International Capital Markets

Recent Developments and Short-Term Prospects, 1981

By a Staff Team Headed by Richard C. Williams, with G. G. Johnson

**International Monetary Fund
Washington, D.C.
August 1981**

International Standard Serial Number: ISSN 0251-6365

Price: US\$5.00
(US\$3.00 to university faculty members,
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International Monetary Fund, Washington, D.C. 20431

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Contents

	Page
Prefatory Note	ix
I. Summary: Policy Issues and Short-Term Prospects	1
Prudential Issues and Bank Supervision	
Developing Countries' Access to International Bond Markets	
Prospects	
II. Recent Developments in the Markets	5
International Banking Flows	
International Bond Market Activity	
III. Prudential and Regulatory Issues	11
Bankers' Perceptions of Risk in International Lending	
Financial Positions of the Non-Oil Developing Countries	
Debt Service and Other Crises	
Prudential Standards and the Role of Bank Supervision	
Capital Adequacy	
Exposure Concentration	
Liability Management	
International Coordination of Bank Supervision	
Lending Spreads and the Direction of International Lending	
IV. Developing Country Access to Bond Markets	19
Policy Background	
Recent Policy Developments	
The Statistical Record	
Prospects	
V. Short-Term Prospects for the International Capital Markets	23
Balance of Payments Prospects	
Other Macroeconomic Factors	
Bond Market Prospects	
Prudential and Supervisory Constraints on Bank Intermediation	
Prospects for International Bank Lending	
ANNEX	
Supervision of Banks' Foreign Establishments: Report to the	29
Governors by the Group of Ten's Committee on Banking	
Regulations and Supervisory Practices	
Introduction	
The Need for Cooperation	
Supervisory Responsibilities and Interests	
of Host and Parent Authorities	
Aids to Cooperation	

APPENDICES

I.	Bank Lending in 1980	33
	Environment for International Lending in 1980	
	International Payments	
	Production and Investment	
	Monetary Developments	
	Bank Lending and Deposit Taking	
	Industrial Countries	
	Oil Exporting Countries	
	Centrally Planned Economies	
	Non-Oil Developing Countries	
	Medium-Term Publicized Bank Credit Commitments	
	Terms and Conditions	
	Lending by Location or Nationality of Bank	
	The Eurocurrency Market and International Claims of Banks	
	Outside the BIS Reporting Area	
	Financing of Payments Imbalances Through International	
	Capital Markets	
	Global Payments Imbalances and Flows Through	
	International Capital Markets	
	Financing Through Private Markets of Current Account	
	Deficits of the Principal Groups of Countries	
II.	Developments in International Bond Markets	50
	Overview	
	The Record in 1980	
	Institutional and Policy Factors	
	Market Developments in the First Quarter of 1981	
	Developing Country Borrowing in International	
	Bond Markets	
	Activity in 1980 and Early 1981	
	Borrowing by Individual Countries	
	Borrowing Terms	
III.	Role of the SDR in the International Financial Markets	63
	Simplification of the SDR Basket	
	Deposits Denominated in SDRs	
	Loans Denominated in SDRs	
	Bonds Denominated in SDRs	
	Involvement of the Fund	
	Other Uses of the SDR as a Unit of Account	
	Conclusion	
IV.	Growth of International Bank Assets: Empirical Analysis	66
	Introduction and Summary	
	Determinants of International Bank Lending	
	Quarterly Model	
	Analysis of 1980 and Projections for 1981	
V.	Statistical Tables	70

TABLES**Section**

II.	1. International Bank and Bond Finance, 1975–80	6
	2. Aspects of International Bank and Bond Financing, 1977–80	7
III.	3. Capital-Asset Ratios of Banks in Major Capital Market Countries, 1974–80	13
V.	4. Current Account Positions and Aspects of Their Financing, 1978–81	24

Appendices

I.	5. Growth in International Lending and Selected Economic Indicators, 1973–80	34
	6. External Lending and Deposit Taking of Banks in the BIS Reporting Area, 1977–80	36
	7. Medium-Term Publicized International Bank Credit Commitments, 1977–81	39
	8. Undisbursed Credits as Per Cent of Outstanding Bank Claims, 1978–80	40
	9. Nominal and Real Interest Rates, 1977–80	41
	10. Terms on Publicized Medium-Term Bank Credit Commitments, 1977–80	42
	11. Short-Term Claims as Per Cent of Total International Bank Claims, 1978–80	43
	12. Growth in International Claims of Banks of Major Capital Market Countries, 1976–80	44
	13. The Eurocurrency Market and International Claims of Banks Inside and Outside the BIS Reporting Area, 1976–80	45
	14. Financial Flows Through International Capital Markets, 1973–80	46
	15. Current Account Positions and Private Market Financing by Principal Groups of Countries, 1973–80	47
	16. Non-Oil Developing Countries: Current Account Positions and Private Market Financing, 1973–80	48
	17. Non-Oil Developing Countries: Current Account Positions and Aspects of Their Financing, 1973–80	48
II.	18. International Bond Issues and Placements, 1976–81	51
	19. Total International Bond Issues and Placements, 1965, 1970, and 1975–81	52
	20. Total Eurobond Issues and Placements by Currency of Denomination by All Countries, 1976–81	53
	21. Foreign Bond Issues and Placements by Market Country, 1976–81	53
	22. Secondary Market Yields on Eurobonds, 1979–81	54
	23. Developing Countries: Issues of Foreign Bonds by Markets, 1977–80	59
	24. Developing Country Issues and Placements in the International Markets, 1975–80	61

CONTENTS

V.	25. International Claims of Banks in Europe on Nonbanks in Industrial Countries, 1977–80	70
	26. Net Foreign Position of Banks in Industrial Countries, 1977–80	71
	27. Oil Exporting Countries: Estimated Disposition of the Current Account Surplus, 1974–80	71
	28. External Liabilities of Banks in the BIS Reporting Area by Borrowing Country, 1977–80	72
	29. Net External Position of Banks in the BIS Reporting Area by Borrowing Country, 1977–80	73
	30. Bank Lending to Non-Oil Developing Countries, 1973–80	74
	31. Share of Claims on Developing Countries and Centrally Planned Economies in Banks' Net International Claims, 1973–80	74
	32. External Claims of Banks in the BIS Reporting Area by Borrowing Country, 1977–80	75
	33. Non-Oil Developing Countries: Long-Term External Debt, 1973–80	76
	34. Medium-Term Publicized International Bank Credit Commitments, 1977–80	77
	35. External Assets of Banks by Maturity and Undisbursed Credit Commitments, December 1978–December 1980	78
	36. Distribution of Spreads on Variable-Interest-Rate Eurocurrency Bank Credits, 1973–80	80
	37. Maturity Distribution of Eurocurrency Bank Credit Commitments, 1973–80	81
	38. External Claims as Reported by Banks in Major Financial Markets by Country or Region of Lending Bank, 1977–80	81
	39. International Bond Issues and Placements by Currency of Denomination, 1976–80	82
	40. International Bonds, by Type, 1977–80	82
	41. Bond Issues and Placements by Developing Country Borrowers, 1980	83
	42. Developing Country Eurobond Issues and Placements by Currency, 1976–80	84
	43. Maturity Distribution of New International Bond Issues and Placements by Developing Countries, 1976–80	84
	44. Maturity Distribution of Market Borrowing, 1976–80	85
	45. Initial Offering Yields of Publicly Offered Bonds and Eurobonds, 1977–80	85

CHARTS

Section

II.	1. Net Lending Through International Capital Markets, 1973–80	5
	2. Sources and Uses of International Bank Funds, 1973–80	6
	3. Non-Oil Developing Countries: Financing Through International Capital Markets, 1973–80	7
	4. Medium-Term Publicized Credit Commitments and Total Net International Bank Lending, 1973–80	8
	5. Terms on International Bank Lending, 1973–80	9

	6. Developments in International Bond Markets, 1976–80	9
III.	7. Concentration of International Bank Claims, 1973–80	14
Appendices		
II.	8. International Bond Yields	52
IV.	9. Quarterly Growth Rate of External Bank Assets	68

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., 1978–80 or January–June) to indicate the years or months covered, including the beginning and ending years or months;
- / between years (e.g., 1979/80) to indicate a crop or fiscal (financial) year.

