said that it imposes low transactions limits where the debtor country gives preference to small transactions in permitting payments transfers. Overall, transactions limits would appear to be more effective in limiting increases in exposure than are country ceilings when used alone, perhaps because exporter pressure is diffused.

Reduced Percent Cover

Although practices vary, agencies generally provide insurance or guarantees covering between 85 and 95 percent of the value of the transaction, with the balance of the risk being carried by the exporter or a bank. A number of agencies provide a higher percentage of cover for political than for commercial risk, and some cover a greater part of the risk on buyers' credits than on suppliers' credits. To curb the effective demand for cover in a particular market, some agencies reduce the percentage cover provided on exports to that country. This instrument can be a very effective brake on cover demand, since it requires the exporter or bank to absorb a larger proportion of the risk. Moreover, some agencies base the insurance premium on the value of the transaction, rather than on the insured amount, and in these cases a reduction in percent cover also implies an increase in the effective premium rate. Although lower percentages were reported, agencies in practice rarely reduced the percent cover below 70 or 75 percent, because banks and exporters would generally forgo new business in uncertain markets rather than accept a higher portion of the risk. Indeed, the main reason some agencies do not use this instrument, and most use it only very rarely, would appear to be the strong resistance of banks and exporters.

Extended Claims-Waiting Period

It is standard practice for agencies to specify in the guarantee/insurance contract a time period that must elapse between the due date of an insured payment and the payment of a claim. During this time the

⁹ The term "commitments" refers to agencies' outstanding credits and guarantees/insurance, including both principal and interest and regardless of whether the goods have yet been shipped or received, plus contingent obligations to provide such credits or cover.

exporter or bank must absorb the foregone interest on the overdue amounts or attempt to recover from the importer. The normal claims-waiting period is three to four months. However, a longer claims-waiting period may be specified for exports to a given debtor country, or even to a particular category of buyers within a country. This instrument, which is not used by all agencies, is most typically employed where there are persistent but relatively stable delays in payments from a particular market. Agencies consider that the use of an extended waiting period permits them to stay on cover in a market even when payments delays are relatively long by passing the cost on to the exporter or bank who, in turn, probably generally succeeds in passing it on to the importer through higher prices. Normally, an extended claims-waiting period will not exceed 12 to 15 months, although in very exceptional circumstances some agencies have gone well beyond that period.

Security Requirements

For markets where there has been either a record of transfer delays or a higher incidence of commercial defaults, agencies may impose security requirements beyond those they would normally require. These most typically would be government guarantees (either of payment transfer alone or for all risks, including commercial risks), irrevocable letters of credit or, in extreme cases, confirmed irrevocable letters of credit. Such security requirements are generally not intended to limit demand—although they may have that effect—but to reduce the risk of claims payouts. The question of security requirements for cover for private sector buyers is discussed further in Section IV.

Recent Developments in Policies and Programs

As is evident from the preceding discussion, the impact of export credit cover policies depends not only on whether agencies are open or closed but, where they are open, on the range of instruments used and the restrictiveness with which they are applied. Indeed, it is only by a process of trial and error that the agencies attempt to arrive at a policy stance consistent with their exposure objectives in a market. While it would be extremely difficult to quantify the impact of any set of policies on the volume of new business, it is normally fairly clear whether a move is toward a more or a less restrictive position.

As discussed above, agencies have generally moved toward a progressively more open stance for countries that avoided or overcame payments difficulties in the

period since 1982 or that have rescheduled but have met certain criteria for good performance. The way this process has progressed is illustrated by the case studies in Appendix I. Most typically, agencies will reopen slowly in a market, that is, with a low ceiling and/or a low transactions limit and frequently with reduced percent cover and special security requirements. If payments experience is good, ceilings and transactions limits will be raised over time and other restrictions loosened or eliminated. Finally, ceilings and/or transactions limits may be abandoned.

Although most liberalization has taken place through such case-by-case responses, sometimes agencies or their authorities take policy decisions that affect a broad group of countries. For example, in introducing the new graduated system of premiums discussed above, the U.S. Eximbank announced that, with this new system in place, it intended to be open in more countries and stay open longer, avoiding the off again, on again policies that prevented exporters from establishing themselves in certain markets; at the same time, the normal percent cover for commercial risk on medium-term transactions was raised from 85 percent to 98 percent. Another agency recently introduced a special program to permit opening on a limited basis for countries where the agency would under its normal criteria be formally or effectively off cover. Initially, cover was opened for 23 countries under this program, subject to small ceilings, reduced percent cover, and premium surcharges and with the additional conditions that the export be beneficial to the economic recovery of the debtor country and that the exporter have a past record of selling in the market concerned. If the experience with reopening under these conditions is good, cover policies could be gradually liberalized. Despite the conditions attached, the agency reported that demand for cover under this program was strong.

Other agencies have introduced programs targeted specifically to more liberal provision of short-term cover. One agency took a decision in 1986 to open short-term cover for all but four developing countries; where the agency is closed for medium-term cover, applications for short-term cover are considered on a case-by-case basis. In another case, the export credit authorities decided that, contrary to previous policy, when the agency was off cover for medium-term business, cover of up to 360 days could be provided for exports of capital goods and other exports that would normally be financed on a medium-term basis. In a third case, the governing board of an agency recently decided to delegate authority to the head of the agency, up to certain relatively high limits per country, for setting short-term cover policies, thus permitting greater flexibility in the agencies' response to developments in debtor countries.

As noted above, the export credit authorities of one agency intended to take a more restrictive policy stance in order to reduce the very high cost of the export credit support system. They intended to be off cover in more markets and, in particular, to introduce greater automaticity in the decision to go off cover, particularly when arrears emerged. It was not anticipated, however, that policies would be tightened for countries that were in the recovery phase, implementing adjustment programs, and complying with Paris Club rescheduling agreements.

In addition to reducing effective premium rates for countries in the lowest risk categories, agencies are taking other measures intended to increase their coverage of exports to developed country markets. Two agencies that normally require that policies cover both political and commercial risk have recently begun to offer insurance against only commercial risk for exports to OECD countries. Also, to encourage exporters to cover their business under comprehensive (whole turnover) policies, some agencies are permitting exporters to exclude certain types of transactions or risks, such as exports to affiliated companies or political risk in certain markets.

In an effort to increase business and premium income, agencies have also introduced a wide variety of new facilities or changes in existing programs. The two most general trends have been for agencies to introduce policies covering confirmed letters of credit and to offer policies denominated and payable in foreign currencies. With an irrevocable letter of credit (ILC), the confirming bank still faces the risk that the issuing bank will not be permitted to transfer funds. Recently, exporters had been encountering increasing difficulty in obtaining confirmation from banks, particularly where the confirming bank might need to provision against the contingent liability. To facilitate trade on an ILC basis, a number of export credit agencies have recently begun to offer, or are considering introducing, policies to insure against the transfer risk on confirmed letters of credit. Such an insured confirmed ILC would not be considered as exposure of the confirming bank to the country of the issuing bank.

Although the export credit agencies of Canada, Italy, and the United Kingdom have for many years offered policies denominated and payable in foreign currencies, most agencies until quite recently have offered only policies denominated in the domestic currency. A local bank or exporter could, additionally, purchase limited cover against exchange rate risk, but such policies were quite expensive and rarely used. Recently, however, the agencies of Belgium, France, the Netherlands, Spain, and Sweden have all begun to offer policies denominated in foreign currencies. While

the earlier exchange rate risk insurance was intended to protect the exporter or bank against the risks involved in funding in domestic currency and lending in foreign currency, policies denominated in foreign currency are intended to protect against the risk of nonpayment when the credit is granted and funded in foreign currency. The introduction of such policies would appear to be in response not only to the desire of banks and exporters to avoid currency mismatch but also to the possibility that international capital markets might provide a cheaper or more flexible source of financing for exports. Some agencies that previously provided export credit guarantees only for local banks have recently also begun to offer such cover for foreign bank financing of domestic exports.

Special Programs Introduced by Japan

The recent decision of the Japanese authorities to use the untied loan facility of the Export Import Bank of Japan to provide substantial financing to certain developing countries is by far the most important new program that has been introduced by any of the institutions covered in this study. It is, nonetheless, somewhat outside the scope of this study, since untied loans are not export credits and similar programs would be outside the operating mandate of most or all of the other institutions visited.

Export credit insurance in Japan is provided by EID/MITI. JEXIM is the lending arm of the Japanese export credit system. JEXIM provides yen finance to local exporters, who in turn insure their export proceeds with EID/MITI. Acting in tandem with Japanese banks, JEXIM also provides direct buyers' credits, the bank-financed portion being guaranteed by EID/MITI. JEXIM's operations have never been limited to export financing. In addition to providing import financing, JEXIM introduced many years ago an untied loan program for the finance of resource development in countries from which Japan imports raw materials. It is within the authority of this latter program that JEXIM has now begun to make loans that are neither tied to Japanese exports nor necessarily linked to resource development.

The modalities of the untied loan program are cofinancings with multilateral development banks, direct loans to foreign governments, public organizations, banks and multilateral development organizations, and acquisitions of public bonds. The loans will normally carry fixed interest rates set at market-related levels. The first untied loan as a cofinancing with a multilateral development bank was a cofinancing with the World Bank for Colombia. Subsequently, a US\$1 billion package was provided for Mexico and, in accordance with Japan's "New Programs to Expand

the Financial Flow to the Developing Countries,” cofinancings with the World Bank for Indonesia, the Philippines, Turkey, and Argentina have been approved. Loans to certain other countries are under consideration.

Both JEXIM and EID/MITI have also stepped up their activity in other areas outside the scope of export promotion. In 1983, JEXIM extended its import fi-

nancing facility, previously limited primarily to resource imports, to manufactured goods. In the spring of 1987, EID/MITI introduced a range of new programs, including an import insurance program against the risk of nondelivery and an intermediary trade insurance program intended to facilitate the role of Japanese firms in promoting exports of developing countries to third-country markets.

III

Recent Trends and Prospects

The two previous Fund staff studies on officially supported export credits included quantitative information on trends in credits and cover that were derived variously from data compiled by the Creditor Reporting System of the OECD and by the Berne Union from its member agencies.¹⁰ Certain shortcomings in these data were noted at the time. In particular, it was believed that the stock data were understated because of the omission or late reporting of some rescheduled debts. Also, the data were not adjusted for changes in exchange rates and, therefore, did not permit even an approximate analysis of net flows during a time of sharp realignments in the exchange rates of the major creditor countries.

The staff of the OECD and the Secretariat of the Berne Union are aware of these problems, and the two organizations, individually and in cooperation with each other, are initiating a major effort to identify problems and inconsistencies in the data with a view to improving compliance with the reporting requirements by agencies and governments.¹¹ The OECD also intends to develop the capacity to produce, in conjunction with the BIS, an exchange rate adjusted series on bank and trade-related nonbank external claims on developing countries.

In this context and working closely with staff of the OECD and the Secretariat of the Berne Union, the Fund staff took the opportunity afforded by its recent series of visits to review with each agency the coverage

of its reporting, particularly of rescheduled credits, and to collect information on currency composition with respect both to the group of all developing countries and to the 14 countries discussed with each agency. The findings indicate severe limitations on using the data as presently reported to the OECD and the Berne Union. While the staff has attempted exchange rate adjustments based on the information provided by the agencies, those adjustments are rough, and severe problems remain; the methodology and its shortcomings are discussed in Appendix II.

Even though reliable data are not available, there is no doubt concerning the direction of trends. While their methods of measuring their activity may differ, agencies reported that new medium-term business with developing countries was off sharply. On the other hand, short-term cover for developing countries appeared to be holding up well and, in some cases, increasing.

Problems and Properties of Export Credit Statistics

Inconsistencies in the way rescheduled debts are reported by the agencies present a major problem. Most creditor countries include rescheduled export credits, including capitalized interest on those credits, in their reports to the OECD and the Berne Union. However, neither France nor the United Kingdom, which together account for about one fourth of officially supported export credits from the 11 agencies studied, include rescheduled credits in reports to the OECD Creditor Reporting System. Moreover, for the Berne Union data, rescheduled credits are not reported by the agencies of France, Japan, Spain, or the United Kingdom. These four countries account for 45 percent of officially supported credits from the 11 agencies studied. Not only do rescheduled credits drop out of the statistics reported by these countries, but also it would appear that nonrescheduled arrears often drop

¹⁰ While the OECD data are published jointly with data provided by the Bank for International Settlements in the series "Statistics on External Indebtedness: Bank and Trade-Related Nonbank External Claims on Individual Borrowing Countries and Territories," the OECD is solely responsible for the export credit data in that series.

¹¹ In addition to the efforts being made by the OECD and the Berne Union, the International Compilers' Working Group on External Debt Statistics—with the participation of the BIS, the OECD, the Berne Union, the Fund, and the World Bank—has continued its work on the construction of a framework for external debt statistics and the resolution of methodological and technical issues.

out as well. A further problem is that, in reporting rescheduled credits to the OECD, Japan, the Netherlands, Spain, and certain other countries not covered by the present study report only the amount initially rescheduled and do not report subsequent repayments. The full amounts originally rescheduled are thus carried forward from year to year in the reported statistics. Given that grace periods are just beginning to expire on most of the large volume of reschedulings concluded since 1982, this latter factor has probably not been important to date, but will pose serious problems in the future.

Regarding the currency composition of export credits, it is important to note that the currency in which the guarantee or insurance contract is denominated can be different from the currency in which the underlying export credit is denominated. In reporting to the OECD and the Berne Union, agencies—with one exception—report from the perspective of the currency in which the insurance contract is denominated, as that reflects their contingent liability and is the way they keep their books.

While all agencies are prepared to insure export credits denominated in foreign currency, until recently most agencies could only issue insurance or guarantees denominated in domestic currency. When a policy is issued in domestic currency covering a credit in foreign currency, the standard practice is to write into the contract an exchange rate that will serve as the basis for calculating any future claim payment. Reflecting its actual contingent liability, the agency will carry the guarantee/insurance on its books at that contract exchange rate—that is, the amount of the commitment is fixed in domestic currency regardless of any changes in the exchange rate between the domestic currency and the currency in which the underlying export credit is denominated.¹² In reporting to the OECD and Berne Union, these fixed domestic currency amounts, calculated at a wide range of historical contract exchange rates, are first added together and then converted from domestic currency into U.S. dollars at current exchange rates. As an example, a US\$100 credit insured in deutsche mark at a contract rate of DM 3 = US\$1 would be carried on Hermes's books as DM 300 and reported as the equivalent of US\$150 if the current exchange rate were DM 2 = US\$1. If that US\$100 loan were repaid when the exchange rate was DM 2 = US\$1, Germany's reported outstanding export credits would decline by US\$150. This is correct from the

point of view of Hermes, since the repayment of that loan reduces its contingent liabilities by DM 300, which is currently equivalent to US\$150. Although this is the correct accounting treatment from the point of view of the agency, it means that, without adjustment, these data cannot be used to measure either the stock of outstanding debt or net credit flows.