“Billion” means a thousand million.

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

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Prefatory Note

Background for this study was provided by informal discussions with some forty banks, monetary and bank supervisory authorities in ten countries, and staff of the Bank for International Settlements, the European Community, and the Organization for Economic Cooperation and Development. These discussions took place in February and March 1981 in Amsterdam, Basle, Berlin, Bonn, Brussels, Frankfurt, London, Luxembourg, Paris, and Zurich. Similar discussions were held in New York and Washington in March and in Montreal, Ottawa, and Tokyo in April.

Fund staff members, other than the authors, who participated in these latter discussions included K. Burke Dillon and Hiroyuki Hino of the Exchange and Trade Relations Department and Jorge R. Marquez-Ruarte and Esther C. Suss of the Western Hemisphere Department. Research assistance was provided by Can Demir.

Similar studies have been prepared in recent years, and last year's study was published as Occasional Paper No. 1 in September 1980. The present study was completed in June 1981 and reflects developments up to that time.

The paper has benefited from comments by staff in other departments of the Fund and by members of the Executive Board. However, opinions expressed are those of the authors and do not necessarily represent the views of other staff members or of Executive Directors.

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I Summary: Policy Issues and Short-Term Prospects

This paper provides a review of recent developments and an assessment of short-term prospects for private international capital markets, which constitute one of the main sources of international capital flows. It emphasizes the role of international banks in intermediation between surplus and deficit countries, and includes a discussion of official actions affecting the markets. Four major topics are covered: the volume and terms of financial flows through these channels in 1980, and the factors accounting for them (Section II); prudential issues facing banks, the stance of supervisory authorities, and the implications for international intermediation by banks (Section III); the access of developing countries to bond markets (Section IV); and the prospects for financial flows through banks and the bond markets in the remainder of 1981, and some areas of uncertainty for the period beyond (Section V). Background materials are provided in appendices to the paper.¹ The paper's main findings on policy issues and short-term prospects are summarized in the second part of this first section.

Because the scope of the paper is limited to flows through capital markets, it does not deal with more general questions of capital flows, such as the current need of many developing countries—especially those which do not have significant access to the international capital markets—for concessional assistance, the needs of developing countries for resources from the multilateral development institutions,² or the role of the Fund in providing financial assistance in support of adjust-

ment programs of member countries. Nor does it discuss problems which might arise in the medium term. For a summary view of the principal findings that have emerged from studies in the Fund setting out broad scenarios for the world economy over the period through the mid-1980s, reference may be made to the *World Economic Outlook*.³ These scenarios focus particularly on medium-term prospects for the external positions and growth rates of four analytical subgroups of non-oil developing countries, one of which is the low-income countries.

With the sharp increase in oil prices in 1979, international attention focused on the possibility that the banking markets might be unable or unwilling to intermediate between the oil surplus countries and the deficit countries on a scale sufficient to avoid major downward pressure on world economic activity. By the beginning of 1980, international bank lending, particularly to the non-oil developing countries, was viewed by many market observers as increasingly risky for banks, so that a slowdown was widely viewed as inevitable. A Fund staff paper on international capital markets prepared toward the middle of 1980⁴ suggested, however, that prospective financing flows would prove to be broadly commensurate with the requirements of deficit developing countries, which had been relying heavily on market finance in recent years. With a few possible exceptions, they would not be forced by market retrenchment into immediate financing difficulties nor into unduly severe adjustment policies. Beyond 1980, however, the outlook was very uncertain.

The magnitude and direction of market flows appear to have broadly matched the expectations for 1980.⁵ Inevitably, this favorable outcome involved a substantial absolute increase in the international exposure of banks. Moreover, unlike the situation at the corresponding stage of the earlier phase of "recycling," the aggregate

¹ The primary data underlying the analysis in the paper come mainly from the Bank for International Settlements (international assets and liabilities of banks) and the World Bank (syndicated bank credits and international bond issues and placements). Data published by the Organization for Economic Cooperation and Development (OECD) and various central banks, as well as by Morgan Guaranty Trust Company and Orion Bank, have also been used. Data on capital-asset ratios have been provided by a number of country authorities. Balance of payments developments and prospects for the world economy have been taken from the *World Economic Outlook*, IMF Occasional Paper No. 4 (June 1981); other macroeconomic data come from *International Financial Statistics*, a monthly publication of the Fund.

² The Development Committee's Task Force on Nonconcessional Flows is studying various means of providing a satisfactory medium-term pattern of capital flows to developing countries and will make its recommendations in the near future.

³ IMF, *World Economic Outlook*, Occasional Paper No. 4 (June 1981), pp. 13–17.

⁴ IMF, *International Capital Markets: Recent Developments and Short-Term Prospects*, Occasional Paper No. 1 (September 1980).

⁵ Developments in 1980 are summarized below in Section II and reviewed in detail in Appendices I and II.

current account deficits of the non-oil developing countries are continuing to increase. Thus questions naturally have arisen about the ability of the private markets to sustain financing flows at levels sufficient to avoid overly severe reductions in economic activity by many of the deficit countries. This paper addresses such concerns.

Prudential Issues and Bank Supervision⁶

Although prudential considerations do not appear to have been a significant constraint on their international lending activity in 1980, bankers in several countries continue to express concern that such factors will limit their ability to continue international financial intermediation on the scale of recent years. In particular, they find worrisome the extent to which the balance of payments and debt management prospects of many of the non-oil developing countries⁷ have been eroded in recent years.

Nonetheless, over the past year such worries appear to have eased in some respects. First, although frequently characterized as an aggregate problem, cross-border risk is more a matter of the circumstances and prospects of individual countries. The bulk of bank exposure to the developing world is to a relatively few middle-income and upper-income countries, several of which strengthened their adjustment policies in 1980 in such a way that the market gained renewed confidence in lending to them. Bankers seem increasingly to be concentrating on the appropriateness of these policies and the strong longer-term growth potential of such countries, rather than focusing exclusively on their immediate balance of payments difficulties. Countries whose policies are not seen to be appropriate, on the other hand, are likely to find their access to bank credit increasingly limited. Second, the rash of private debt restructuring, which some commentators were predicting, has not taken place; and where such problems have arisen, they have by and large been handled in a way that has been acceptable to the banks. More generally, the loan-loss experience and overall profitability in banks' international operations continues to be favorable, except for some losses related to the recent sharp fluctuations in interest rates. Third, there has been some increase in effective lending spreads for a few borrowers whose borrowing requirements appeared to banks to be large. The increase in financial flows that has followed this increase in the "spread of spreads"

has inspired market confidence in the continuity of new lending and thus has been self-reinforcing.

Capital adequacy, portfolio concentration in claims on developing countries, and funding risk in the interbank markets have been frequently mentioned as possible impediments to international banking flows.⁸ The evidence suggests that while these are legitimate areas of concern, they will not be a serious impediment to the continuing expansion of international intermediation by banks in 1981; nor is it obvious that they will emerge as serious structural constraints even over the medium term.

The decline in capital-asset ratios has been evident for a number of years, but it does not clearly imply any serious threat to bank solvency. In any event, the decline has not accelerated in recent years, and in some countries the banking systems have actually reversed the downward trend.

The data do not suggest that portfolio concentration vis-à-vis developing countries has become a major problem for the banking system as a whole. Outstanding claims on the non-oil developing countries constitute a small proportion of total (domestic and foreign) assets of banks headquartered in the major financial market countries. Banks' international assets have grown more rapidly than their domestic assets, but the proportions of international assets accounted for by the non-oil developing countries, and by the largest borrowers among those countries, have not increased in recent years. Moreover, portfolio management is a dynamic concept. In a world in which total bank assets have been increasing steadily and rapidly, even if the share of developing countries were to be held constant, there would still be considerable scope for continued large-scale lending to them.