This problem is mitigated somewhat by the fact that three of the agencies that have traditionally covered a large volume of export credit contracts denominated in foreign currency (i.e., the agencies of Canada, Italy, and the United Kingdom) have also traditionally issued policies denominated in foreign currency.¹³ When the insurance policy is denominated in foreign currency, it is carried on the agency's books and reported to the OECD and Berne Union at current exchange rates. Also, while EID/MITI only issues contracts denominated in yen, it provides the one exception to the standard practice described above; that is, for export credits denominated in U.S. dollars, EID/MITI reports to the OECD in terms of the underlying loan contract rather than the currency of the insurance contract. It would appear that the only cases where foreign currency denominated credits carried and reported at contract rates account for more than one fourth of agency exposure are the agencies of France, Spain, and Sweden. These are, however, important cases.

Given these problems, it is not possible to derive a series that will reflect the exchange rate adjusted flows of export credits. It is, however, possible to calculate an exchange rate adjusted series that shows the change in the agencies' exposure from their own perspective. In other words, an insurance policy for DM 300 in cover would be treated as such regardless of the currency of the underlying loan. This would appear to be a reasonable indicator of the pace at which agencies are making credits and cover available. On this basis, and using the BIS/OECD data, agencies' exchange rate adjusted exposure to developing countries (disbursed principal only, but including any capitalized interest) increased by US\$15 billion, or 11 percent, in 1984; by US\$800 million, or less than 1 percent, in 1985; and by US\$4 billion, or less than 3 percent, in 1986. The exchange rate adjusted BIS/OECD data for the 14 countries included in the sample followed a similar pattern, while the exchange rate adjusted Berne Union series for these countries is essentially flat (Chart 2).¹⁴ It must be underscored, however, that these numbers understate the increase in outstanding

¹² Actually, most agencies' policies specify that in making the claims payment they will use the rate specified in the contract or the current exchange rate, whichever gives the smaller claims payment. Therefore, in practice, agencies are carrying on their books their maximum possible exposure.

¹³ As noted in Section II, a number of other agencies have recently begun to issue policies denominated in foreign currency, but the amounts issued under such policies to date are small.

¹⁴ The Berne Union series used in this report includes outstanding short- and medium-term commitments and unrecovered claims.

Chart 2. All Developing Countries and Fourteen Country Cases: Export Credit Exposure, 1982–86¹

(Exchange rate adjusted stocks; in billions of U.S. dollars)

¹ Data do not represent net flows and should be used with caution in the light of explanations provided in Section III and in Appendix II. The concept "exchange rate adjusted stocks" is described at the end of Appendix II.

² Total commitments, that is, both principal and interest on disbursed and undisbursed credits, including amounts in arrears when reported as unrecovered claims; excludes Colombia.

³ Disbursed principal only.

officially supported export credits to developing countries by the amounts of rescheduled credits not reported. Data as reported by the BIS/OECD, that is, not adjusted for exchange rate movements, are provided in Table 3.

The staff has made its rough estimates of the effective changes in the agencies' exposure, both for all developing countries and for the 14 case studies in Appendix I, based on consultations with the OECD External Debt Division, discussions with the agencies, and data on the currency composition of the agencies' exposure gathered during the visits. The staff calculations do not pretend to be a substitute for the more in-depth

efforts in this field being pursued by other institutions. Given the importance that officially supported export credits have in the context of external debt and financing problems, governments may find it useful to support and encourage the efforts that are presently under way in the OECD and Berne Union to improve the quality of these data.

Trends in Officially Supported Export Credits

In analyzing export credit developments, account must be taken of the long lags involved. For project financing, the lag between an agency's offer of export credit insurance and the actual signing of a commitment is often one year or more, and disbursements normally take place over a period ranging from the second to fifth year after the commitment is signed. Therefore, the slowdown in disbursed credits indicated by the exchange rate adjusted BIS/OECD data for 1985 and 1986 would tend to reflect decisions taken about three years earlier. The Berne Union series, which includes both disbursed and undisbursed credits, provides an indicator of future flows. It is, therefore, important to note that, for the 13 sample countries for which data are available in both series (i.e., excluding Colombia) the BIS/OECD series rose by US\$14 billion from end-1983 to end-1986 while the Berne Union series declined by US\$1 billion, both on an exchange rate adjusted basis. While the two series are not strictly comparable because of differences in coverage, this would seem to imply a marked decline in the pipeline of undisbursed officially supported export credits.

In discussions with the agencies on developments in export credits over the last two years, several broad underlying trends emerged. First, agencies confirmed that new commitments on loans and guarantees are declining. This was reported in most of the cases. Only a few agencies said activity was going up or leveling off, and even here the result reflected certain exceptionally large transactions or the launching of special programs. Not only are new commitments decreasing, but agencies reported an even sharper decline in the rate of offers, implying that new commitments should be expected to decline even further in the future. Even those agencies that reported some growth in new commitments explained that their applications and offers had fallen way off. Some agencies reported that inquiries were picking up, but these were not yet being translated into new business. Agencies that had made such calculations reported that the ratio of commitments or insured shipments to exports had decreased or at most had remained constant in the recent past.

Anecdotal evidence was also telling. One agency was debating whether or not to effect a substantial reduction in staff. Another reported canceling some of the weekly meetings of its Board, as there were no applications to consider. One of the largest agencies reported that in 1986 it had approved only 13 applications for credit terms over five years compared with over 100 a year being approved in times of strong demand. Another large agency, which had earlier set up a special program for early cover resumption for certain countries that were undertaking adjustment efforts, reported that even under that special program business had been disappointing.

Second, while medium-term cover has fallen off, short-term cover to developing countries has been holding up well and for some agencies has been increasing. As a result, the share of short-term commitments in total business has increased sharply in certain agencies, with consequent implications for the maturity structure of the external debt of debtor countries. In certain cases, goods that normally would have obtained medium-term financing are now being financed short term, probably reflecting the more restrictive policies for medium-term cover.

Third, in terms of geographical distribution, the share of the OECD countries in new commitments has risen. This development reflects changes in the direction of trade and may also result from the efforts of some agencies to increase their business in better risk markets. For developing countries, the only regional market where some expansion was reported was Asia. Demand from oil exporting countries has fallen sharply, while new commitments to Latin America may have been affected by the very restrictive stance maintained at various times over 1985 and 1986 toward Argentina, Brazil, and Venezuela.

Reasons for Recent Decline in Activity

The marked tightening of export credit and cover policies in the period immediately following the emergence of widespread debt-servicing difficulties was certainly an important, and probably the primary, factor leading to the slowdown in disbursements over 1985 and 1986. However, the low level of new commitments and the sharp decline in applications and offers over the past two years, despite a progressive opening of agencies' cover policy stance, would appear to reflect a decrease in demand. The weakness in demand has been general and, in fact, some of the more marked declines have been for countries where the agencies are quite open. Most developing countries, even those that have not had payments difficulties, have cut back sharply on the large, public sector

projects for which export credit insurance has traditionally been sought. For some of those countries, cutbacks may have reflected a desire to limit the increase in external indebtedness; for others, a lack of complementary domestic resources for project investment and maintenance may have been the more important constraint. Given the very long lags from conception to application to commitment to disbursement on such projects, business was, until recently, sustained by projects initiated in the early 1980s or before. Most recently, demand has also been affected by the severe loss in terms of trade of developing countries, especially fuel exporting countries, many of which have responded by sharp reductions in investment spending.

The demand for official export credit cover may also have been affected by the decline in interest rates over 1985 and 1986. In an effort to limit competition among themselves in the provision of interest rate subsidies on export credits, 22 members of the OECD have established a Consensus Arrangement that sets out, *inter alia*, minimum interest rates on export credits that receive either direct official financing or interest subsidies.¹⁵ If their domestic interest rates are above those OECD Consensus rates, creditor governments will normally subsidize the credit down to the OECD Consensus rate. In most cases, a guarantee from the official export credit agency is a prerequisite for obtaining that subsidy. With the general decline in interest rates, the differential between market rates and Consensus minimum rates has been reduced and sometimes eliminated, thereby removing what might have been an important incentive to pay for official export credit insurance. Also, with the elimination of certain exchange controls in France in 1985, French banks are now permitted to extend loans in French francs to nonresidents without exchange control approval; previously, exchange control approval was extended automatically if there was a guarantee from the export credit agency. This, combined with the decline in interest rates, appears to have reduced banks' demand for cover from the export credit agency.

In the context of weak demand, competition among agencies has intensified. Some agencies have adopted a very aggressive position in markets they consider desirable, and mixed credits have been used increasingly to win export contracts in countries that would not necessarily be major aid recipients. Since the concessional component of a mixed credit is generally reported as official development assistance, this would also tend to bias downward reported export credits.

¹⁵ Appendix III outlines the main provisions of the Consensus Arrangement and recent changes that might tend to reduce further the subsidy element in officially supported credits.

Agency Finances

While the primary goal of export credit agencies is to promote national exports, they also generally operate within the instruction that their activities are to be self-supporting over time. Decisions on cover policy, premium rates, and other aspects of the agency's operations are made by the agency and its governmental authorities with a view to both of these objectives. Developments in an agency's financial position can, therefore, have an important impact on credit and cover policies.

Concerning export credit guarantees/insurance, the most straightforward way to analyze financial developments across agencies is the cash flow approach, that is, premium income, minus administrative costs and claims paid, plus recoveries; and this is the concept most frequently employed by the agencies themselves in exchanging information on their activities. The cash flow approach does not, of course, measure whether an agency is operating at a profit or a loss. Such an assessment would also require, *inter alia*, judgment as to future claims and recoveries.

For Germany and the Netherlands, where guarantee/insurance operations are undertaken by private companies acting on behalf of the government, the cash flow deficit is charged directly against the national budget. In other countries, however, the export credit agency, whether it is a department within the government or a separate public entity, operates with a separate set of accounts. The agency may have paid-in capital, and it will usually have a reserve that reflects any accumulated surplus on past operations. It may also have authority to borrow from the government, from various public funds, or from the market to cover its cash needs. It will generally have its own set of operating accounts and a balance sheet. However, the accounting practices employed vary substantially from agency to agency and, in particular, sometimes lack transparency regarding the treatment of rescheduled obligations. It could, therefore, be misleading to compare or analyze developments in agencies' financial positions on the basis of these accounts.

As the cash flow basis provides the most straightforward way to make comparisons across agencies with respect to their guarantee/insurance operations,

Table 3. Outstanding Stocks of Officially Supported Export Credits and Nonguaranteed Bank Credits, 1983–86

(In billions of U.S. dollars; current exchange rate basis)¹

	End-1983	End-1984	End-1985	End-1986
All developing countries²				
Officially supported export credits	144.2	146.6	167.3	191.1
Nonbank export credits ³	94.7	95.4	107.3	126.7
Guaranteed bank credits ⁴	49.5	51.2	60.0	64.4
Nonguaranteed bank credits ⁵	461.6	458.7	486.7	500.2
By economic classification				
Countries with debt-servicing problems²				
Officially supported export credits	66.7	64.9	73.8	88.6
Nonbank export credits ³	37.9	37.1	42.7	56.0
Guaranteed bank credits ⁴	28.8	27.8	31.1	32.6
Nonguaranteed bank credits ⁵	299.6	295.8	305.1	308.4
Countries without debt-servicing problems²				
Officially supported export credits	62.1	67.4	75.5	84.1
Nonbank export credits ³	44.8	48.1	52.1	56.7
Guaranteed bank credits ⁴	17.3	19.3	23.4	27.4
Nonguaranteed bank credits ⁵	127.2	129.3	148.2	157.0
Fifteen heavily indebted countries				
Officially supported export credits	39.4	40.2	46.1	56.3
Nonbank export credits ³	21.5	21.4	25.5	32.5
Guaranteed bank credits ⁴	17.9	18.8	20.6	23.8
Nonguaranteed bank credits ⁵	257.2	255.2	261.4	263.5
By regional classification				
Africa				
Officially supported export credits	32.4	31.2	37.2	42.2
Nonbank export credits ³	18.9	16.6	19.3	21.4
Guaranteed bank credits ⁴	13.5	14.6	17.9	20.8
Nonguaranteed bank credits ⁵	49.8	46.3	49.9	51.7

Table 3 (concluded). Outstanding Stocks of Officially Supported Export Credits and Nonguaranteed Bank Credits, 1983–86(In billions of U.S. dollars; current exchange rate basis)¹

	End-1983	End-1984	End-1985	End-1986
Asia				
Officially supported export credits	28.7	33.1	35.9	38.6
Nonbank export credits ³	20.6	24.6	26.2	27.9
Guaranteed bank credits ⁴	8.1	8.5	9.7	10.7
Nonguaranteed bank credits ⁵	83.6	87.4	98.5	105.6
Europe				
Officially supported export credits	21.8	20.7	23.3	28.8
Nonbank export credits ³	12.0	11.8	13.0	19.4
Guaranteed bank credits ⁴	9.8	8.9	10.3	9.4
Nonguaranteed bank credits ⁵	50.9	49.4	56.8	60.0
Middle East				
Officially supported export credits	34.0	33.7	39.5	43.2
Nonbank export credits ³	27.4	26.5	30.0	34.2
Guaranteed bank credits ⁴	6.6	7.2	9.5	9.0
Nonguaranteed bank credits ⁵	48.4	47.1	47.1	47.8
Western Hemisphere				
Officially supported export credits	27.3	27.7	31.3	38.3
Nonbank export credits ³	15.7	15.7	18.7	23.7
Guaranteed bank credits ⁴	11.6	12.0	12.6	14.6
Nonguaranteed bank credits ⁵	228.8	228.6	234.2	235.0
Memorandum item				
SDRs per dollar (end period)	0.955	1.020	0.910	0.818

Source: Bank for International Settlements and Organization for Economic Cooperation and Development, *Statistics on External Indebtedness: Bank and Trade-Related Nonbank External Claims on Individual Borrowing Countries and Territories* (Basle and Paris, various issues).

¹ The reported stock data are converted into U.S. dollars using the actual exchange rates prevailing at the end of each period. Changes in the stocks therefore reflect both new flows and valuation changes resulting from exchange rate movements between the dollar and other currencies.

² In this table, country coverage is limited to Fund members and is in accordance with the Fund's *World Economic Outlook (WEO)* definition of developing countries, excluding offshore banking centers. The classification of countries with and without debt-servicing problems also conforms to *WEO* definitions; in particular, the eight "capital exporting" developing countries are not included in either group. Elsewhere in this paper a broader definition of developing countries is employed.

³ Nonbank export credits include insured suppliers' credits and credits extended directly by official export financing institutions. There is no published breakdown of nonbank credits into its two components.

⁴ Bank credits with creditor country official guarantee.

⁵ Total outstanding bank credits less amounts with creditor country official guarantees; the latter are included here as guaranteed bank credits under the heading of officially supported export credits.

this was the approach emphasized by most agencies in their discussions with the staff and it is the concept used here.¹⁶ Over the period 1983–85, every agency experienced a marked deterioration in its financial position as a result of large claims payments under rescheduling agreements, on unrescheduled arrears, and against commercial defaults.¹⁷ All agencies re-

sponded to that deterioration of their financial position by enacting increases in premiums. Nevertheless, the performance of premium income has been disappointing. With very few exceptions, agencies reported sustained—and in some cases very sharp—declines in premium income.

Agencies cited the drop in new commitments as the main reason for the weak performance of premium income, although shifts in the regional distribution and term structure of new commitments also played a role. In particular, the pattern of new commitments has shifted toward short-term cover, which carries a lower premium, and toward OECD and other markets that are classified in the lower risk premium categories. Another factor cited by some agencies was that their earlier premium increases were concentrated heavily

¹⁶ It should be noted that when agencies refinance, rather than reschedule, they generally do not report a claims payment. Furthermore, if a claim had been paid before the restructuring was agreed, the agency would record a recovery at the time the refinancing loan was made. In the discussion here, the staff attempts to abstract from this complication in reporting practices and treat these cases as if the more standard practice were employed.

¹⁷ At least one major agency bears directly the cost of interest rate subsidies, and this has been an important factor in the deterioration of that agency's financial position.

in the highest risk premium categories, where policies were restrictive and the agencies were doing little new business. For agencies that did not report a decline in premium income, this in part reflected the use of a system that involved a greater lag between the issuing of a commitment and the payment of the premium than was the standard practice.

While premium income had declined, most agencies reported that claims payments were at least leveling off and recoveries had begun to rise, in part reflecting the expiration of grace periods on earlier reschedulings. The overall impact of these trends was, for most agencies, a stabilization in their deficits, and four agencies reported that their deficits were declining. Looking to the future, most agencies were anticipating a further decline in premium income because new offers had recently been falling off much faster than commitments. Although developments in certain large debtor countries could have a marked impact on claims payments, agencies generally expected claims payments to, at least, remain stable for a while and hopefully decline over time, since they did not see on the horizon any important new cases of payments difficulties. For countries that had already entered into the rescheduling process, claims payments might reasonably be expected to decline over time, reflecting both improved debtor performance and declining amounts of payments due on obligations that had not already been rescheduled. Nevertheless, for most agencies the key to whether their financial position deteriorated or improved would be the rate of recoveries under previous rescheduling agreements. While

recent experience was a good sign, it was considered to be too early to judge whether a turning point had been reached. However, even with favorable developments, agency deficits are expected to remain large in absolute terms.

Prospects

Agencies' views of prospects for new export credit and cover activity were mixed. A few agencies anticipated a recovery in demand for imports by developing countries in the next few years. In particular, with the firming of the oil price, demand is expected to recover in fuel exporting developing countries. Two agencies were already seeing some recovery.

However, most of the agencies shared the view that business will remain at about present levels and did not see, in general, a recovery in demand. For these agencies, the downward trend in new credits and cover continued in the first months of 1987. Given the substantial lags involved in export credits and the dramatic declines in applications and offers over 1985 and 1986, the volume of officially supported export credit flows could be expected to turn downward in the near future. But, given the stance of cover policies, project financing is available for reasonably credit-worthy countries.

Agencies also noted that recent changes in the OECD Consensus rules (see Appendix III) could be expected to reinforce the distinction between aid and export credits.

IV

Export Credits and Economic Development

Some Issues Outstanding

In this period of sharply curtailed capital flows it is to be expected that attention has focused on the volume of new credits, and this paper has that same focus. Nevertheless, questions concerning the quality of spending that is financed by foreign borrowing and its impact on the debtor's economic development are fundamental. They are important at the present time, and they will be crucial when the developing world is firmly launched on a recovery from the present period of debt difficulties and capital flows are again more readily available. For officially supported export credits, there would appear to be at least two key questions that will need to be addressed. The first is the quality of the projects financed by officially supported export credits, and the second is whether the policies of export credit agencies are such that they can be responsive to the increasing role for the private sector that many developing countries now see as a key part of their development strategy.

Project Selection

In the competitive environment prevailing prior to 1982, little attention was, by and large, focused on the economic merits of the many large projects that were being financed or insured by the export credit agencies, particularly where the repayment of the export credit was guaranteed by the debtor government.¹⁸ There is, however, a growing realization that the earlier tendency to give very large weight to export promotion was not in the debtor countries' interests, not in the creditor countries' interests, and certainly not in the interests of the agencies. Moreover, it is becoming apparent that such an approach was also not even in

the long-run interests of industrial country exporters, who would be best served by stable, growing markets in the developing countries.

While there is not at present a coordinated strategy to address project selection, some individual agencies are making greater efforts to ensure, at least for certain debtor countries, that projects receiving official export credit support contribute to the development and growth of the borrowing country. Agencies reported that the economic benefits of a particular project are most likely to be an important element in decision making where demand for credits and cover exceeds the agency's desired increase in exposure.

The quality of export credits is given particular attention by some agencies for countries that have had debt-servicing difficulties and where the agency is reopening on a limited basis. For example, two of the agencies visited have introduced special programs for early cover resumption for such countries, and in both agencies the program incorporates certain criteria for the types of projects to be financed—for example, projects that contribute to the near-term recovery of the economy and/or to the foreign exchange earning capacity of the country. One agency program specifically provides as well for cover for essential inputs. A number of agencies said they attach particular importance to the assessment of the World Bank in these instances. Indeed, some agencies have said that they are willing to provide cover for projects supported by the multilateral development banks, even if they are off cover for the debtor on normal programs.

In a limited reopening of cover the question is likely to be one of selecting the very highest priority projects; where an agency is more open but still seeking to ration demand, the question becomes one of approving or rejecting applications for cover on a wider range of projects. Some of the bigger agencies have in-house capacity for project assessment, but most agencies do not have a large staff trained in project appraisal.

¹⁸ While the discussion here focuses on the selection of investment projects, officially supported military credits have also contributed importantly to some debt-servicing problems.

Often they rely on a detailed project appraisal provided by the exporter; only a few agencies have regular procedures for obtaining an independent review of the exporter's submission. Sometimes agencies rely on their embassies to provide an opinion on the project. Nevertheless, many of the agencies, particularly the smaller agencies, said they do not have and could not afford to develop the in-house capacity to assess the economic impact of all important projects. Two approaches that have been adopted in these circumstances are to ask the debtor government to establish priorities or to seek the assessment of the World Bank and other multilateral development banks.

Systems under which the debtor government does the rationing are consistent with the tenet, generally expressed by agencies, that public investment planning, including project appraisal and selection, is the responsibility of the debtor government. Indeed, where the government has in place a well-formulated investment program, such an approach could help ensure that the credit and cover decisions of agencies support that program. Also, agencies sometimes have considered that a government's indication of priorities might facilitate payments transfers should difficulties arise. Agencies did not, however, think such approaches could provide a general solution to the problem of project selection, since arrangements between the debtor government and particular creditors could not ensure that projects not on the priority list would not be financed from other foreign or domestic sources. They considered that adherence to an investment program was best enforced domestically between the government and the various borrowers.

Agencies were turning increasingly to the World Bank and other multilateral development banks for assistance in project assessment. Most agencies viewed favorably projects where there was direct financial involvement of the multilateral development banks and often were prepared to grant cover on such projects, even outside their current policies for the debtor country concerned. The World Bank has in recent years been circulating to agencies lists of projects which the agencies might consider cofinancing, and most of the agencies had responded to this initiative.

Some agencies, however, also sought to look to the development banks, particularly the World Bank, for broader guidance on project selection, either in the context of a debtor's overall investment program or in the appraisal of specific projects in which the multilateral development banks were not directly involved. In this context, agencies welcomed recent indications from the World Bank that the Bank is prepared, if requested, to provide assistance in reviewing the quality of large projects in which it is not directly involved. A number of agencies said that they

had appreciated the opportunity provided by the ad hoc meeting of agencies on Mexico in September 1986 to hear the views of the World Bank and the Inter-American Development Bank on Mexico's investment program and sectoral development priorities.

Overall, agencies considered that the World Bank's endorsement of a debtor's investment program could be particularly important when they were in the process of reopening cover for countries that had experienced debt-servicing difficulties. Indeed, the existence of such an investment program could facilitate the reopening of cover, and more resources might become available if high-priority projects were identified clearly and creditors could have confidence that uneconomic projects would not be undertaken. Moreover, in these instances and more generally, confidence that the debtor government was effectively controlling foreign borrowing by various public sector entities would facilitate a more open cover policy stance. Nevertheless, while these positive indications regarding the quality of the investment program or individual projects might elicit more resources than would otherwise be forthcoming, agencies considered that the obverse was less likely to be true, that is, that the absence of a positive assessment or of a well-formulated investment program would be less likely to restrain agency activity in markets where they were actively seeking new business. The role of officially supported credits in supporting sound investment programs will, therefore, need to be kept under review by both debtor and creditor governments.

Role of Private Sector

While most export credit agencies have to varying degrees always been willing to provide credits and cover for private buyers without government guarantee, officially supported export credits traditionally have been oriented toward the financing of large public sector investment projects. At a time when an increasing number of countries are adopting development strategies that call for a much larger role for the private sector in investment and production, the question arises how export credit and cover for private buyers might be facilitated.

The main factor cited by most agencies as contributing to their reluctance to cover private sector buyers in developing countries, while actively seeking such business in OECD markets, was the lack of adequate legal protection for foreign creditors. In covering private buyers, an agency's first concern is to obtain adequate security. In some developing countries, however, agencies found it difficult to obtain appropriate security, and in many more they found it difficult to

enforce such security through the courts in cases of default. Some developing countries, particularly in Asia, had legal systems with clear and enforceable provisions regarding such commercial transactions, and in such cases agencies tended to be quite willing to cover private buyers without a government or bank guarantee. In the agencies' view, therefore, a necessary precondition for a substantial increase in credit and cover to private buyers in many developing countries would be a revision of laws governing commercial transactions to enable foreign creditors to acquire adequate security, for example, liens, and to enforce the relevant provisions in a manner that would not discriminate against foreign creditors.

Another important factor cited as facilitating the provision of cover to private buyers was a well-developed local banking system. Although a few agencies that already did substantial business with private buyers had credit records and could do credit assessments on a large number of private firms in developing countries, other agencies considered that they did not have the capacity to do an independent assessment of the creditworthiness of any but the largest private buyers. In such circumstances, the provision of cover to private buyers could be greatly facilitated by a relationship with a local bank in which the agency had confidence, since this could substantially reduce the costs of credit assessment and documentation. For some agencies, the guarantee of bank-to-bank lines of credit had facilitated their private sector business, although others had had a less positive experience with these types of arrangements.

In addition to proper security and credit assessment, which were related to commercial risk, some agencies also noted that problems that originated in the public sector were often reflected in payments difficulties of the private sector. The provision of cover to the private sector would be greatly facilitated if transfers by the private sector were permitted freely or on a priority basis when debt-servicing difficulties were encountered. Agencies indicated, in particular, that they were much more likely to be open for cover for the private sector in countries where there was no transfer risk, such as in the CFA franc zone. Agencies further noted that, contrary to earlier practice, the Paris Club had on a number of occasions over the past two years excluded private sector debt from reschedulings. Some

agencies considered this an effective strategy for developing countries that wished to insulate the private sector from debt-servicing problems that originated primarily in the public sector; it was, of course, also necessary that private sector payments be transferred on a timely basis. In such cases these agencies were generally willing to maintain a less restrictive stance toward the private than the public sector. Other agencies, however, never draw a distinction, apart from security requirements, between the private and public sectors in setting cover policies, since they believe that problems originating in the public sector are most likely to result eventually in a bad payments experience with the private sector.

Finally, agencies said that a factor particularly influencing private sector business at present was the bad experience over recent years, from the viewpoint of both the borrowers and the agencies, when a number of developing countries first let their exchange rates become severely overvalued and then corrected them sharply downward. Many agencies had as a consequence faced widespread commercial defaults, making them wary of further private buyer business. More important, the firms that had survived these sharp swings in exchange rates were reluctant to take on new foreign currency debt. As a result, demand for cover for private buyers was at a very low level in some Latin American markets. Another result of this experience was that some agencies were now focusing more on the appropriateness of exchange rates and other prices in assessing commercial risk.

Overall, however, the main factor agencies cited as inhibiting or facilitating cover for private buyers was the lack of adequate security and legal protection. This might, therefore, be an area where the provision of technical assistance, or at least further investigation of these problems, by an international institution with appropriate expertise, perhaps the International Finance Corporation (IFC), could facilitate the provision of official export credit support to the private sector in developing countries. The IFC could, for example, be called on to help in the development of financial institutions and in their relationship with the private sector. It should be noted, however, that efforts in financial institution development take substantial time to bear fruit, while changes in legal provisions could have a more immediate impact.

V

Concluding Observations

Export credit agencies have, over the past few years, been adopting a progressively more open stance. This is true with respect to short-term cover generally and, with respect to medium-term cover, for countries that have rescheduled their debts but are implementing adjustment programs and adhering to Paris Club agreements. Export credit agencies and their governmental authorities are virtually unanimous in citing as the main factor behind this more open stance the priority given by both debtors and creditors to the servicing of short-term trade credits and to maintaining the cutoff date unchanged where a series of reschedulings is required. Adherence to the strategy of giving priority to the servicing of short-term credits and of new export credits generally will therefore be crucial to sustaining this move to a more open policy stance. With this strategy firmly in place, individual debtors can expect to see a staged reopening in their access to cover as they re-establish a record of implementing sound economic policies. This process would be facilitated by greater efforts by all parties to conclude promptly bilateral agreements implementing Paris Club reschedulings and, where debtors are successfully implementing past reschedulings, a more general willingness by creditors either to maintain cover while the bilateral agreements are being negotiated or to continue to accept and process applications on a conditional basis during this time.