The third area of prudential concern—funding risk—seems unlikely to be a major constraint unless there is another banking crisis such as that which occurred in 1974. Tightening of prudential standards in this area, as in other areas, may have reduced the possibility of funding problems in the future.

Over the past few years, the authorities of the financial market countries have played a major role in strengthening the prudential standards of their banks. Official action in this area has helped to underpin the continuity of international financing flows, including flows to the developing countries, and has been a positive and stabilizing factor. Given the reliance on market

⁶ These issues are developed in greater detail in Section III.

⁷ The country classifications used by the Fund are listed on the inside back cover of *International Financial Statistics*, a monthly publication of the Fund.

⁸ It was partly in response to this possibility that the Development Committee (formally, the Joint World Bank-Fund Ministerial Committee on the Transfer of Real Resources to Developing Countries) established the Task Force on Non-concessional Flows to examine the nature and significance of such impediments and, in the light of their findings, to recommend official actions that might alleviate the problem.

finance of an ever growing number of developing countries, the bank supervisory authorities have been cognizant of the need to implement changes in prudential bank regulation in a deliberate manner so as not to disrupt international bank lending.

The strengthening of bank supervisory practices has generally been carried out in a flexible manner. On occasion, however, actions by financial market countries for balance of payments reasons have temporarily restricted the international lending activities of their banks. In the aggregate, these measures seem not to have had a significant quantitative impact on financing flows to developing countries. Nevertheless, it has become increasingly important that, in framing their own balance of payments management policies, the financial market countries avoid measures restricting access to their markets.

Developing Countries' Access to International Bond Markets

International bond issues⁹ by developing countries again declined sharply in 1980. Issue volume was \$2.5 billion, or 30 per cent less than in 1979 and little more than half the average for 1977–79. Although the aggregate volume of international issues was somewhat larger than in 1979, the markets were more depressed for longer periods, mainly because of the volatility of interest rates around a generally rising trend. In these circumstances the markets were very selective about new issues, and when “windows” opened from time to time, it was mainly the “best names” that were brought to the markets. The share of developing countries in the markets thus declined to 6 per cent from the 1978 peak of almost 16 per cent.

To some extent the decline in issues by developing countries was the result of limitations on foreign access that were temporarily imposed or intensified in a few countries. These actions, although informal, sometimes involved official guidance to the major resident security dealers and reflected domestic balance of payments considerations, as well as deteriorating conditions in the capital markets. Developing country borrowers were not exempted from these measures, and indeed may have been disproportionately affected by them, although special consideration was given to multilateral development institutions, such as the World Bank.

On the positive side, there were some generally encouraging measures toward liberalization of the capital markets, including resident access to foreign securities and the greater use of certain currencies in the Euro-

bond markets. Although these measures were not taken specifically in response to the 1976 recommendation of the Development Committee on measures to promote developing countries' access, over time they should serve to strengthen the markets for all potential borrowers. In general, the authorities of the capital market countries have been reluctant to discriminate in favor of developing country borrowers where an official policy on access is maintained, either because the principle of nondiscrimination is firmly held or, more generally, because they are not persuaded that official intervention to promote one issue or another would be productive.

Prospects

A major question about the prospects for the private international capital markets continues to be the extent to which they will channel funds from the oil exporting countries and other sources of financial savings to deficit countries, particularly those non-oil developing countries which have relied in the past on finance from the private markets. The Fund's *World Economic Outlook* provides projections of current account deficits as well as trends in other factors, such as world trade and economic growth. On the basis of these projections, the broad outlines of the aggregate demand for private international finance can be determined.

These projections suggest that the demand for market finance to cover current account deficits will remain strong in 1981. The counterpart of the reduction in oil exporters' surpluses will be a sharp improvement in the current account positions of some of the large industrial countries. The combined deficit of the smaller industrial countries will be unchanged, while the deficit of the non-oil developing countries, including the middle-income and upper-income developing countries among them, will increase. In projecting these deficits, based on individual country assessments, account has been taken of the likely availability of financing from several sources. There is some scope for off-market financing by the smaller industrial countries through direct recycling of oil producer surpluses, and for the non-oil developing countries part of the increase in projected current account deficits is expected to be covered by nondebt-creating flows and the use of reserve-related credit facilities, such as use of Fund resources. In general, however, the total requirements for balance of payments financing from the international capital markets by those countries most dependent on them will rise.

As the increased demand of such countries for market finance will not be associated with such a sharp increase in the value of their imports as in 1980, the extent to which they will be able to increase their lines of bank

⁹ Throughout this paper, unless otherwise indicated, the term “issues” includes private placements as well as public issues.

trade finance will be more limited. Thus, the growth in the demand by such countries for longer-term finance, the availability of which is more affected by the prudential constraints on banks, will be larger. Credit demands in the major industrial countries, on the other hand, are likely to ease in response to slower growth of production, investment, and international trade. The shifting pattern of demand suggests that a major question in 1981 is the extent to which capital market flows can shift from lending to the industrial countries, much of it at the short end of the maturity spectrum, to longer-term lending to the non-oil developing countries.

These demand factors must be weighed against possible constraints on the ability of the market to provide financing. The international bond markets face continuing major uncertainties about interest rate and exchange rate developments and about official action in response to them. In the light of developments so far in 1981, it seems unlikely that the volume of issues will increase very much, and net flows (after redemptions) could well be lower than in 1980. Direct recycling of oil producer surpluses may help to ease conditions in the world's bond markets, but at this point it appears that any significant growth of capital market flows will have to come from the banking sector.

An assessment of the response of the international banking system must take into account both the prudential constraints on the major banks and the regulatory environment. While certain banks in some financial market countries may be constrained by prudential considerations, at the aggregate level there do not appear to be major impediments to continuation of cross-border lending at a pace commensurate with emerging demands. Nor do official bank regulation and supervision seem to be designed or to be operating to slow such activity. On the contrary, in one or two countries, informal restraints directly affecting the ability of their banks to lend internationally have been eased. Thus, an increase in banks' international claims of 20 per cent or so in 1981, somewhat less than the 25 per cent recorded in 1980, seems feasible. Given the likely easing in credit demand from

the major industrial countries, such an outcome would leave room for continuing large increases in bank credit to the non-oil developing countries.

The prospects for continued large-scale access to banking credits by non-oil developing countries, therefore, appear to be reasonably positive at the present time. Claims on the 20 large borrowers, mainly net exporters of oil on a small scale or major exporters of manufactures, which account for about 85 per cent of the exposure of the banks to the non-oil developing countries, have not grown significantly as a proportion of banks' international assets. In general, moreover, these countries have maintained or implemented adjustment policies that have generated market confidence. Although for a few countries lending spreads have recently increased because of the magnitude of their borrowing requirements and of their existing debt to the banks, the higher spreads appear to be attractive enough to banks to sustain the flow of finance to such countries. For most developing countries, moreover, spreads have not risen, suggesting further scope for increasing their use of market finance. In general, therefore, there are few signs that the major borrowers will have much difficulty in obtaining market finance consistent with the scale of their current account deficits as projected in the most recent *World Economic Outlook* (June 1981). It is worth noting that the increase in bank claims on the non-oil developing countries that would be consistent with the *World Economic Outlook's* projections would be smaller in percentage terms in 1981 than the increase recorded in 1980.¹⁰ While the circumstances will vary for individual countries, particularly in view of the greater care that banks are taking in their assessment of country risk, there seems to be little ground for concern about a general crowding out of developing countries from a market that seems likely to continue to expand at a rapid pace. The preliminary data on medium-term syndicated credits for the first half of 1981 support this conclusion.

¹⁰ See page 26, footnote 31.