Despite this more open stance, the volume of new medium-term credit and cover commitments to developing countries appears to have fallen off sharply over the past two years. While for some debtors the operative constraint is clearly on the supply of new credits and cover, this is not the general case and, indeed, agencies reported net repayments from some countries for which they were wide open for new business. Possible reasons for this phenomenon have been explored in Section III, but the main explanation would appear to be that developing countries simply are not initiating investment projects at anywhere near the rate they were in earlier years. To the extent that this

decline represents a pause as countries reappraise and restructure investment programs, it is to be welcomed and could be expected to be temporary. It is likely, however, that it also reflects the fact that adjustment in some debtor countries has fallen disproportionately on investment. In this situation debtors may continue to seek general purpose budget and balance of payments support, including debt relief, to maintain levels of public and private consumption, while sources available to finance sound investment projects remain untapped.

A number of agencies also considered that a factor behind the decline in both investment and export credits to support that investment could be the terms on which such credits are available. In earlier years, when general purpose balance of payments financing was readily available, less attention may have been focused on whether the financing terms matched the payback period for a particular project. With substantially increased uncertainty about the availability of financing, such considerations may today be playing a much greater role in the investment decisions made by developing countries. On the other hand, the recent shift toward short-term credits and cover could indicate that, faced with restrictive policies on medium-term business, some debtors and exporters were resorting to short-term finance for capital goods; a continuation of this trend would be undesirable and unsustainable.

Another factor that may be limiting the role of officially supported export credits in the present environment is the distinct preference many, although not all, agencies have for providing credits and cover to public sector borrowers, or at least under governmental guarantee. Agencies' willingness to provide cover to private buyers varies sharply between developing countries and depends primarily on the availability of normal commercial security and on the experience with the protection granted foreign creditors under the debtor's legal system. Although this is a complex question, it is one that debtors would need to address if export credits are to play an important

role in a development strategy which, for many developing countries, is putting greatly increased emphasis on the role of the private sector in generating investment and growth.

A reorientation of public sector expenditure in developing countries toward investment could be expected to lead to a recovery in export credits. In that event, increased attention would need to be paid to the quality of projects receiving official support if the mistakes of the past are to be avoided and if new investment is to generate the resources necessary to service the new debt. Some export credit agencies have in place a capacity for project appraisal, while others are turning more frequently to the multilateral development banks for project assessments. Nevertheless, it would appear that, overall, project quality tends to be a determining factor in decisions on new credits and cover only when the agency is attempting to ration exporter demand within a ceiling or exposure objective. While export credit agencies and their authorities recognize that it is in their interest as a group to ensure that only projects with a good economic rate of return are supported, they maintain that competitive

pressures generally do not permit individual agencies to make decisions on that basis. They would, therefore, support the World Bank's efforts with debtors to develop and review investment programs and strengthen mechanisms for ensuring that requests for project finance are consistent with them. For debtor countries where the agencies are in the process of reopening, the assessments of the multilateral development banks can have a direct impact on new credit and cover decisions. In that context, a number of agencies considered that ad hoc meetings, such as the Brussels meeting on Mexico in September 1986, could be an efficient and effective means of focusing on these questions.

The absence of reliable, exchange rate adjusted data on officially supported export credits, reported on a consistent basis by all creditor countries, is a significant impediment to the analysis of the debt situation of developing countries and of the role of various creditor groups in addressing that situation. Governments and their export credit agencies will need to cooperate fully with the efforts now under way in the OECD and Berne Union if this situation is to be rectified.

Appendix I

Cover Policies Toward Fourteen Developing Countries

To better understand agencies' cover policy response in various situations, the staff discussed with the 11 agencies and their export credit authorities the evolution of cover policies toward a sample of 14 developing countries. That sample was selected for both geographical distribution and the representation of countries in a wide range of circumstances regarding their external position and their relations with official creditors.

Case studies of the agencies' response over time to developments in these 14 countries are presented below. Charts showing trends in agency exposure, including short-term exposure, on an exchange rate adjusted basis and using both BIS/OECD and Berne Union data, are also presented, both for each of the 14 countries and broken down between countries that did and did not have payments difficulties (Charts 3 through 8). As explained in Section III, there are many problems with these numbers and they should be considered in the light of all of the caveats given in that section and Appendix II. Given these shortcomings, no attempt has been made to explain them in the text of each case study or to reconcile the story told by the agencies with the trends shown in the numbers. For some countries, however, features of the trends shown in the charts are noted or commented on at the end of the country discussion.

The reader should be reminded that two creditor countries do not report rescheduled export credits to the OECD and four do not report rescheduled credits to the Berne Union. For some of these, it is also believed that the reported numbers do not include arrears. For the debtor countries where these omissions could have an important impact on the trends, the share that agencies which do not report reschedulings had in the total commitments of the 11 agencies to these countries at the outset of the debt crisis is as follows:

Share of Agencies That Do Not Report Reschedulings
in Total Commitments of the Eleven Agencies
as of End-1982¹

(In percent)

	Not Reporting to OECD	Not Reporting to Berne Union
Argentina	6	24
Brazil	33	44
Chile	26	79
Côte d'Ivoire	45	48
Egypt	50	62
Mexico	38	52
Nigeria	53	63
Yugoslavia	40	45

¹ Based on total outstanding commitments reported to the Berne Union as of December 31, 1982.

The export credit exposure indicated in the charts is understated for each of these countries by the amounts that have been rescheduled by these creditors and, in some cases, by amounts in arrears. For debtors that have had a series of reschedulings, the discrepancy increases over time.

Given the rough nature of the exchange rate adjustments, little importance should be attached to the absolute magnitudes of the movements shown in the accompanying charts. Nevertheless, after allowing for the bias created by the omission of reschedulings, the direction of those movements is of interest, as is a comparison of the trends in the two different exposure series. The Berne Union numbers represent agencies' total credit and cover commitments—that is, including both principal and interest and undisbursed as well as disbursed amounts. The BIS/OECD numbers are on the basis of disbursed principal only. Therefore, it would normally be expected that the Berne Union

numbers would better reflect agencies' current policy stance, and that the trends in the BIS/OECD numbers would follow movements in the Berne Union series with a lag. However, as noted in Section III, the BIS/OECD series also captures direct export credits granted by official entities other than the Berne Union agencies, so the two series can diverge.

The stance of the 11 agencies' short-term and medium-term cover policies toward these 14 countries as of April/May 1987 has been summarized in Tables 1 and 2 in Section II.

Algeria

In the first half of the 1980s the Algerian economy grew rapidly, and the ratio of investment to gross domestic product was maintained at a comparatively high level. The country's external position remained strong as the current account was in near balance and external debt was managed prudently. Given that Algeria's economy depends heavily on the oil and natural gas sectors, economic developments since early 1986 were dominated by the substantial weakening of the oil market.

The Algerian authorities responded to the strong deterioration in the country's terms of trade by undertaking a re-examination of the investment program and reducing authorizations under the annual import program. The authorities continued to abide by their earlier strategy of containing medium-term borrowing to the level of amortization payments due and, in the event, residual financing needs were met mainly through short-term trade credits and a decline in reserves. The agencies viewed favorably the authorities' strong adjustment efforts, which were undertaken without requesting the support of the international financial community.

Agencies began to become concerned about developments in Algeria in the latter part of 1986 as a number of agencies reported commercial payments delays rising above normal levels. While increased payments delays on medium-term credits were to some extent attributable to legal disputes, there were also arrears on short-term trade credits. During the first half of 1987, however, the volume of outstanding payments delays began to trend downward toward more normal levels. It would appear that these developments reflected, at least in part, the introduction in mid-1986 of a new system ("the annual payments program") whereby enterprises were required to submit in advance a schedule of payments due and to effect these payments through their corresponding commercial banks in accordance with that schedule.

As this new system was being put in place, certain technical difficulties were experienced which led to some payments delays.

The agencies had also become somewhat concerned when the Algerian authorities approached about half of the agencies with requests for new credit lines and longer-than-normal terms for imports normally financed on a short-term basis. Based on past experience with other debtors, the agencies generally consider such requests to be harbingers of payments difficulties. In the event, however, this did not, in itself, trigger a tightening of the agencies' cover policy stance toward Algeria. Indeed, one of the main agencies in this market said that a lengthening of the credit terms was not inconsistent with a prudent debt management strategy. Some of the agencies approached responded affirmatively to the request for longer credit terms; others granted credit lines with normal conditions. Nevertheless, as the result of the worsening of Algeria's medium-term prospects and of the emergence of transfer delays to some agencies, a number of agencies decided to try to reduce somewhat their very high exposure in this market.

Since mid-1986, three agencies have downgraded Algeria to a higher risk category and/or applied higher premium rates. Two of these agencies also reduced their commitments ceilings on medium-term transactions or the percentage of each transaction covered by agency guarantees, while another introduced a transactions limit. However, these restrictions were generally not binding, since practically all of the agencies reported that demand for credits and cover had been falling off faster than the desired exposure. Regarding short-term cover, the few restrictions that the agencies applied had generally been in place for some time and were geared to avoiding claims payouts to exporters arising from administrative delays in scheduled payments. Three agencies thus applied an extended claims-waiting period, but short-term cover was otherwise generally unrestricted despite the emergence of arrears on short-term obligations to two of the agencies.

Argentina

The economic and other uncertainties occasioned by the South Atlantic conflict in the second quarter of 1982 led to an abrupt tightening of cover policies. The few agencies that did not suspend cover adopted a wait-and-see attitude, and few applications were approved. Economic difficulties persisted even after the end of the conflict, and by early 1983 all agencies were formally or effectively off cover for medium-term

**Chart 3. Algeria, Argentina, Brazil, and Chile:
Export Credit Exposure, 1982–86¹**

(Exchange rate adjusted stocks; in billions of U.S. dollars)

¹ Data do not represent net flows and should be used with caution in the light of explanations provided in Section III and in Appendix II. The concept "exchange rate adjusted stocks" is described at the end of Appendix II.

² Total commitments, that is, both principal and interest on disbursed and undisbursed credits, including amounts in arrears when reported as unrecovered claims; excludes Colombia.

³ Disbursed principal only.

transactions. Short-term cover policies, while more flexible, also were quite restrictive. Cover policies were eased modestly in the first half of 1983 when Argentina initiated a Fund-supported adjustment effort that produced some economic improvement, but this was short-lived and restrictive cover policy stances were restored. Also, Argentina had not at that time requested a Paris Club rescheduling, since the Argentine authorities were not aware of the extent to which private sector debt was insured by export credit agencies. In the event, these debts were not serviced and arrears accumulated on officially supported export credits.

The government that took office in December 1983 began to formulate a new adjustment program, and in early 1984 the Argentine authorities informed the Paris Club of their intention to request a rescheduling of debt service to official creditors. That request appeared to leave open the possibility that Argentina might seek a rescheduling of short-term debt, and three of the five agencies that were open for short-term cover at the end of 1983 went off cover in the first quarter of 1984. A new stand-by arrangement was approved by the Fund at the end of 1984, and the Paris Club met to consider Argentina's request for rescheduling in January 1985, by which time arrears to official creditors were substantial.

Following the Paris Club rescheduling in early 1985, the existing restrictions on short-term cover were eased somewhat, but medium-term cover generally remained severely restricted or suspended. During 1985 and most of 1986, cover policies generally remained restrictive because of exceptionally lengthy delays in negotiating and implementing the bilateral agreements associated with the 1985 rescheduling. By the end of 1986, only four agencies had resumed medium-term cover, subject to numerous restrictions and security requirements, while a fifth one reopened cover briefly in mid-1986 but suspended cover a few months later owing to mounting arrears. Two other agencies resumed medium-term cover in early 1987 in response to the signing or implementation of the bilateral agreements from the 1985 rescheduling.

As a result of these various developments, the five major agencies in the market had remained off medium-term cover over practically the entire period since 1982. Agencies generally made no distinction between the private and public sectors, given uncertainties concerning Argentina's exchange arrangements and the transfer difficulties that had been encountered by the private sector. Outstanding export credit commitments thus declined steadily through 1985. In explaining their guarded policy stance, the agencies cited both the lack of consistent implementation of adjustment policies and the difficulties experienced in the conclusion and implementation of the bilateral agreements from the January 1985 Paris Club. The latter difficulties were attributed both to administrative delays, including delays in the reconciliation of debt figures, and to delays in effecting payments.

At the time of the staff visits, the request for a second Paris Club had been received, although the actual rescheduling did not take place until late May. Among the five agencies that remained off medium-term cover, the conditions most often cited for cover resumption on a limited scale were, first, concrete indications of the Argentine authorities' commitment to the Fund-supported economic program adopted in

early 1987 and, second, the conclusion and implementation of bilateral agreements from the May 1987 rescheduling. Exporter pressure to reopen was cited as strong, but was being resisted. All of the six agencies that remained open for medium-term cover, notwithstanding the rescheduling request, imposed numerous restrictions in the form of limits on commitments, new business, and/or transactions; some also applied an extended claims-waiting period, a premium surcharge, or a reduced percentage cover. The restrictions were intended to prevent an undesired increase in exposure, particularly since some demand for export credits was being diverted from the agencies that were off cover. All of the agencies that were open were experiencing strong demand for credits and cover, particularly from the public sector in Argentina.

As of May 1987, all but two agencies were open for short-term cover. In most cases this was subject to restrictions in the form of a reduced percentage cover or an extended claims-waiting period, with only three agencies providing unrestricted short-term cover. About one half of the agencies required an irrevocable letter of credit from commercial banks in Argentina; agencies considered that local banks' familiarity with exchange control regulations could expedite payments transfers.

Brazil

Most agencies tightened their cover policies considerably in late 1982 and 1983 as Brazil's debt problems became evident and were responded to by a Fund-supported program and commercial bank refinancing; Brazil did not request a multilateral official rescheduling until later in 1983. With the Paris Club of November 1983, all but three agencies effectively went off cover on medium-term business; short-term cover, where available, was restricted. During 1984, cover policies generally were eased with the conclusion and satisfactory implementation of most Paris Club bilateral agreements and with Brazil's improving external economic performance. Short-term cover restrictions were removed by most agencies, and limits for medium-term cover were raised by major agencies.