II Recent Developments in the Markets¹¹

In the second half of the 1970s banks expanded their international claims at an annual rate of about 25 per cent. Lending through bond markets was much less buoyant, but taken together, the nominal dollar volume of net market lending in 1979 was more than two and one half times that of 1975 (Chart 1). The rise in oil prices in 1979 suggested a need for continued rapid expansion in capital market activity if the world economy was to avoid too rapid and severe an adjustment. By the beginning of 1980, however, considerable pessimism had developed about the capacity of the markets, in particular the banks, to sustain a large role in channeling financial resources from the surplus to the deficit countries, particularly to the developing countries among them. For a number of reasons (see Section III), the riskiness of international lending appeared to have risen at a time when banks, encouraged by official supervision, were tightening their prudential standards; many observers believed that a slowdown in international bank lending was inevitable.

Nevertheless, there were a number of reasons for thinking that the lending capacity of the markets would not in fact be seriously strained by potential borrower demand in 1980. The prospective increase in current account deficits was mainly concentrated in the large industrial countries; for the non-oil developing countries, in particular, the projected deficit in 1980 relative to the scale of recent international banking flows was considerably smaller than in the period just after the 1973/74 increase in oil prices. A substantial part of the developing countries' net market borrowing in recent years had facilitated an increase in reserves; their incremental net borrowing requirement would not be large, if they slowed reserve accumulation. Moreover, much of the net market financing they required as a group for 1980 could come from drawing down existing commitments or extending their use of short-term trade finance, which generally was much less constrained by banks' prudential considerations.

Chart 1. Net Lending Through International Capital Markets, 1973–80

¹ Measured in U.S. dollars; adjusted for valuation effects of exchange rate changes.

² Net of repayments; does not exclude double counting due to banks' issuing and holding of bonds.

At a more fundamental level, an encouraging fact was that lending spreads were still at historically low levels for most countries. This suggested that prudential considerations had not yet seriously raised the cost of bank intermediation and that, even if they should do so, there was considerable scope for covering the increase through higher spreads. While the system-wide elasticity of loan supply in relation to lending spreads was unknown, there seemed little reason to think that it was so small

¹¹ Recent developments in the markets are examined in detail in Appendices I and II.

Table 1. International Bank and Bond Finance, 1975–80
(In billions of U.S. dollars)

	1975	1976	1977	1978	1979	1980
International bank lending (net)	40	70	68	90	130	165
International bond issues (net)	20	30	31	30	30	28
<i>New international bond issues</i>	23	34	36	37	38	38
<i>Less redemptions and repurchases</i>	-3	-4	-5	-7	-8	-10
Less double counting due to bank purchases of bonds	-2	-4	-5	-8	-9	-10
Total	58	96	94	112	151	183

Sources: BIS; World Bank; Orion Bank Limited (London); and Fund staff estimates.

that the potential for substantial additional funds was greatly limited.

In the event, financing flows through the international capital markets were well maintained in 1980. Total net new bank and bond financing amounted to some \$183 billion, 21 per cent higher than in 1979 (Table 1). While there were some shifts in the sources, direction, and terms of banking flows, the overall outcome was surprisingly strong, given the pessimistic views expressed by many commentators at the outset of the year.

International Banking Flows

International bank claims¹² are estimated to have expanded by 25 per cent in 1980, about the same rate as in 1979. The amount of the increase in 1980 was \$165 billion, which compares with the \$130 billion recorded in 1979. An important factor in the response of the banking system to the new demands was the sharp acceleration of international lending by U.S. banks in 1980, after three years of slow growth of their international claims (less than half the rate of increase recorded for other banks in the system). This acceleration was partly in response to the slow growth of the U.S. economy and the consequent slowdown in growth of banks' domestic assets, but it also reflected a change in their lending strategy. In 1979 one of the factors contributing to a low rate of participation of U.S. banks in syndicated credits had been the unwillingness of many of them to accept low spreads. In 1980, however, larger U.S. banks were highly visible in syndicated loans at spreads well below the $\frac{3}{4}$ per cent that some of them had previously maintained as a lower limit. Canadian banks also experienced a slowdown in the growth of their domestic assets and increased their international lending operations considerably.

¹² As measured by the Bank for International Settlements (BIS) and net of interbank redepositing. The figures cited here have been adjusted by the Fund staff, on the basis of information contained in the quarterly press releases of the BIS, to remove valuation effects associated with exchange rate changes.

In contrast, after two years of very rapid growth of their longer-term claims, Japanese banks, in consultation with their authorities, sharply slowed their international lending, pending the adoption of new prudential standards by the banks. The slowdown may also have reflected the extent to which Japanese banks were financing Japan's current account deficit through, among other channels, the use of their foreign currency fund-

Chart 2. Sources and Uses of International Bank Funds, 1973–80¹

(In per cent)

¹ Banks in the Group of Ten countries and Austria, Denmark, Ireland, and Switzerland; excludes interbank transactions within the reporting area.

² Excluding Fund member countries.

³ International organizations and unallocated.

Table 2. Aspects of International Bank and Bond Financing, 1977–80

(In billions of U.S. dollars)

	1977	1978	1979	1980
Bank lending (net)¹	68	90	130	165
Industrial countries	39	40	71	100
Oil exporting countries	9	14	7	6
Non-oil developing countries	14	25	41	52
Centrally planned economies ²	4	7	8	2
Other	2	4	3	5
New medium-term loan commitments	34	74	69	69
Industrial countries	13	34	22	33
Oil exporting countries	5	10	7	5
Non-oil developing countries	13	27	35	28
Centrally planned economies ²	3	3	4	2
Other	—	—	—	1
Terms on medium-term loan commitments				
Average six-month Eurodollar deposit rate (per cent)	6.4	9.4	12.0	14.2
Average maturity (years)	6.4	8.2	8.9	7.9
Average spread (per cent)	1.2	0.9	0.7	0.7
Bond market lending (net)	31	30	30	28
Industrial countries	21	18	20	19
Developing countries	4	5	3	2
Other	6	7	7	7

Sources: BIS; OECD; and Fund staff estimates.

¹ Increase in bank claims adjusted for valuation effects of exchange rate changes.² Excludes Fund member countries.

ing capacity to finance Japanese imports. To a much lesser extent, the banks of many European countries also slowed their international lending, mainly on general prudential grounds. The banks of the Federal Republic of Germany and Switzerland, for example, were affected to some degree by prospective requirements that they consolidate their foreign subsidiaries with their headquarters for purposes of capital requirements.

The direction of sources and uses of capital market flows (Chart 2) broadly reflected current account developments. On the sources side, oil exporting developing countries, as in 1979, accounted for about 30 per cent of the increase in international bank deposits. The growth of their deposits slowed sharply in the second half of the year, however, and for the year as a whole they are estimated to have placed only some 35 per cent of their total cash surplus with banks, less than the 58 per cent in 1979. An increasing proportion of their surplus funds thus has been directly recycled—that is, placed directly with borrowers or in the domestic financial markets of industrial countries, rather than with banks. Both the non-oil developing countries and the centrally planned economies sharply slowed or reversed their accumulation of bank deposits as part of the process of financing their current account deficits.

With respect to the direction of financing flows, bank net lending to the non-oil developing countries exceeded \$50 billion (Table 2 and Chart 3), accounting, as in 1978 and 1979, for almost a third of total lending. Such

Chart 3. Non-Oil Developing Countries: Financing Through International Capital Markets, 1973–80

¹ Net of repayments; does not exclude double counting due to banks' holding of bonds.

II • RECENT DEVELOPMENTS IN THE MARKETS

countries once again were able to obtain net bank financing equivalent to more than half of their combined current account deficits and accumulation of reserves. There was a marked slowdown in their aggregate reserve accumulation, which to some extent may have reflected a tightening in the availability of financing from the markets, but on balance, for those non-oil developing countries which do have access to market finance, the banking system continued to respond flexibly to their increased demands. There is thus little evidence of a crowding out of such borrowers.

As the major oil exporting countries had large current account surpluses, they needed little market financing and bank claims on them as a group increased only slightly. The growth of claims on centrally planned economies also slowed sharply as a result of growing uneasiness about the risk of lending to a few countries in this group.

Although industrial country borrowers apparently obtained a significant amount of funds directly from the surplus oil exporting countries, they increased their net international borrowing from banks by almost half to \$100 billion. That was about 60 per cent of total net international bank lending, the highest proportion in recent years. In contrast to the situation for the non-oil developing countries and some of the smaller industrial countries, a relatively small proportion of market borrowing by the major industrial countries represented direct public sector use of the markets for balance of payments finance. Nevertheless, for some major industrial countries, the growth of bank trade credit associated with the marked increase in the value of their international trade was a major source of capital inflow to finance their current deficits. International bank lending associated with the continuing process of integration of financial markets also may have been enhanced in 1980 by higher interest rates, which increased the cost of maintaining the interest-free reserves required in several market countries, encouraging banks and their customers to shift the booking of loans and deposits offshore. It was in part because of the potential for such shifts that the U.S. authorities in November 1980 began to apply the basic reserve requirements also to net Eurocurrency liabilities of U.S. banks, which are defined to include most credits extended to U.S. residents by U.S. bank branches abroad.

In contrast to the increase in bank claims, commitments of bank funds in the form of publicized medium-term syndicated credits in 1980 remained at about the 1979 level of \$69 billion (Chart 4), somewhat below the \$74 billion recorded in 1978. (This comparison overstates the stagnation in the volume of new commitments. Many of the new credit commitments in 1978

Chart 4. Medium-Term Publicized Credit Commitments and Total Net International Bank Lending, 1973-80

(In billions of U.S. dollars)

¹ Excludes Fund member countries.

² Net of redepositing among banks.

and 1979 involved refinancing of existing credits on better terms, a process which was largely absent in 1980.) In the early part of 1980 there was to some extent a standoff between the banks, which were persuaded that a significant hardening of lending terms was inevitable, and some of the important developing country borrowers, which were signaling their resistance by limiting their recourse to syndicated credits. During this period many borrowers were able to arrange shorter-term credits and nonpublicized medium-term credits either on a bank-to-bank basis or in small club deals. Later in the year, with some rise in spreads, there was a substantial increase in lending to the non-oil developing countries. For 1980 as a whole, commitments to such countries declined, but large increases in syndicated credit commitments to borrowers in some of the industrial countries served to maintain the aggregate volume of new commitments at the level of 1979.

In the first months of 1980 there was some shortening of maturities on publicized medium-term credits, and toward the end of the year spreads hardened perceptibly

Chart 5. Terms on International Bank Lending, 1973–80

¹ Medium-term publicized international bank credit commitments.

for a few borrowers (Chart 5).¹³ In general, however, there was no marked hardening of terms on publicized syndicated credit commitments, although lending spreads on nonpublicized credits reportedly have risen in some cases. Given the high and rising levels of the base interest rates relative to which spreads are defined, any additional borrowing cost resulting from higher spreads was of secondary importance.

Preliminary information on publicized syndicated credits suggests that medium-term international bank lending was considerably more buoyant in the first half of 1981 than it was a year before. While loan commitments actually signed in the first quarter were not much above the volume of that period in 1980, a large number of new loans reportedly were finalized in the second quarter. For the first six months it appears that the volume of syndicated credits was greater by close to 20 per cent, in comparison with the same period a year ago, and that much of the increase was accounted for by new commitments to non-oil developing countries.

¹³ Developments in lending spreads are discussed further in Section III.

International Bond Market Activity

Issue activity in the various sectors of the international bond market in 1980 continued to be subject to sharp and frequent interruptions associated with fluctuations in interest rates and exchange rates. Total international issues slightly exceeded \$38 billion (Chart 6)—little changed from the level of the last few years—and taking into account estimated redemptions, net flows declined slightly. The sharp fluctuations in short-term interest rates in many international money markets during the year—a strong rise in the first four months followed by a rapid decline and then renewed rise—were followed in direction by long-term interest rates, but with more limited oscillations. During the periods of rising short-term interest rates, the willingness of investors to commit funds in longer-term debt instruments declined markedly, and issuing activity accordingly slowed sharply, with a short-term reversal taking place

Chart 6. Developments in International Bond Markets, 1976–80

¹ Three-month deposits.

² Bonds with remaining maturity of 7 to 15 years.

II • RECENT DEVELOPMENTS IN THE MARKETS

during the brief periods when interest rates declined. These shifts in issuing activity were particularly marked in the fixed-rate dollar sector, where the timing of new bonds is completely left to the decision of the issuing houses and their clients. The flow of new issues was somewhat smoother in the deutsche mark and Swiss franc sectors, where issues are launched according to a calendar.

The Eurobond market held up better than the foreign bond markets, in part reflecting the significant expansion of the French franc and sterling sectors, which benefited from the attractiveness of the two currencies to investors wishing to achieve greater currency diversification, but also in part because of the possibilities for issuing floating rate notes in U.S. dollars. The volume of Euro-French franc issues trebled to an equivalent of \$1 billion in 1980, while sterling-denominated issues of Eurobonds quadrupled to \$1.1 billion. Floating rate notes issued in the U.S. dollar sector, traditionally favored by bank borrowers, became more popular among other private sector entities as well as sovereign entities. Given investors' interest in dollar-denominated instruments, which paralleled exchange rate developments, and the protection afforded to investors by the provision for floating interest rates, new issues contributed to an increase in aggregate dollar-denominated Eurobond issues. In the Euro-deutsche mark sector, new issue volume remained at a level close to that in 1979. Overall, the total volume of Eurobond issues rose to \$22 billion, or a 25 per cent increase in relation to 1979.

With respect to foreign bonds, there was an increase in volume in the Federal Republic of Germany, where long-term interest rates remained well below those on dollar bonds. Foreign issues in Switzerland declined from the peak 1979 level, partly because of a slowdown agreed among the resident issuing houses in the first part of the year, when a rise in interest rates created unstable market conditions. New foreign issues in Japan declined substantially (from \$3 billion in 1979 to \$1.7 billion in 1980), reflecting the sharp increase in interest rates, weakness of the yen, and balance of payments develop-

ments. The leading security houses, after informal consultations early in the year, slowed the pace of public issues and halted new private placements.¹⁴ Some recovery in public issuing activity took place in the second half of the year. Subsequently, the limitations on private placements were eased at the outset of 1981.

The overall gross value of new foreign bond issues in 1980 amounted to \$16 billion equivalent, compared with \$20 billion in 1979. Developments in the segments of the international bond markets in 1980 and 1981 are covered in detail in Appendix II. The question of developing country access to the bond markets is taken up in Section IV below.

The increasingly volatile changes in interest rates and exchange rates have led to creation of funding and lending techniques which have increasingly blurred the distinction between money and capital market instruments. For example, the floating rate note issued in the bond markets has many of the characteristics of a medium-term rollover credit advanced through the banking sector. In the process, enthusiasm of investors and borrowers has shifted among various financial instruments and the currencies in which they were denominated. In these circumstances, there had been some expectation that, particularly after the SDR was simplified, market interest in SDR-denominated instruments would increase. The experience of 1980 and early 1981 seems to support that expectation. While the magnitudes still are relatively small, there has been an increase in the number of banks offering deposit facilities denominated in SDRs, the volume of such deposits, the frequency of bond issues denominated in SDRs, the volume of international banking credits denominated in SDRs, the issuance of SDR-denominated certificates of deposit by banks, and the use of the SDR as the numeraire in contractual arrangements. In short, the markets for SDR-denominated instruments have grown and, although they remain rather thin, the prospects for more widespread use appear favorable.¹⁵

¹⁴ Multilateral development institutions, such as the World Bank, were exempted from these limitations. The virtual ban on new foreign private placements was in effect throughout 1980.

¹⁵ The recent experience and prospects are discussed in more detail in Appendix III.