In January 1985 the Brazilian authorities informed Paris Club creditors of their intention to seek a further rescheduling and, in the meantime, to suspend all debt service payments to official creditors except service on short-term debt, previously rescheduled debt, and loans contracted after the cutoff date established in the 1983 agreement. Two agencies went off cover for medium-term business in the first quarter of 1985 and remained off cover until early 1987. In general, agencies took a wait-and-see attitude, as they were reluctant to go off cover for a major market—Brazil is the devel-

oping country to which the agencies have the highest exposure—and they were expecting a new adjustment program to be put in place promptly. As time passed, however, they viewed with increasing concern Brazil's suspension of both principal and interest payments to official creditors at a time when reserves were ample and interest was being paid to bank creditors. In early 1986, a major agency changed from being open to considering requests on a case-by-case basis for medium-term cover; with the continued accumulation of arrears, it went off cover in August 1986. Another major agency also went off medium-term cover in the third quarter of 1986. Following discussions over the course of 1986, Brazil becoming current on interest payments falling due after May 1986, and the payment of some arrears, the Paris Club in January 1987 agreed to the rescheduling of remaining arrears and of obligations falling due in the first half of 1987, with the 1987 portion being conditional upon a midyear assessment of Brazil's economic policies and on satisfactory financing arrangements having been concluded between Brazil and its bank creditors. Brazil also undertook to become current on principal payments from July 1987.¹⁹

Agencies reacted cautiously to the January 1987 Paris Club accord. As of May 1987, one agency had opened without restriction for medium-term cover and another had remained open throughout, but most agencies maintained a wait-and-see attitude pending the appraisal of Brazil's economic program and the decision on whether or not the 1987 rescheduling was to take effect. A number of agencies stressed that any reopening would have to await the implementation of adjustment measures. Some also expressed concern that the January 1987 Paris Club rescheduling had taken place in the absence of an arrangement with the Fund. Reflecting Brazil's good record on servicing short-term debt, roughly half the agencies remained open on short-term cover; others were on limited cover or had a case-by-case stance. In general, where agencies were open, they reported demand to be very slack.

Chile

In 1984, adverse developments in Chile's terms of trade, together with the possibility of a debt rescheduling, caused most export credit agencies to tighten their terms of cover. A few agencies suspended

¹⁹ In the event, creditors considered that these conditions were not met, and the 1987 tranche of the rescheduling did not take effect.

medium-term cover despite Chile's good payments record because of the worsened outlook for copper and other traditional exports. A debt rescheduling with bank creditors, who hold the bulk of external claims on Chile, was agreed in principle in June 1985 and concluded in November 1985. A parallel agreement with official creditors was reached in July 1985. In contrast to the then standard practice, the Paris Club rescheduling did not affect the cover policy stance of most agencies, for several reasons. First, the rescheduling was limited to 65 percent of the principal due by the public sector. Second, Chile had remained current on all its obligations to all official creditors prior to the rescheduling and the prospects for observance of the rescheduling agreement were good. Third, official creditors realized that Chile had approached the Paris Club reluctantly and only at the insistence of Chile's bank creditors. They thought this would be the last Paris Club for Chile.

The Chilean authorities strengthened their adjustment efforts in 1985 by adopting a three-year economic program which was later supported by an extended Fund arrangement and by two structural adjustment loans from the World Bank. Over the year following the Paris Club rescheduling in mid-1985, existing restrictions on the provision of cover were gradually eased as considerable progress was made in achieving the objectives of the Government's program and the official debt rescheduling agreement was fully implemented. By mid-1986, only two smaller agencies remained off cover for medium-term transactions, and a third agency suspended cover in late 1986; in all three cases, the reasons for cover suspension were noneconomic. The remaining agencies imposed ceilings on commitments or limits on the size of individual transactions, which were generally not restrictive. Given that private sector debt was not covered by the rescheduling, some of the agencies maintained more liberal cover policies toward that sector.

In February 1987, the Chilean authorities reached agreement in principle with bank creditors on the rescheduling of principal falling due over 1988–91, in addition to the 1987 maturities that had already been rescheduled under the 1985 agreement; the bank agreement was signed in June 1987. An agreement with Paris Club creditors was reached in April 1987. The rescheduling was confined to only a portion of the principal due by the public sector, as had been done under the 1985 agreement. Again, creditors viewed favorably the narrow coverage of the rescheduling, as well as Chile's adherence to its Fund-supported economic program and good payments record. Only one agency suspended medium-term cover after the 1987 rescheduling, and that agency was prepared to resume cover upon the conclusion of its bilateral agreement

with Chile. Aside from the three agencies that had been off cover for some time, all others maintained cover. Ceilings continued to apply but were not restrictive, despite rising demand for credits and cover reported by some of the agencies. The majority of agencies provided unrestricted short-term cover.

China

This is the one case study for which there was no evolution of agency policies during the period under consideration. Throughout this time all agencies were quite open and eager to do new business with China. The export credit flows were, therefore, completely demand driven. Exchange rate adjusted data indicate a large decline in the stock of disbursed credits in 1985.²⁰ It might be noted, however, that China has received an important amount of export financing through mixed credits, which would not be fully reflected in the numbers on export credits.

Colombia

Colombia's economic fundamentals have remained strong compared with those of other countries in the region since the onset of widespread debt-servicing difficulties in 1982. Both the public and private sectors have remained generally current on their external obligations, and there has been no multilateral rescheduling with commercial banks or official creditors. Reflecting this, export credit agencies have maintained relatively liberal cover policies throughout the period since 1982. Indeed, for some of the agencies, Colombia was the only Latin American country on which they stayed open for cover throughout this period. The balance of payments difficulties that Colombia faced in 1983 and 1984 prompted some of the agencies to tighten the terms of cover or introduce security requirements. Only one agency went off cover; that was in late 1984, and the agency reopened in mid-1985 when Colombia reached agreement in principle with commercial banks on a large syndicated loan. The loan agreement was reached on the basis of economic programs adopted by the Colombian authorities for 1985 and 1986, for which the Fund provided a monitoring arrangement approved in July 1985. In both years, the authorities met all of their targets with sizable margins. Aided by the increase in coffee prices, in 1986 the current account shifted into surplus for the first time in several years.

²⁰ The unadjusted stock reported in U.S. dollars in the BIS/OECD series also declined in 1985, despite the fact that the currency of China's major creditor appreciated sharply against the U.S. dollar.

Since 1985, agencies have progressively lifted the restrictions that were imposed in 1983 and 1984. Colombia has maintained a good payments record and there have been only a few isolated instances where claims payments were made; many of these were subsequently recovered. As of May 1987, several agencies continued to apply ceilings on medium-term commitments, but these were generally not restrictive. About one third of the agencies imposed limits on the size of individual transactions, although requests for larger transactions were reviewed on a case-by-case basis and were generally not turned down.

The agencies viewed favorably Colombia's economic policies and prospects, since the adverse impact of the recent decline in coffee prices had been largely offset by the rapid expansion of exports of coal, petroleum, and nontraditional products. One agency reported rising transfer delays, but these had not affected cover policies, since they were not outstanding long enough to give rise to claims payments.

Berne Union data are not available on Colombia prior to 1986, but BIS/OECD data show a very broad-based increase in disbursed credits, with almost every agency showing a sharp rise in outstanding stocks on an exchange rate adjusted basis. At the time of the staff visits, however, the experience of the agencies regarding demand for further new credits and cover was mixed. While some said demand was weak, others reported a good volume of new business. A number of agencies noted that they had been tentatively approached about many transactions that never came to fruition.

Côte d'Ivoire

A number of agencies suspended cover for Côte d'Ivoire in late 1983, when significant arrears emerged on public sector debt. By the time Côte d'Ivoire's first Paris Club request was received in early 1984, virtually all agencies had suspended medium-term cover, in line with their normal practice. Two agencies, including one of the largest in the market, retained cover for the private sector, since the debt of that sector was not covered by the rescheduling request. Two others continued to consider applications for cover on a case-by-case basis subject to commitment limits or Ministry of Finance guarantees for public buyers and bank guarantees for private buyers. Cover for short-term transactions, which were regularly serviced and excluded from the rescheduling, was maintained by all agencies, with restrictions imposed by only two smaller agencies.

By early 1985 most agencies had resumed medium-

term cover subject to certain restrictions, as Côte d'Ivoire had concluded and implemented promptly the bilateral agreements from the May 1984 Paris Club. Moreover, the agencies viewed favorably the conclusion of a parallel agreement with commercial bank creditors. These factors, together with Côte d'Ivoire's successful implementation of its Fund-supported economic program, contributed to an optimistic assessment of the country's prospects. Thus, following a second Paris Club in June 1985, none of the agencies that had resumed cover after the 1984 rescheduling agreement suspended cover. As of mid-1985, only three agencies remained off cover; a fourth agency was off cover for public buyers, but was open for private buyers subject to a transactions limit.

Cover policies were gradually eased over the year to mid-1986 as the bilateral agreements from the 1985 Paris Club were concluded and as medium-term prospects continued to improve. By mid 1986, practically all agencies were open for medium-term cover subject to certain conditions such as commitment ceilings, limits on the size of individual transactions, or reduced percentage cover. However, the trend in commitments appears to have been downward notwithstanding the easing of the cover policy stance.

Cover policies toward the private sector have generally been less restrictive than for the public sector; one agency remained open for the private sector throughout the period of debt-servicing difficulties, while another suspended cover for the private sector for only a few months in 1984 because of specific commercial claims. Another agency maintained a higher commitments ceiling for the private than for the public sector. These positive attitudes toward the private sector resulted from the absence of transfer risk, given the convertibility of the country's currency under the statutes of the West African Monetary Union, of which it is a member.

In early 1986 economic and financial prospects had improved to the point that external financing requirements could be met without recourse to interest rescheduling. Paris Club creditors concluded a three-year multiyear rescheduling agreement (MYRA) with Côte d'Ivoire in June 1986 which provided for rescheduling of a declining percentage of principal. Export credit agencies maintained a positive attitude and, at that time, regarded the financial difficulties as temporary and reversible. They viewed the MYRA favorably insofar as it firmly fixed the cutoff date for future debt relief under the MYRA and demonstrated an increasing capacity to service debt. A parallel MYRA was concluded with commercial banks. Reflecting the assessment that Côte d'Ivoire was at the exit phase of its debt-servicing problems and given the satisfactory implementation of bilateral agreements

Chart 4. China, Colombia, Côte d'Ivoire, and Egypt: Export Credit Exposure, 1982–86¹

(Exchange rate adjusted stocks; in billions of U.S. dollars)

¹ Data do not represent net flows and should be used with caution in the light of explanations provided in Section III and in Appendix II. The concept "exchange rate adjusted stocks" is described at the end of Appendix II.

² Total commitments, that is, both principal and interest on disbursed and undisbursed credits, including amounts in arrears when reported as unrecovered claims.

³ Disbursed principal only.

under the previous Paris Club reschedulings, not a single export credit agency went off cover following the conclusion of the MYRA.

Although a number of restrictions on medium-term cover continued to apply in the spring of 1987, these were being gradually liberalized and ceilings were not binding. Only two agencies applied a reduced percentage cover and none had an extended claims-waiting period. Demand was low, with intermittent pressures against the ceilings coming from lumpy, project-related transactions. By that time, the agencies were generally aware of the adverse developments in Côte d'Ivoire's balance of payments resulting from the recent decline

in coffee and cocoa prices. Nevertheless, most of them did not envisage tightening the cover policy stance if the MYRA were reopened and a higher percentage of principal rescheduled, provided that the original cutoff date under the MYRA was maintained; the latter was considered essential to a continued open stance. On May 25, 1987, Côte d'Ivoire announced a moratorium on debt service payments to all foreign creditors.

Given that Côte d'Ivoire's largest creditor does not report rescheduled credits, it is quite possible that agency exposure was in fact increasing over 1985 and 1986, rather than declining as indicated in the accompanying charts.

Egypt

The structural weakness in Egypt's balance of payments became increasingly apparent with the sharp decline of oil prices from the end of 1985 and the associated decline in expatriate remittances. The shortage of official foreign exchange led to the accumulation of significant external arrears in 1986. These external difficulties reflected long-standing domestic imbalances upon which the oil price decline was superimposed. Until 1986, the balance of payments remained manageable through continued access to commercial borrowing abroad and the buildup of some external arrears.

Despite the increasingly uncertain payments outlook and the emergence of external arrears, most export credit agencies continued to provide export credits and cover until 1986 or early 1987. In part, this liberal cover policy stance reflected the strategic importance that creditor governments attached to Egypt. Moreover, the payment delays that Egypt incurred tended to approximate the agencies' claims-waiting periods, thus avoiding the payment of claims to exporters and thereby postponing the decision to suspend or restrict cover. Agencies did, however, begin to tighten policies over 1985. Two agencies formally suspended medium-term cover in 1985. The other agencies continued to provide such cover but subject to commitments limits and security requirements. Some of the agencies also applied transactions limits and/or extended claims-waiting periods. Similar restrictive conditions applied to short-term cover; by the end of 1985, only three agencies posted an unrestricted short-term cover policy stance. However, demand for credits remained buoyant and the restrictions did not prevent a substantial increase in the exposure of the agencies to Egypt.

The severe foreign exchange shortages that developed in 1986 gave rise to an escalation of external arrears and to substantial claims payments by some

of the agencies. Six agencies went effectively off cover between end-1985 and early 1987, and one of them took the unusual step of withdrawing existing offers for projects that had not yet been awarded to the exporter.²¹ Another agency decided to maintain cover for the private sector as long as private buyers' access to foreign exchange was not curtailed. The private sector's payments record was better than that of the public sector because of its access to foreign exchange in the free market which operated alongside the official foreign exchange pools. This better payments record prompted one of the agencies to maintain a shorter claims-waiting period for private than for public sector transactions. A number of agencies rated Egypt in their highest risk category, making no distinction between the private and public sectors, and a few applied premium surcharges. Short-term cover was subject to restrictive conditions by a number of agencies, despite the fact that short-term debt had been serviced fairly regularly.

The trend in the agencies' exposure to Egypt continued to be upward through 1986 notwithstanding their more guarded cover policy stance, reflecting both continued disbursements under previous commitments and, for two agencies, substantial new commitments. Some of the agencies also undertook new commitments on a case-by-case basis. New commitments were generally, but not exclusively, made under the creditor countries' "national interest accounts" or in the context of mixed credits. Several agencies reported that demand for credits and cover was strong, including for projects whose viability was questionable. They also noted that the continued high level of disbursements also reflected cost overruns that had occurred because of administrative problems and delays in the implementation of projects.

The Fund approved an 18-month stand-by arrangement for Egypt on May 15, 1987 and an agreement to reschedule public and publicly guaranteed debt service obligations was reached with Paris Club creditors on May 22. Parallel action from commercial banks was not sought because medium-term bank claims on Egypt were not large after the retrenchment of banks from Egypt since 1984. The agencies expected to maintain a cautious attitude toward Egypt, reflecting the apparent need for continued reliance on comprehensive debt relief. Skepticism over the possibility of maintaining in subsequent reschedulings the October 1986 cutoff date that had been set in the Paris Club agreement contributed to the agencies' reluctance to extend new credits and cover. A number of agencies never-

theless expected to resume cover on a case-by-case basis following—and in some cases prior to—the conclusion of the bilateral agreements, provided there were concrete indications that Egypt's adjustment program was being implemented.

Although exposure measured on the Berne Union basis would normally be much larger than on the BIS/OECD basis, that is not the case for Egypt, as indicated in the accompanying charts. This apparently reflects the importance in this instance of lending by entities that are not export credit agencies and are not therefore covered in the Berne Union series.

Indonesia

External and internal imbalances in Indonesia emerged with the softening of the oil market since 1981, and were compounded by the sharp decline in oil prices in 1986. The concurrent depreciation of the U.S. dollar relative to other major currencies brought about a sizable increase in the dollar value of Indonesia's external debt and debt service. In response to these developments, the Indonesian authorities implemented a comprehensive adjustment strategy including actions in all major policy areas.

Export credit agencies had maintained a positive attitude toward Indonesia throughout the period since 1982. This policy stance reflected Indonesia's rich oil resources and confidence in the authorities' ability to manage the economy. Notwithstanding the adverse external developments in 1986, cover policies remained practically unrestricted, as the Indonesian authorities responded with a determined adjustment effort and the country maintained a good payments record. Moreover, the demand for export credits and cover weakened substantially, perhaps pre-empting a tightening of cover policies, as imports contracted sharply under the adjustment program. One major creditor agency removed its ceiling in late 1985 because it had not been restrictive in practice. The weak demand for export credits may also have reflected the Indonesian authorities' greater reliance on bilateral aid and mixed credits to finance large projects as part of their external debt management policies.

Agencies generally regarded Indonesia's present economic difficulties as temporary and reversible. Although a few agencies considered it possible that, should oil markets not recover, Indonesia might have to request a limited debt rescheduling to deal with a bunching of payments, they thought any payments difficulty would also be temporary. Eight agencies were providing unrestricted medium-term cover as of May 1987, including the largest two in the market, and the remaining agencies imposed ceilings on total com-

²¹ Some of the agencies that posted an open cover policy had in effect reached their commitment or exposure ceilings and were not adjusting them upward.

mitments that were generally not restrictive. No agency applied either a reduced percent cover or an extended claims-waiting period. One of the smaller agencies, which was presently open without restrictions, was considering a tightening of policies, and another agency had shifted Indonesian business to the "national interest account." Three agencies sought the Indonesian Government's guarantee for public sector transactions, which was difficult to obtain, or, in its absence, explicit government approval of large projects. Some of the agencies were cautious in their attitude toward the private sector because of claims payments made in connection with commercial difficulties with small private buyers and, in one case, because of difficulties that had been encountered with the legal enforcement of contracts or guarantees. The effects of the large devaluation of the rupiah in September 1986 on corporate balance sheets was perceived to have increased the commercial risk associated with private buyers. However, no difficulties with transfer risk had arisen given the Indonesian authorities' flexible exchange rate policy. Indonesia was generally included in a middle-premium category, and only one agency applied a premium surcharge. All agencies provided unrestricted short-term cover.

Kenya

Export credit agencies tightened cover policies to Kenya in 1982, partly because of concern with the debt-servicing difficulties of other countries in the region, but also because of the arrears reported by some agencies with respect to Kenya. Two agencies suspended cover to Kenya for at least a year over the period 1982-84 in response to large payments arrears, which were subsequently cleared, and to uncertainties about the implementation of Kenya's Fund-supported economic program. Throughout the period 1981-85, Kenya made considerable progress in reducing internal and external imbalances by implementing adjustment policies supported by a series of Fund arrangements. A severe drought in 1984 reduced export receipts, giving rise to a tight liquidity situation and a sharp deterioration in the balance of payments in 1985. However, Kenya's external position strengthened rapidly, reflecting a combination of prudent economic policies, bumper crops resulting from favorable weather and attractive producer prices, and a strong improvement in Kenya's terms of trade in 1986.

Since 1984, agencies have been open for medium-term cover subject to certain restrictions, which have been gradually eased. By the spring of 1987, two agencies had removed all restrictions on medium-term cover, while the remaining agencies imposed ceilings

on total commitments, or limits on the size of individual transactions, that were flexibly applied. While two agencies had done substantial new business in this market, most reported that demand was relatively weak and that there was room for more transactions under the existing ceilings. Kenya's recent payments record had been good. Only two agencies had made recent claims payments and these were related to commercial risk. Nearly all agencies provided unrestricted short-term cover.

Despite the drop in coffee prices since late 1986, the outlook for Kenya was generally viewed as being favorable. Key factors in the agencies' positive attitude were Kenya's demonstrated ability to implement adjustment policies, the avoidance of debt reschedulings, notwithstanding adverse external and weather-related developments, and the country's good payments record. A number of agencies that currently had little exposure in Kenya were willing to increase it.

Mexico

Following the cessation of payments to bank creditors in August 1982, most agencies progressively tightened their cover policies for Mexico. Agreement on a three-year economic program supported by an extended Fund arrangement was reached in late 1982 and negotiations were begun with commercial banks on a restructuring of Mexico's external debt. A Paris Club rescheduling agreement was concluded in June 1983 covering only private sector debt, which official creditors had been unwilling to have treated under a more general scheme for the debt of the private sector that Mexico had introduced in early 1983. By the time the Paris Club agreement was concluded, all but one of the export credit agencies had either formally suspended medium-term cover for the private sector or had done so effectively by requiring guarantees from the Mexican Government. A number of agencies introduced limits on total medium-term commitments and a few transferred Mexican business to the "national interest account."

Significant progress toward external adjustment was made in 1983 and 1984, and agreement in principle on a MYRA with commercial banks was reached in September 1984. On this basis, export credit agencies gradually eased their cover policies, and by early 1985 most agencies had restored cover to the private sector with some security requirements and subject to transaction limits. The protracted restrictiveness of cover policies following the 1983 Paris Club rescheduling reflected, in part, delays in the conclusion of the bilateral agreements. Those delays stemmed largely from an unusual provision in the Paris Club Agreed

**Chart 5. Indonesia, Kenya, Mexico, and Nigeria:
Export Credit Exposure, 1982–86¹**

(Exchange rate adjusted stocks; in billions of U.S. dollars)

¹ Data do not represent net flows and should be used with caution in the light of explanations provided in Section III and in Appendix II. The concept "exchange rate adjusted stocks" is described at the end of Appendix II.

² Total commitments, that is, both principal and interest on disbursed and undisbursed credits, including amounts in arrears when reported as unrecovered claims.

³ Disbursed principal only.

Minute that entailed the Mexican Government assuming the commercial risk on private sector obligations. Substantial debt service payments were nevertheless received despite the delays.

Export credit agencies maintained their liberal cover policies through 1985, although there were signs that financial policies had gone off track and that Mexico was encountering difficulties in adhering to its economic program. The demand for export credits and cover by the private sector remained weak, but public sector demand picked up, particularly for large projects.

In response to the sharp drop in oil prices in early

1986, several of the major agencies, but not the largest in this market, tightened the terms of cover, and two other agencies withdrew medium-term cover. By mid-1986 the Mexican authorities had developed a revised program to address the more difficult situation Mexico then faced. In support of that program, an 18-month stand-by arrangement was approved in principle in September 1986, pending assurances from creditors on the financing arrangements. Shortly thereafter, Paris Club creditors agreed in principle to reschedule public sector obligations, and agreement in principle with commercial banks was reached in late September. The Paris Club agreement took effect *pari passu* with the stand-by arrangement in November 1986. An exceptional feature of the 1986 Paris Club rescheduling with Mexico was that it defined a different cutoff date for private sector debt, which was covered by the 1983 rescheduling, and public sector debt, which was rescheduled in 1986 for the first time. This was not considered to be a change in the cutoff date.

Not a single agency suspended cover to Mexico as a result of the 1986 rescheduling, and indeed some agencies that had tightened earlier liberalized their cover policy stance after the Paris Club meeting.²² In part, this reflected the agencies' greater flexibility in circumstances of generalized debt-servicing difficulties, as well as broader efforts to support Mexico's program. The fact that Mexico stayed current with Paris Club creditors right up to the September 1986 rescheduling was one reason the export credit agencies remained favorably disposed toward Mexico. Also, through its new untied loan programs, JEXIM provided a sizable credit that was linked to ongoing projects but provided effective balance of payments support. The loan agreement was not linked to Japanese exports and permitted some retroactive financing of expenditures already incurred in connection with the projects.

An exceptional feature of the agencies' response to Mexico's situation in 1986 was an ad hoc meeting of 12 agencies that was convened shortly after the stand-by arrangement was approved. This meeting was convened at the initiative of one of the agencies to discuss Mexico's adjustment program and economic prospects. A Mexican delegation presented the country's program, and the meeting was also attended by staff from the Fund, the World Bank, and the Inter-American Development Bank. The meeting focused not only on Mexico's macroeconomic situation and

²² However, one of the agencies said that it would have adopted a more open cover policy following the 1986 Paris Club agreement if the cutoff date applying to the 1983 rescheduling of private sector debt had been applied to public debt as well. That creditor had made substantial disbursements to the Mexican public sector since 1983 on the understanding that the same cutoff date would be agreed in any subsequent reschedulings.

prospects but also on Mexico's investment program and the growth prospects for various sectors; that is, questions that would be of particular concern to the agencies as they considered specific credit and cover requests. Although there was no attempt to coordinate export credit policies, the agencies' positive assessment of Mexico's adjustment efforts, as well as competitive pressures arising from the announcement by some of the agencies of their intention to stay open for cover on Mexico, may have contributed to the liberal policy stance that was generally adopted. Mexico performed well under the economic program during the second half of 1986 and the first quarter of 1987, with a balance of payments outcome stronger than anticipated.

In the spring of 1987, all agencies were open for medium-term cover. Negotiations on the bilateral agreements from the 1986 reschedulings had been expeditiously completed, and by May 1987 practically all of them had been signed. The largest agency in the market, which had not suspended cover at any time since 1982, was open without restrictions. The other agencies were open with ceilings, sometimes supported by limits on the size of individual transactions. Most agencies said there was ample room available under the ceilings to meet all present demand. Two agencies applied an extended claims-waiting period, and one had a reduced percent cover and a premium surcharge.

The attitude toward the private sector remained guarded because of the large claims payouts that the agencies had made in the past as a consequence not only of the 1983 rescheduling but, more importantly, owing to commercial risk. Several agencies reviewed applications for medium-term cover on a case-by-case basis, and most private sector business was conducted through the nationalized commercial banks in Mexico. One agency never resumed medium-term cover to the private sector following the 1983 rescheduling, while another required a government guarantee. Demand for medium-term cover by the private sector had remained weak over the past few years, reflecting the combined effects of a decline in imports and the reluctance of private buyers to undertake the foreign exchange risk that foreign borrowing entailed. Reflecting the perceived exchange risk, most business conducted with the private sector was short term. However, some agencies had indications from commercial banks in Mexico that demand was picking up. Demand by the public sector had also slowed considerably since the sharp downturn in petroleum prices in early 1986. However, the volume of cover applications indicated that demand by the public sector was increasing as well.

Short-term cover was effectively fairly unrestricted. A few agencies reviewed applications for short-term

transactions with the private sector on a case-by-case basis, while others required an irrevocable letter of credit. Concerning prospective cover policies, most agencies favored a continuation, and possibly an easing, of present cover policies under the case-by-case approach.

The divergent movements in the BIS/OECD series and Berne Union series shown in the accompanying charts would appear to reflect the activities of certain entities that report to the OECD but not the Berne Union—for example, JEXIM and the U.S. Commodity Credit Corporation.

Nigeria

In the late 1970s and early 1980s Nigeria borrowed heavily on the strength of buoyant earnings from petroleum exports. Financial policies were not immediately adjusted to reflect the downward trend in petroleum prices after 1981, and the naira was allowed to appreciate strongly in real terms. By 1983, significant external payments arrears had accumulated and they continued to mount in subsequent years.

Export credit agencies began to tighten their cover policies to Nigeria starting in 1982. Initially, however, confidence in Nigeria's rich oil resources, as well as competitive pressures arising from Nigeria's importance as a commercial market, prevented an effective restraint on the provision of export credits and cover. In the event, the agencies' exposure continued to increase over the two years to 1984. Notwithstanding Nigeria's worsening balance of payments prospects, most agencies did not take decisive action to tighten cover policies until 1984, by which time sizable arrears were outstanding and large claims payments had been made. Agreements on the rescheduling of short-term arrears had been reached with commercial banks in late 1983 and with uninsured suppliers in mid-1984. Practically all agencies went off cover for medium-term business in 1984, although substantial disbursements under previous commitments continued. Some of the agencies retained short-term cover on a restricted basis, despite the obvious need for a Paris Club rescheduling that would cover short-term arrears, which were sizable.

A progressive tightening of administrative controls on imports contributed to an improvement in the balance of payments in 1984, slowing the accumulation of external arrears. This improvement was reversed in 1986, when the sharp fall in oil prices reduced export earnings substantially, giving rise to a further accumulation of arrears. In mid-1986 the Nigerian authorities initiated an adjustment effort with the support of

both the Fund and the World Bank. Agreement in principle was reached with commercial banks in November 1986 on the rescheduling of outstanding arrears and current maturities. A 12-month stand-by arrangement was approved in principle by the Executive Board of the Fund in December 1986 and became effective in January 1987. A comprehensive rescheduling agreement with Paris Club creditors was concluded in December 1986.

All agencies remained off medium-term cover for Nigeria following the December 1986 rescheduling. By May 1987, only a few agencies were nearing agreement with Nigeria on the bilateral agreements and none of the agencies had resumed medium-term cover. Nigeria was consistently rated in the country category where the highest premium applied. Short-term cover continued to be provided by only a few agencies on highly restrictive terms. The few agencies that were open for short-term cover imposed revolving commitment limits, in most cases under whole turnover policies to existing policyholders and/or on the basis of confirmed irrevocable letters of credit.

Agencies emphasized the problems being incurred in reconciling with the Nigerian authorities records on the amounts due and reschedulable under the Paris Club agreement. For most agencies, such a reconciliation is a precondition for the conclusion of the bilateral agreement. While one of the agencies had completed its reconciliation by May 1987, others thought the process might take a year or more. The debt reconciliation problems were particularly acute because the Paris Club agreement provided for the rescheduling of short-term arrears which involved a very large volume of small transactions, many of which had been outstanding since late 1983. In some cases agencies and their authorities expressed concern that these reconciliation problems might impede the conclusion of bilaterals and the reopening of cover at a time when Nigeria was undertaking a difficult adjustment effort. In light of this concern, at least two agencies were prepared to conclude the bilaterals on a conditional basis pending a full reconciliation. Some others said they would be willing to seek ways to address this problem, provided Nigeria adhered firmly to its adjustment program.