III Prudential and Regulatory Issues

Variations in the pace of international intermediation by banks can be analyzed in terms of the demand for and supply of bank services. The demand for such intermediation (lending and deposit-taking) derives from developments in the world economy—*ex ante* payments imbalances, the general level of real interest rates, and other macroeconomic factors. On the supply side, the basic constraint on the volume of bank intermediation is prudential in nature—that is, the need to diversify exposure and to hold adequate capital against the various sorts of risk associated with international lending. Strong demand for banks' intermediary services creates profitable opportunities for banks by enlarging the margin between the interest rates on loans and deposits. In the short run, such prudential requirements place limitations on the extent to which banks respond to those opportunities by expanding their balance sheets. In the longer run, however, these kinds of constraints are flexible. If the margin between lending and deposit rates provides a sufficient risk-adjusted return on capital, banks will be able to raise new capital or new banks will be created.

A crucial factor in the pace of expansion is the fact that the prudential constraints on bank lending are not constant. Variations in the riskiness of international intermediation, as perceived by banks, or in the cost of raising capital, can lead to sharp shifts in the spreads required by banks and in the degree of differentiation of spreads among different clients. Thus, in the early 1970s and again in the later years of the decade, the rapid increase in bank lending was the result not only of growing demand but of bank willingness to accept lower spreads. In 1975, on the other hand, prudential problems led to a sharp rise in spreads, and the volume of net lending fell by 20 per cent.

With the substantial increase in oil prices in 1979, by the beginning of 1980 the view was widespread that the riskiness of international intermediation had risen. It was believed that this might lead banks to adopt stricter prudential standards and, as in 1975, to cut back their international lending at a time when growing payments imbalances implied a need for an increased volume of bank intermediation. As the review of develop-

ments in 1980 indicated, the restraining effect of any toughening of standards does not yet seem to have had a significant effect on lending volume, but many of the same underlying concerns are still present. This section examines some of these concerns, from the viewpoints both of the banks and of their supervisors.

Bankers' Perceptions of Risk in International Lending

Financial Positions of the Non-Oil Developing Countries

The major factor in bankers' perceptions of increased risk in international intermediation has been the effect of the rise in oil prices on the financial position of the non-oil developing countries, as measured by current account deficits and the growth of external indebtedness. At the beginning of 1980 few bankers saw any prospect for early improvement in that position.

The rise in current account deficits would not have been so troublesome to banks if they felt that developing countries could easily service the resulting increase in indebtedness. In fact, however, external indebtedness and debt-service requirements for many of the non-oil developing countries were already posing problems for debt management.¹⁶ These problems were compounded by the fact that, in contrast to the decline in interest rates in 1974–75, interest rates had climbed sharply since 1978 and were now strongly positive in real terms.

Although the economic situation of the non-oil developing countries is still difficult, many bankers appear to be less worried than a year ago about the risk of lending to them. Bankers seem more inclined to focus on economic fundamentals—the potential strength of the economies of most of the major borrowers—rather

¹⁶ See *External Indebtedness of Developing Countries*, IMF Occasional Paper No. 3 (May 1981). Data presented in the *World Economic Outlook*, IMF Occasional Paper No. 4 (June 1981) indicate that, for the developing countries that are most dependent on bank credit, long-term external debt has increased relative to GDP and the ratio of debt service to exports of goods and services has risen.

than simply on the enormity of the financial magnitudes involved. This tendency has been encouraged by the fact that over the last year major borrowing countries have, on balance, seemed to manage their economic problems well, improving their prospects of being able to handle their growing debt service.

Debt Service and Other Crises

The ultimate risk in lending is that the borrower may not repay his debt. In international lending, the risk is compounded by the possibility that the servicing of all loans to borrowers in a particular country may be affected by the country's balance of payments problems. While the danger of outright repudiation seems remote, in the latter half of the 1970s a number of countries experienced debt-service crises that led to a restructuring of their external debts to banks.¹⁷ A year ago negotiations were under way on some difficult restructuring operations, and for some of those that had been completed, it was not yet clear how successfully they would be implemented. With another year's experience, a reasonably orderly pattern of procedures seems to have evolved, and the countries' positions vis-à-vis banks have been regularized. While banks are never happy with the fact that their funds will be tied up in high credit risk countries for longer periods than they would normally want, the relatively high spreads they have received on the restructured debt have provided considerable compensation.

One particular case that has occupied banks' attention over the last year or so is that of Poland, whose economic circumstances have continued to deteriorate. Once the inevitability of a debt restructuring became evident, the banks formed a geographically diversified steering committee to try to resolve the problem along the lines of several recent restructurings. In such a complex case, however, the possibility of an outcome acceptable to banks remains uncertain. Some European bankers report that the Polish situation and East-West tensions in general continue to have a depressing effect on their willingness to make new loans to countries in Eastern Europe. Some of the other countries in Eastern Europe continue to get sizable loans on favorable terms, however, providing further evidence that one borrower's problems do not necessarily have a significant like effect on other borrowers.

The effects of another debt-related problem of concern to bankers at the beginning of 1980 have dissipated over the past year. The fact that in the aggregate Iran's deposits with banks exceeded its debts meant that bank-

ers had not been greatly worried about potential losses on those loans. The U.S. freeze on Iranian assets, however, and the consequent action of certain U.S. banks in declaring Iran's loans therefore to be in default left bankers who had net creditor positions uneasy about their prospects for repayment. At the same time there was said to be a disruption of the confidence in interbank relations which is so crucial to the syndication and funding of international loans. The interbank confidence problem was not of lasting significance and, with the settlement of the United States-Iran dispute and the repayment of Iranian loans, bankers' worries about their Iranian assets appear to have been laid to rest.

In general, banks seem to be somewhat less pessimistic about risks in international lending than they were a year ago. In part this simply reflects the fact that, unlike the situation at the same stage of the earlier oil price increases, another year has gone by without any major banking problems, and losses on international lending have remained lower than on domestic operations. Confidence in the ability of the system to handle risk has thus grown. That ability to a large extent depends on the prudential standards maintained by banks at their own initiative or on the advice of bank supervisors.

Prudential Standards and the Role of Bank Supervision

Risk is inherent in financial intermediation, and the return that banks require to engage in international financial intermediation depends not only on their operational expenses and the cost of capital but on the riskiness of lending. To safeguard their liquidity and, ultimately, their solvency, they maintain standards with respect to capital, concentration of exposure, and the matching of asset and liability positions with respect to maturities and currencies. Since banks' prudential standards are influenced by bank supervisors, the discussion here of the standards also covers the effects of official supervision.

Capital Adequacy

A fundamental prudential standard is the maintenance of sufficient capital to protect the solvency of the bank in the event of serious loss. A higher ratio of capital to assets increases the loss that could be absorbed, but at the expense of lower return on capital. Bank supervisors, by the nature of their responsibilities, tend to put rather more emphasis on solvency relative to profitability than do the bankers themselves.

Table 3 provides some indication of developments with respect to capital-asset ratios over time. Because

¹⁷ The experience in six of these cases was summarized in Section VI of *External Indebtedness of Developing Countries*, pp. 30-33.

Table 3. Capital-Asset Ratios of Banks in Major Capital Market Countries, 1974–80¹
(In per cent)

	1974	1975	1976	1977	1978	1979	1980
Canada ²	...	3.56	3.51	3.40	3.27	3.16	2.99 ³
France ⁴	2.92	2.76	2.45	2.36	2.08	2.43	2.22
Germany, Fed. Rep. of ⁵	3.46	3.38	3.47	3.45	3.36	3.32	3.27 ⁶
Japan ⁷	5.91	5.65	5.40	5.28	5.12	5.13	5.28
Switzerland ⁸							
Largest 3 banks	5.54	5.53	6.11	6.10	6.23	6.09	6.04
All banks	6.26	6.24	6.63	6.59	6.68	5.63	6.13
United Kingdom ⁹							
Largest 4 banks	...	5.40	5.40	5.90	6.30	6.10	5.80
All banks	...	6.00	5.20	5.20	5.20	5.10	5.00
United States ¹⁰							
Largest 10 banks	3.67	3.86	4.18	4.15	3.98	3.85	3.89
Largest 30 banks	3.94	4.15	4.49	4.35	4.15	4.00	4.13

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

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

² Ratio of equity plus accumulated appropriations for losses to total assets (Bank of Canada).

³ Some new capital was raised in early 1981 under the new Bank Act, raising the ratio to 3.05 per cent at the end of April 1981.

⁴ Ratio of reserves plus capital to total assets, (Commission de Contrôle des Banques, Report, Table 1).

⁵ Ratio of capital including published reserves to total volume of business (Deutsche Bundesbank, *Monthly Report*, Table III).

⁶ Data provided by the Deutsche Bundesbank indicate a slight increase in the capital-asset ratio of the ten largest banks between 1979 and 1980.

⁷ Ratio of reserves for possible loan losses, specified reserves, share capital, legal reserves, plus surplus to total assets (Bank of Japan, *Economics Statistics Monthly*, Table 23).

⁸ Ratio of capital plus reserves to total assets (Swiss National Bank, *Monthly Report*: "Balance Sheet of Swiss Banks" and "Quarterly Balance Sheet of Large Banks").

⁹ The definition of capital excludes bonds (Bank of England).

¹⁰ Ratio of equity capital to total assets (U.S. Comptroller of the Currency).

of conceptual questions and problems of data availability, such data need to be interpreted with caution; in particular, they cannot be used for cross-country comparisons. The data suggest that until recently capital ratios had been declining over the past few years in most of the major banking systems. To some extent this decline may have been a natural evolution, which does not imply any change in prudential standards; larger banks are more able to diversify their assets and thus have less risk of catastrophic loss, so that the increase in the average size of bank balance sheets over this period permits lower ratios. To the extent that banks have tightened their controls in other prudential areas, moreover, banks may have reduced the risks against which capital needs to be held.¹⁸ It is also worth noting that the erosion of capital positions was slowed or reversed in most countries in 1980 and that in some countries the resulting position was little different from that of 1974 or 1975.

Nonetheless, in some countries the decline in capital ratios has been of concern to banks and their supervisors. As was noted earlier, capital is not a constraint on

the ability of banks to respond to profitable opportunities, at least in the longer run, since the profits themselves will permit banks to increase their capital either through retaining earnings or by new issues in the capital market. It may take some time to raise new capital, however, so that capital positions could prove to be a constraint if banks, perhaps at the behest of supervisors, try to restore quickly an eroded capital position or to meet stricter requirements that are not phased in gradually.

By and large, however, supervisors are aware of the disruption that could be caused by too rapid a tightening of standards, and in those countries where standards are being adjusted, the adjustment is being carried out in a gradual way, with allowance for the particular circumstances of the country's banks, although some braking effect is probably inevitable. The major changes are occurring in Switzerland, which is phasing in new requirements based on consolidated balance sheets, and in the Federal Republic of Germany, where new legislation is under consideration; the United Kingdom is adjusting requirements in a more informal way.

In another respect capital ratios are becoming less of a constraint, as banks are being given more flexibility in the raising of capital. The increase in capital-asset ratios in Canada in early 1981, for example, reflects the

¹⁸ Despite the fundamental importance of bank capital in the event of catastrophic loss, it is perhaps more important that banks' standards in other prudential areas are designed to avoid such loss in the first place. No amount of capital can protect bank solvency under all circumstances.

fact that Canada's new Bank Act provides for a wide variety of capital instruments, whereas before rights issues were the only channel. In many countries banks are also able to count subordinated debentures as capital, at least on a temporary basis, which allows them to continue raising capital when conditions are not propitious to the issue of more permanent instruments.¹⁹

Exposure Concentration

Among the types of risk involved in international bank lending, the one which receives the most publicity is the risk of default by particular borrowers. Default is, of course, a risk in any lending, domestic or international, but in international lending the usual risk of default by particular borrowers is compounded by the risk that economic or political developments in a particular country may mean that no borrower in the country may be able to obtain the foreign exchange needed for debt service, even though the borrower himself is not in financial difficulty. The chief means by which banks cope with this risk is to diversify exposure, not only among individual borrowers but also among countries and, where countries may be adversely affected by similar sorts of economic or political developments, among groups of countries.

A year ago one of the concerns being expressed about the prospects for international bank lending was that some of the countries that relied heavily on international bank lending might not be able to meet their requirements, not so much because their prospects were worrisome to banks but more because they loomed so large in the balance sheets of banks. Statistically, the rapid growth of international lending had meant that the international claims of banks accounted for a growing proportion of their total assets (Chart 7). Within their international assets, however, there had been no notable change in the proportion accounted for by the non-oil developing countries. There had not, moreover, been any significant increase in the proportion of claims on the non-oil developing countries accounted for by the largest borrowers among them. Given the growth of the international component of bank balance sheets, however, and the decline in capital-asset ratios, loans to the largest developing country borrowers had risen considerably relative to capital.

Despite the 1980 expressions of concern, claims on the largest developing country borrowers grew at about the same rate in 1980 as in previous years. The substantial increase in short-term trade-related claims was

Chart 7. Concentration of International Bank Claims, 1973-80¹

(In per cent)

¹ Banks in the Group of Ten countries and Austria, Denmark, Ireland, and Switzerland; excludes interbank transactions within the reporting area.

² Excludes Fund member countries.

³ Data for 1973-74 are not available.

not surprising, as banks' limits on lending to individual countries are more flexible in this case than they are on longer-term lending. Longer-term credit also seems to have increased, despite the fact that many banks reported that they were approaching their lending limits vis-à-vis some of the largest borrowers. The increase seems to reflect the fact that, even for the largest borrowers, many banks were not heavily committed. It may also reflect the fact that limits are not rigidly fixed but can be adjusted to reflect changing circumstances, such as a change in lending spreads or in perceived credit-worthiness.

Supervisors have been paying increasing attention to the country exposures of their banks. The degree of attention varies greatly from country to country, but a few common features seem to be evolving. Supervisors

¹⁹ In the United States an official proposal made last year that subordinated debt not count as capital has now been modified to permit subordinated debt with residual maturity of more than seven years to be so counted within certain limits.

generally require that banks report their actual exposure, and in at least one country they also ask them to report their internal limits. Supervisors check that the procedures adopted by banks for determining limits are adequate and are based on sufficient information but do not, however, generally express views on the appropriateness of either the actual exposures or the internal limits, regarding these to be the responsibility of the banks. Some supervisors stand ready to discuss country situations with banks, sometimes going so far as to include brief comments in examiners' reports on countries to which the banks have large exposures; others consider that anything beyond referring banks to published data is an inappropriate dilution of banks' own responsibilities.

Despite this generally neutral posture toward exposures to particular countries, the supervisory process in some ways tends to encourage banks to differentiate among borrowers. In the U.S. system, for example, the degree of exposure beyond which examiners are expected to comment varies according to which category of three categories of risk the country is classified in. In some other systems, where capital requirements are weighted according to the riskiness of loans, the weights attached to sovereign risk may differ from country to country, although some such systems give all sovereign loans a zero risk-weighting. These practices reinforce bank tendencies to be more flexible in their country limits for industrial countries than for developing countries. Such differentiation is not necessarily discouraging for the prospects for the larger developing country borrowers, however; as such borrowers develop increasingly diversified economies, they acquire more of the characteristics of industrial countries, and there are signs that banks and their supervisors are beginning to treat them more flexibly for that reason.

Exposure concentration per se does not appear likely to be the major obstacle to continued borrowing by any individual country. The variability and sheer size of the requirements of some large countries may on occasion lead to some resistance in the market that may not be experienced by smaller borrowers; but against that factor must be set their greater access to the whole community of international banks and the flexibility that lenders are likely to display toward large diversified economies.

Liability Management

A major function of bank intermediation is maturity transformation, with banks providing depositors with short-term assets and borrowers with long-term liabilities. To the extent that a bank carries out maturity transformation, it is exposed to two related types of risk

when deposits or redeposits from other banks come up for renewal: (1) the risk that market interest rates will have risen, so that the bank can only renew the deposit at an interest rate higher than that which it receives on its assets; and (2) the risk that confidence problems will lead depositors to withdraw their funds, requiring the bank to pay a premium over market rates for such alternative funds as may be available.