On the other hand, most agencies indicated that, despite buoyant demand for cover and strong exporter pressure, the conclusion of the bilateral agreements would not be a sufficient condition for the resumption of cover for medium-term transactions; for some agencies, it would not even be a sufficient condition for reopening short-term cover. The main conditions for cover resumption were a demonstrated ability to implement both an adjustment program and the Paris Club rescheduling agreement. One agency indicated

that the payment of the unrescheduled portion of short-term debt was a necessary condition for cover resumption. However, the largest agency in the market intended to reopen, subject to a ceiling, after the conclusion of the bilateral agreement, provided that Nigeria was implementing its economic program. Another major agency intended to reopen with a large ceiling after the bilateral agreement was signed, based on a positive assessment of Nigeria's medium-term outlook and an anticipated large volume of new business.

Given that a number of projects in Nigeria had been disrupted for lack of financing, one of the agencies commended the Nigerian authorities' decision in 1985 to stop nonpriority projects and concentrate on oil-related, foreign exchange earning projects. Agencies expressed interest in using the World Bank's expertise in selecting projects, possibly in cofinancing arrangements with the Bank, to facilitate a gradual reopening to Nigeria.

Turkey

Turkey's external position deteriorated sharply in the mid-1970s, and by 1978 sizable arrears had accumulated. In 1978, the Turkish authorities adopted a three-year economic recovery program supported by Fund resources. Three consecutive agreements with official creditors were concluded in 1978, 1979, and 1980, the most recent one covering a three-year consolidation period. The agreements, which took place under the aegis of the OECD, covered debt of all maturities as well as arrears.

Corrective measures implemented since 1978, and intensified in 1980, led to a gradual improvement in Turkey's external position. These measures included internal restructuring policies and were accompanied by rapid growth in gross domestic product. In 1983, there was a setback in economic performance stemming from a relaxation of financial policies and a weather-related decline in agricultural production. Some progress toward adjustment was made in 1984, and by 1985—the first year not covered by a rescheduling agreement or a Fund-supported program—external performance had strengthened considerably. Another setback was suffered in 1986, when growth in domestic demand led to renewed pressures on Turkey's balance of payments. Nevertheless, Turkey maintained a good debt-servicing record after 1983.

During the period ended in 1983, some agencies provided cover on a limited basis, mainly on the "national interest account" where applicable, in the context of the OECD Consensus Arrangement. In this

framework, some agencies rationed the demand for cover under their ceilings by requiring a certificate of priority issued by the Turkish Government. A number of other restrictions were applied on medium-term transactions, including transactions limits, reduced percentage cover, and an extended claims-waiting period. Most agencies applied restrictions on the provision of short-term cover as well.

Since 1983, the agencies have been slowly normalizing export credit cover policies to Turkey. During 1984 and 1985, ceilings on medium-term commitments were adjusted upward in stages by several agencies to accommodate strong exporter demand. A few agencies normalized the percentage cover and claims-waiting period, and larger amounts of exposure were accepted under agencies' own accounts. By early 1985, all agencies had resumed cover subject to restrictions, which were applied flexibly. The progressive normalization of policies over this period was facilitated by Turkey's satisfactory implementation of the rescheduling agreements and its Fund-supported economic program.

The gradual liberalization of cover policies has continued. For 1987, several agencies dropped their commitment ceilings or transactions limits or raised the amounts available under the existing ceilings. Others, however, were reluctant to increase their exposure to Turkey, which they limited through restrictive ceilings on medium-term transactions and high premium charges. Certain restrictions on the provision of short-term cover, in the form of an extended claims-waiting period or the requirement of an irrevocable letter of credit, continued to apply. Most agencies monitored carefully their exposure to Turkey in view of its weakening external position and a bunching of repayments in 1987–89 as the grace periods under the earlier rescheduling agreements come to an end. Concern was also expressed about the maturity structure of Turkey's external debt.

Out of concern that available export credit lines were not being utilized by Turkish importers, the Turkish authorities began talks in late 1986 with a number of agencies regarding a possible Central Bank guarantee for export credit lines covered by them. Under this scheme, the Central Bank of Turkey would assume the exchange risk and would extend local currency financing to the Turkish importer. In June 1987, an agreement of this nature was reached with the U.S. Eximbank for cover on up to US\$100 million of U.S. exports, fully guaranteed by the Central Bank of Turkey. The credit available to Turkey under this scheme is to be augmented by US\$70 million extended by commercial banks as part of the package but not formally tied to the facility agreed with Eximbank.

Turkey was the one country in the sample where

Chart 6. Turkey and Yugoslavia: Export Credit Exposure, 1982–86¹

(Exchange rate adjusted stocks; in billions of U.S. dollars)

¹ Data do not represent net flows and should be used with caution in the light of explanations provided in Section III and in Appendix II. The concept "exchange rate adjusted stocks" is described at the end of Appendix II.

² Total commitments, that is, both principal and interest on disbursed and undisbursed credits, including amounts in arrears when reported as unrecovered claims.

³ Disbursed principal only.

agencies were both generally open for cover and experiencing strong demand. As noted above, some agencies sought to limit the increase in their exposure by introducing various restrictions. A number of agencies also expressed concern about the quality of projects being supported and sought means to ration demand in a way that reflected project quality. Three agencies were still implementing a system whereby priority declarations were sought from the Turkish Government. One agency was considering tying its cover policies to World Bank certification of projects, reflecting the view that tighter control of project selection than under the present system might be necessary. This view was also expressed by another agency, which followed an internal guideline of seeking the Bank's advice on large projects.

Yugoslavia

Following a deterioration in economic conditions in 1981–82, Yugoslavia implemented an adjustment program in early 1983 that was supported by an international financial package involving official creditors, commercial banks, and multilateral institutions, in-

**Chart 7. Countries With Payments Difficulties¹:
Export Credit Exposure, 1982–86²**

(Exchange rate adjusted stocks; in billions of U.S. dollars)

¹ Includes Argentina, Brazil, Chile, Côte d'Ivoire, Egypt, Mexico, Nigeria, and Yugoslavia.

² Data do not represent net flows and should be used with caution in the light of explanations provided in Section III and in Appendix II. The concept "exchange rate adjusted stocks" is described at the end of Appendix II.

³ Total commitments, that is, both principal and interest on disbursed and undisbursed credits, including amounts in arrears when reported as unrecovered claims.

⁴ Disbursed principal only.

cluding the Fund. The official portion consisted of pledges of export credits and/or refinancing credits—the "Berne Agreement"—which remained over the following years the principal framework for export credits to Yugoslavia. Most agencies suspended cover under their regular facilities in late 1983 or early 1984. The special procedural requirements for utilization of credits under the Berne Agreement—including in some cases the requirement of a declaration of priority by the Yugoslav authorities—contributed to a low effective utilization rate of those facilities. At the same

**Chart 8. Countries Without Payments Difficulties¹:
Export Credit Exposure, 1982–86²**

(Exchange rate adjusted stocks; in billions of U.S. dollars)

¹ Includes Algeria, China, Colombia, Indonesia, Kenya, and Turkey.

² Data do not represent net flows and should be used with caution in the light of explanations provided in Section III and in Appendix II. The concept "exchange rate adjusted stocks" is described at the end of Appendix II.

³ Total commitments, that is, both principal and interest on disbursed and undisbursed credits, including amounts in arrears when reported as unrecovered claims; excludes Colombia.

⁴ Disbursed principal only.

time, the existence of unused balances within Berne Agreement pledges kept many agencies from making cover available under their normal, more flexible conditions. In addition to procedural impediments, however, slack import demand and perceived exchange rate risk have also been referred to as factors that contributed to low utilization rates.

In contrast to the approach taken in 1983, Yugoslavia reached formal rescheduling agreements with official creditors in May 1984 and May 1985, in the context of adjustment programs supported by Fund stand-by

arrangements. Assessments of economic prospects generally improved, and most agencies eased cover policies over 1984 and 1985. One of the two agencies that was still off cover at end-1985 reopened with a ceiling in the first quarter of 1986. A further rescheduling for Yugoslavia in May 1986, which provided for an additional tranche that could take effect in 1987, was the first official debt rescheduling on the basis of enhanced Fund surveillance.

By May 1987 agencies generally considered that the outlook had become less favorable, and some expressed concern about the insufficiency of corrective actions. These concerns delayed somewhat official creditors' decisions to put into effect in mid-1987 the second tranche of the rescheduling that had been agreed in May 1986. One major agency had remained

off cover since early 1984 on medium-term business and open with limits for short-term business. All other agencies were open, generally with various restrictions; in most cases ceilings were far from being fully utilized. One agency that had previously been wide open for cover introduced restrictions in the second half of 1986.

Most agencies anticipated remaining open, but with a cautious stance, given uncertainties related to economic policies; one of the largest agencies in the market was restricting new credits to amortization taking place in order to avoid increasing exposure, but several others would be willing to increase limits if these become binding. With one exception related to a single large project, agencies reported weak demand but with some signs of increase.

Appendix II

Technical Note on Export Credit Statistics and Adjustments

In this and past Fund staff papers on officially supported export credits, quantitative analysis of developments has been based on two statistical sources. One source is the Berne Union Country Reporting Quarterly Return, commonly referred to as the "40 Countries Report," in which the member agencies of the Berne Union report their outstanding commitments, unrecovered claims, and outstanding offers for each of 40 countries. These data are not available to the public and have been provided to the staff on a confidential basis for its use in analyzing various aggregates for individual debtor countries.

The most attractive feature of the Berne Union series is that data are collected in the way most agencies actually keep their books; that is, the concept "commitments" encompasses insured principal and interest on undisbursed as well as disbursed credits. This facilitates consistency in reporting and avoids the errors that can occur when agencies are asked to make estimates of statistical concepts for which they have no hard numbers. The Berne Union data also have the advantage of being a leading indicator, in the sense that they include agencies' undertakings to insure future exports. The main problem with using the Berne Union numbers is that they are not comparable with other types of debt statistics and do not reflect current financing flows. They also include the insurance of certain transactions that are not exports—for example, performance bonds or insurance against expropriation of machinery used on construction projects; these amounts are, however, relatively inconsequential.

The second source is "Statistics on External Indebtedness: Bank and Trade-Related Nonbank External Claims on Individual Borrowing Countries and Territories," published as a joint effort by the BIS and the OECD. This series was published for the first time in April 1984, and data are available on a fairly consistent basis only from December 1983. This series reports stocks of export credits on a basis readily comparable with other external debt data, that is, outstanding amounts of disbursed principal only, and

attempts to bring together the information available to the BIS on banking credits and to the OECD on export credits in order to provide a breakdown of outstanding amounts among nonguaranteed bank claims, guaranteed bank claims, and nonbank officially supported export credits. However, since the concepts used do not reflect the way most export credit agencies keep their accounts, for certain creditor countries estimation by either the reporting country or the staff of the OECD is required. Another difference between the Berne Union and the BIS/OECD series is that, while the Berne Union data cover only export credit insurance agencies, the BIS/OECD series also covers the U.S. Commodity Credit Corporation, direct lending by institutions such as the Export Import Bank of Japan, and certain military credits that are not granted or covered by export credit agencies.

Both of these series suffer from the shortcomings discussed in Section III regarding the omission of certain rescheduled export credits, the carrying of transactions at historical contract exchange rates, and the nonavailability of exchange rate adjusted data. A major problem is that neither France nor the United Kingdom reports rescheduled export credits to either the OECD or the Berne Union, and that Japan and Spain report such credits only to the OECD. It also would appear—at least for the United Kingdom and Japan, but possibly also for France and Spain—that amounts in arrears are not included in the reports to the OECD and/or the Berne Union. These omissions create a serious downward bias in the reported numbers for countries that have experienced debt-servicing difficulties.

As elaborated in Section III, a second problem in using these numbers arises from the fact that, for transactions where the currency of the insurance commitment is different from the currency of the underlying export credit, agencies generally carry these transactions on their books in domestic currency at historical exchange rates specified in each insurance contract. These domestic currency amounts are then

added up and the total converted to U.S. dollars at current exchange rates in the reports of both the BIS/OECD and the Berne Union. While this is, of course, the appropriate way for agencies to keep their own accounts, as it represents their actual exposure, it means that outstanding amounts reported at "current exchange rates" do not measure the actual stock of export credits at current exchange rates, but rather the agencies' total contingent liabilities, that is, their "exposure," at current exchange rates.

Given that both the BIS/OECD series and the Berne Union series use data reported by creditor countries on the basis of "exposure," in the sense used here, rather than on the basis of the currency of the underlying credit, the staff in adjusting those series for the effect of movements in exchange rates has had to use this same exposure concept.²³ The exchange rate adjusted data represent, therefore, not exchange rate adjusted export credit flows, but rather exchange rate adjusted exposure. The implications of this difference might best be seen by further elaboration of the example given in Section III. An export credit for US\$100 had been insured in deutsche mark and the insurance contract had specified an exchange rate of DM 3 = US\$1 to be used in calculating any claims payment. In this case Hermes would carry on its books a commitment of DM 300 in insurance cover. If the current exchange rate were DM 2 = US\$1, that commitment would be reported in the unadjusted BIS/OECD and Berne Union series as being the equivalent of US\$150. If that credit were repaid, reported outstandings would drop by US\$150. If, at the same time, a new US\$100 credit were insured, it would be carried on Hermes's books as DM 200 at today's contract exchange rate of DM 2 = US\$1 and reported as being the equivalent of US\$100. Therefore, while the actual stock of outstanding export credits in U.S. dollars would be unaffected by this repayment and offsetting new credit, the reported totals would drop by US\$50.

It must be stressed that the foregoing problem is not pervasive, as in most cases the currency of the insurance commitment is the same as the currency of the underlying export credit. Nevertheless, it may affect about 10 to 20 percent of the outstanding stocks, and

the distortions introduced can be important if current exchange rates differ substantially from average historical contract rates. It should also be noted that the size and direction of the bias depends on differences in levels between current and average contract exchange rates. There is the additional problem that the rates at which, say, the deutsche mark totals are converted to U.S. dollars differ at each reporting date; this, and this alone, is the change in exchange rates for which the staff has been able to attempt a rough adjustment. The exchange rate adjusted numbers used in this report, therefore, treat a DM 200 insurance commitment as such, regardless of the currency of the underlying credit, and adjust only for current changes in the exchange rate between the deutsche mark and the U.S. dollar. In this paper, this concept is called "exchange rate adjusted exposure" whether it refers to the BIS/OECD series or the Berne Union series.

A more accurate calculation of the exchange rate adjusted exposure would have required, for each reporting date and for each data series, information on the currency composition of each agency's exposure. Such comprehensive information was not available, and shortcuts had to be taken to work with the data at hand.

Each of the 11 agencies provided information on the currency composition of exposure, BIS/OECD basis, as of December 31, 1985, both for all developing countries and for each of the 14 sample countries. As only end-1985 data were available for most agencies, it was assumed that the end-1985 currency composition held for all years and for both the BIS/OECD and the Berne Union series. Also, the OECD totals were distributed among the 11 creditor countries studied, assuming they were the only reporting countries.

Apart from these assumptions, the exchange rate adjustment calculation used here is a standard one. First, the currency composition estimates and the end-period exchange rates were used to break down the end-period U.S. dollar totals into end-period stocks for each currency. The change in that stock for any given currency between two reporting dates was assumed to represent the true increase in exposure in that currency. These increases in exposure were then converted into U.S. dollars at the average exchange rate for the period. Exchange rate adjusted stocks were then calculated by adding these exchange rate adjusted flows, cumulatively, to the earliest actual stock data, that is, end-1982 for the Berne Union data and end-1983 for the BIS/OECD data.

²³ The only exception is EID/MITI, which reports U.S. dollar export credits on an underlying loan basis. The BIS/OECD and Berne Union treat these credits in the same way as numbers reported on a commitment currency basis, and the staff has done likewise in its exchange rate adjustment.

Appendix III

Note on Arrangement on Guidelines for Officially Supported Export Credits

Background

The Arrangement on Guidelines for Officially Supported Export Credits (the Consensus Arrangement) is adhered to by 22 members of the OECD Group on Export Credits and Credit Guarantees. The Arrangement has been in place since April 1978 and replaced a less elaborate understanding that had been in effect among a more limited number of OECD countries since early 1976. The Arrangement is intended to limit competitive subsidization of export financing and sets, *inter alia*, minimum allowable interest rates and maximum repayment terms for officially financed or subsidized export credits of two years and more.

The Arrangement allows some deviations (derogations) from normal practices. These deviations have to be notified to all members who can then “match” the deviations. The Arrangement also allows credits or grants that are wholly or partially (mixed credits) financed from public funds for development purposes. Under certain circumstances—indicated by the degree of concessionality—the conditions of these loans may be more favorable than the conditions of normal export credits. Sectoral understandings—nuclear power plants, aircraft, ships, and satellite communications stations—with special terms have been developed. Military equipment and agricultural commodities are excluded.

The Arrangement has been strengthened over the years, and several important modifications were introduced in 1983. Essentially, minimum allowable interest rates have been set more flexibly in the light of market conditions, and the use of mixed credits has been increasingly discouraged.

Terms and Conditions of Export Credits Before July 1987

Until July 1987 the basic guidelines of the Arrangement consisted of the following:

- a. Minimum cash down payment of at least 15 percent of the value of the contract.
- b. Maximum repayment terms of 8½ years. The term can be extended to 10 years for countries classified as relatively poor and for some intermediate countries.
- c. Minimum interest rates for officially financed or subsidized export credits. (There are no minimum rates for “pure cover,” that is, unsubsidized officially guaranteed or insured credits.) A matrix of minimum rates is established for maturities of up to 5, up to 8½, and up to 10 years for three categories of countries. Category I is for relatively rich countries; Category II is for intermediate countries; and Category III is for relatively poor countries. Since October 1983 the minimum interest rates are revised twice a year if the weighted average of the long-term government bond yields for the five SDR currencies has moved by at least 50 basis points in either direction from the level of the previous adjustment. Table 4 provides the evolution of the structure of minimum interest rates in the recent past. In addition to this mechanism, if commercial rates of interest for the currency of a participant country fall below these minimums, then market-related “commercial interest reference rates” (CIRRs) serve as the minimum allowable interest rates. The CIRRs are adjusted monthly and are based, in most cases, on the monthly average government borrowing costs of five-year, fixed-rate funds, plus a margin of 100 basis points. The CIRR is increased by a premium of 20 basis points if the interest rate is fixed before the time of contract.
- d. When aid funds are mixed with export credits, the interest rate and the repayment terms can be more favorable to the debtor country provided that the overall grant element of such mixed financing packages is at least 25 percent. For calculating the grant element, a uniform discount rate of 10 percent is used.

Table 4. Consensus Arrangement: Minimum Interest Rates

(In percent)

	Relatively Rich Countries (Category I)	Intermediate Countries (Category II)	Relatively Poor Countries (Category III)
2-5 years			
July 1984	13.35	11.55	10.70
January 1985	12.00	10.70	9.85
January 1986	10.95	9.65	8.80
July 1986 ¹	9.55	8.25	7.40
5-8½ years			
July 1984	13.60	11.90	10.70
January 1985	12.25	11.20	9.85
January 1986	11.20	10.15	8.80
July 1986 ¹	9.80	8.75	7.40
8½-10 years			
July 1984	—	11.90 ²	10.70
January 1985	—	11.20 ²	9.85
January 1986	—	10.15 ²	8.80
July 1986 ¹	—	8.75 ²	7.40

Source: *The Export Credit Financing Systems in OECD Member Countries* (Paris: Organization for Economic Cooperation and Development, 1987).

¹ Situation as of June 1987. In July 1988 the system will be amended as follows: (a) minimum rates for Category I countries will be eliminated; (b) the margins for calculating minimum rates for Category II countries will be increased from 75 basis points to 105 basis points in the maturity range of 2-5 years, and from 125 basis points to 155 basis points in the maturity range of 5-8½ years; (c) the margin for calculating minimum rates for countries in Category III will be increased from a discount of 10 basis points to a surcharge of 20 basis points in the maturity range of 2-10 years. The basis for calculating minimum interest rates is the weighted average of the long-term government bond yields for the five SDR currencies.

² Available only for countries that were classified in Category III before July 6, 1982.

Changes Introduced from July 1987

The participants in the Arrangement agreed on March 17, 1987 to modify certain rules of operation. This recent agreement moves further in the direction of discouraging the use of mixed credits and of adapting the rules on minimum interest rates to market conditions. The maximum maturities for loans, however, were left unchanged. The main changes consisted of the following:

- Matrix minimum interest rates for countries in Category I will be eliminated from July 1987. As a result, the minimum interest rate will be the CIRR of the currency in which the credit is given. Moreover, the margins in the calculation of matrix minimum interest rates for countries in Categories II and III will be increased by 0.3 percentage points. It is expected that this increase in matrix minimums will reduce subsidies on export credits.
- The method of calculating the concessionality level for mixed credits has been changed by replacing the "grant element" using a uniform discount rate of 10 percent for all creditor countries with a system giving more weight to market interest rates in the various currencies.
- The minimum concessionality level for mixed credits is to be increased from the present 25 percent of the credit to 30 percent in July 1987 and to 35 percent in July 1988. For the least developed countries, the minimum concessionality level was increased to 50 percent in July 1987.

Appendix IV

Glossary of Selected Terms in Officially Supported Export Credits

Agreed Minute—the terms agreed upon in a Paris Club rescheduling meeting are embodied in an Agreed Minute. The Minute normally specifies the coverage of debt service payments to be consolidated, the cutoff date, the consolidation period, the proportion of payments to be rescheduled, the provisions regarding the down payment, and the repayment schedule for both the rescheduled and deferred debt. Delegates to the meeting undertake to recommend to their governments the incorporation of these terms in the bilateral agreements that implement the rescheduling.

Berne Union (International Union of Credit and Investment Insurers)—an association founded in 1934 of 36 export credit insurance agencies, all participating as insurers and not as representatives of their governments. The main purposes of the Union are to work for sound principles of export credit insurance and maintenance of discipline in the terms of credit in international trade. To this end, members exchange information and furnish the Union with relevant information and consult together on a continuing basis.

Bilateral agreements—agreements reached bilaterally between a debtor country and each of the creditor countries participating in a Paris Club rescheduling. The agreements establish the legal basis of the debt rescheduling as set forth in the Agreed Minute. Bilateral agreements specify the interest rate on amounts deferred or rescheduled (moratorium interest), which is agreed bilaterally between the debtor and each creditor.

Bilateral deadline—a date, specified in the Agreed Minute, by which all of the bilateral agreements must be concluded. The period for concluding bilateral agreements is now generally six to seven months from the date of the Agreed Minute.

Buyers' credit—a financial agreement in which a bank, other financial institution, or an export credit agency

in the exporting country extends a loan directly to a foreign buyer or to a bank in the importing country.

Claims-waiting period—the period for which exporters/banks must wait after payments delays occur before the agency will pay the corresponding claim.

Cofinancing—loans to developing countries made by commercial banks, export credit agencies, or other lending institutions in association with the World Bank and other multilateral development banks.

Commercial risk—the risk of nonpayment by a non-sovereign or private sector buyer or borrower in his home currency arising from default, insolvency, and/or failure to take up goods that have been shipped according to the supply contract (compared with transfer risk arising from an inability to convert local currency into the currency in which the debt is denominated).

Commitment—a firm obligation to furnish resources of a specified amount under specified financial terms and conditions and for specified purposes for the benefit of a recipient country, expressed in an agreement or equivalent contract undertaken by the government or an official agency acting on its behalf. Usually includes principal and contractual interest payable by the importing country on disbursed and undisbursed credits. Commitments are defined as total payments obligations of the importing country, and not just the maximum liabilities of the agency. Thus, they should include, among other things, the percentage of loss that could be borne by the exporters/banks, nontransferable amounts, and adjustments for possible price increases where premiums have been paid. They include guaranteed and direct credits.

Consensus Arrangement—see Appendix III.

Cover—provision of export credit guarantee/insurance against risks of payments delays or nonpayments

relating to export transactions. Cover is usually, though not always, provided both for commercial risk and for political risk. Cover can be provided from date of contract or date of shipment.

Cutoff date—the date before which loans must have been contracted in order for their debt service to be covered by a Paris Club rescheduling. Decisions about whether to include in an agreement debt service due under previous multilateral official reschedulings are made independently of whether those previous agreements were before or after the cutoff date.

Debt refinancing—procedure by which overdue payments or future debt service obligations on an officially supported export credit are converted into a new “refinancing” loan extended by an institution other than the export credit agency. The refinancing loan can be extended either by a governmental institution or by a commercial bank, and in the latter case will carry the guarantee of the export credit agency.

Debt rescheduling—procedure by which overdue payments or future debt service obligations on an existing officially supported export credit are converted into a claim of the export credit agency on the debtor country carrying a revised stream of payments. Because of common usage, the term “rescheduling” may also refer in this paper to the general concept of debt restructurings.

Debt restructuring—rescheduling or refinancing of debt service payments in arrears and/or of future debt service payments, undertaken in response to external payments difficulties.

Grant element—a measure of the concessionality of a loan. It is defined as the difference between the face value of the loan and the present value of the stream of repayments on that loan, expressed as a percentage of the face value.

National interest account—account or system under which an export credit agency extends cover to certain transactions that are not considered eligible for cover on the basis of the normal criteria of the agency, because of the size or risk of the transaction involved. Cover may be extended under government instructions when the transaction is considered beneficial to the national economy, would promote social and economic progress in the buyer country, or when there is a special interest of the government.

OECD Export Credit and Credit Guarantees Group—a forum in which 22 OECD member countries participate in the Arrangement on Guidelines for Officially Supported Export Credits (the Consensus Arrangement). Aside from coordinating export credit terms,

the OECD Export Credit Group has also served as a forum for exchange of information on debtor country situations and agencies’ practices; at the meetings of the Group the governmental authorities of the agencies are represented.

Offers—amounts for which an export credit agency is committed to provide cover if the exporter succeeds in obtaining a contract. Mostly refers to medium-term business because most agencies do not make offers in respect of normal short-term business. Data are approximate, normally exclude interest, and will often overlap since more than one agency competes for the same project.

Officially supported export credits—loans or credits to finance the export of goods and services (and possibly some local costs) which are extended or guaranteed by an official export credit agency in the creditor country. For these export credits, the financing element—as opposed to the guarantee/insurance element—may derive from various sources. It can be extended by an exporter (suppliers’ credit) or through a commercial bank in the form of financial trade-related credit provided either to the supplier (also suppliers’ credit) or to the importer (buyers’ credit). It can also be extended directly by official institutions of the exporting countries, usually in the form of medium-term finance as a supplement to resources of the private sector, and generally for export promotion for capital equipment and large-scale, medium-term projects.

Paris Club—forum in which creditor countries meet with the debtor to consider a request for the rescheduling of debt service payments on loans extended or guaranteed by their governments or official agencies. The Paris Club has neither a fixed membership nor an institutional structure and its meetings are open to all official creditors that accept its practices and procedures. During these meetings the participating creditors agree with the debtor country the broad terms of the rescheduling, which are set forth in an Agreed Minute and which the representatives agree to recommend to their respective governments.

Percentage cover—the proportion of any loss suffered by the exporter on which the agency will pay claims.

Political risk—the risk of borrower country government actions which prevent, or delay, the repayment of export credits. These actions assume that the importer has deposited on time the amounts due in local currency. Many export credit agencies also include under political risk such events as war, civil war, revolution, or other military civil disturbances which prevent the exporter from performing under the supply contract

or the buyer from making payment. Some also include physical disasters such as cyclones, floods, or earthquakes.

Repayment period/credit period—the period during which repayments under the financing are due to be made; this period usually starts after the end of performance under the commercial contract.

Security requirement—payment guarantee required by export credit agencies for extending cover in certain markets, varying primarily with the legal and administrative setting within the borrowing country. It could consist of an irrevocable letter of credit, a confirmed irrevocable letter of credit, a government guarantee, or a central bank guarantee.

Short-term commitments—commitments relating to sales of consumer goods and raw materials, which are usually covered under comprehensive/whole-turnover policies for which credit terms longer than six months

are not normal. Because of the specific guarantee/accounting system of some agencies, short-term commitments may include credits of up to two years in certain cases.

Specific policy—a policy covering an individual export contract against failure to receive sums due from the overseas buyer.

Suppliers' credit—a financing arrangement under which the supplier (exporter) extends credit to the buyer in the importing country.

Whole turnover coverage/comprehensive coverage/global coverage—insurance or guarantee cover for all or a negotiated portion of the export transactions of a supplier (exporter) or bank. These policies generally provide insurance at a lower premium rate than specific policies because the risks for the agency are spread across a broader range of transactions and frequently across several debtor countries.