In international lending, the development of floating rate loans, where the interest rate is adjusted at fixed intervals in relation to market interest rates, has greatly reduced the first type of risk. In periods of sharp fluctuations in interest rates, such as 1980, substantial losses can still occur, depending on how conservative banks are in matching deposit maturities with loan rollover dates. The network of interbank deposit relationships is important in this regard, since the process of maturity transformation between the primary deposit and the final loan can be carried out through a series of redeposits in a chain of banks, thereby reducing the risk to any one bank.

Potentially more serious is the second type of funding risk; the experience of the early 1970s is instructive in this regard. The increase in the apparent riskiness of international lending associated with the large increase in oil prices in 1973–74 did not produce an immediate slowdown in bank lending or hardening of terms. In the first half of 1974 syndicated lending activity was at record levels, and terms continued to be favorable to borrowers. Not until the failures of some significant banks in mid-1974 did a negative impact occur. While the failures did not themselves result from international intermediation, but mainly from foreign exchange speculation, they had the immediate effect of reducing confidence in the smaller banks that had played an important role in the previous rapid expansion of bank lending. Large primary depositors had tended to place their funds with the largest international banks, particularly those of the United States, so that smaller banks normally relied on redeposits from the large banks for funding their loans. The bank failures led primary depositors to be even more insistent on depositing with the biggest banks, while at the same time the large banks themselves became more cautious in redepositing with small banks, which were thus forced to cut back their lending drastically. In the crisis atmosphere, moreover, even large banks that were regarded as fundamentally creditworthy, but that were trying to build up rapidly their use of interbank credit, encountered "tiering," with interbank funds available only at a substantial premium.²⁰

²⁰ As a result of the disruption, publicized medium-term credit commitments dropped by more than 50 per cent in the second half of 1974, compared with the first half, and remained at that level until late in 1975. The net flow of bank lending in

While the withdrawal of many banks from international lending persisted for some time, so that it took a while for spreads to begin to decline again, the actual tiering of interest rates was a short-lived phenomenon. Nonetheless, that experience suggested the possibility of a more serious funding crisis either generally or for the banks of a particular country. Some bank supervisors (for example, in France and Japan) thus have increasingly urged their banks to fund a proportion of their long-term foreign currency assets with long-term foreign currency liabilities, on the basis that for their operations in foreign currencies, banks have no lender of last resort and hence must protect themselves against disruptions in those currencies.

Whether or not required to by their supervisors, many banks, particularly those which rely heavily on interbank credit lines, do fund some of their longer-term assets with longer-term liabilities, increasingly on a floating rate basis. This is significantly costly, with interest rates as much as $\frac{1}{4}$ per cent over the London interbank offered rate (LIBOR), as are confirmed stand-by credit lines with other banks. Banks thus try to establish a broad network of less formal interbank credit relationships. One of the subjects raised by the Fund staff team in its discussions with bankers and supervisors was whether networks of interbank funding have been strengthened in the last four years. Aside from the emphasis placed by banks on securing credit relationships, or in some cases long-term funding, a greater degree of security seems to result from the care that banks take in making their decisions on extending interbank credit. In contrast to former practice, banks now tend to review carefully the financial situations of banks to which they extend credit, basing the credit limit on such factors as the customer bank's capital base. Given a better understanding of their customers' situations, the arbitrary cutbacks of 1974, when some major banks reportedly cut off as many as two thirds of their bank customers from further credit, seem less likely to occur. Procedures have also been adopted to reduce special risks in interbank relationships such as so-called daylight exposure—meeting bank payment orders before actual receipt of funds. Financial difficulties for one or a few significant banks thus seem less likely than before to lead to more generalized problems.

Another aspect of liability management—open foreign exchange positions—was at the root of the 1974

bank failures.²¹ Prudential practices in this area have been strengthened, and open positions are now better scrutinized both by bank managements and by bank supervisors; in many countries formal or informal supervisory guidelines limit open positions.

International Coordination of Bank Supervision

The need for closer contact and coordination among the responsible bank supervisory authorities of the major financial market countries was highlighted by the events of 1973–74, when a number of banks in various countries failed or experienced severe losses. In response to those events, the Governors of the Central Banks of the Group of Ten and Switzerland in September 1974, through the Bank for International Settlements, issued a communiqué indicating that temporary official support for banks experiencing liquidity difficulties was available, as necessary, while recognizing that it was not possible to set forth in advance the conditions and procedures under which such support would be provided. Shortly thereafter, in February 1975, they established a new standing Committee on Banking Regulations and Supervisory Practices to improve the coordination of surveillance by national authorities over the international banking system. The Committee is commonly referred to as the Cooke Committee, named for its current chairman, Peter Cooke, Head of Banking Supervision of the Bank of England.²²

An early result of the work of the Committee was the 1975 Concordat,²³ aimed initially at ensuring that all the branches and subsidiaries abroad of banks headquartered in countries represented in the Committee were adequately supervised. To that end, the Concordat established broad guidelines on the division of responsibility for supervision of the solvency and liquidity of banks' foreign establishments between host and parent country authorities. The Concordat provided that the supervision of the solvency of foreign branches was essentially the responsibility of the parent authority and that, while primary responsibility in the case of subsidiaries lay with the host authority, the parent authority needed to be aware of their situation. The reaction to the recent request of the U.S. authorities that foreign

²¹ Before the advent of floating exchange rates, the relative certainty about the direction of any possible change in exchange rates made the holding of open positions an almost risk-free position. Some bankers apparently were too slow to grasp that with floating rates the uncertainty about the direction of change had vastly increased.

²² A comprehensive description of "Developments in Cooperation Among Banking Supervisory Authorities" is contained in a paper by Mr. Cooke, which was presented to the Conference on the Internationalization of the Capital Markets, New York, March 19–21, 1981.

²³ The text of the Concordat, recently released to the public, is reproduced in an Annex to this paper.

1975, at \$40 billion, was 20 per cent below that of 1974. By the end of 1975, average spreads doubled from their level in the first half of 1974 to exceed 1.5 per cent, and average maturities dropped from over eight years to little more than five years. For a detailed discussion of banking developments in the 1974–75 period of oil surplus recycling, see *International Capital Markets: Recent Developments and Short-Term Prospects*, IMF Occasional Paper No. 1 (September 1980).

bank branches and subsidiaries in the United States report some consolidated data on a regular basis, on the grounds that some information on their global positions was needed for proper supervision of their U.S. activities by U.S. supervisors, points up some continuing questions in interpreting the Concordat. (Following U.S. modification of the original request, other authorities have somewhat reluctantly accepted it.) On liquidity, the Concordat states that, while host countries are responsible for supervision of liquidity, some host countries accept a lower degree of responsibility for operations in foreign currencies. Thus, and not surprisingly, the definition of responsibilities set forth in the Concordat did not settle all of the jurisdictional questions about supervisory responsibility.

The second major element in the Committee's approach to international banking supervision is the principle that banks' international business should be monitored on a consolidated basis. Following the Committee's reports on the merits of this approach, the recommendation was endorsed by the BIS Governors in late 1978. This gave considerable impetus to supervision on a consolidated basis by national authorities. Among the other questions on which the Committee has focused, early attention was given to adequate standards for foreign exchange trading by banks, reflecting the nature of the 1974 bank failures. Recently, it has asked its members to provide data on the maturity distribution of assets and liabilities in foreign currencies or vis-à-vis nonresidents, in order to further evaluate the question of liquidity management standards. The large differences at present in the types of data that banks can provide and in supervisory approaches suggest that a substantial degree of coordination of supervisory principles in the area of international maturity transformation lies some distance in the future.

The Committee has also continued to devote attention to country risk management. The predominant view has been that supervisors should be concerned that country risk, like other types of risk exposure, does not become excessive for a bank in relation to its capacity to incur losses, but the judgment and decision on the magnitude and direction of cross-border exposure must be the responsibility of the bank management. The emphasis, therefore, has been given to ways in which prudential monitoring of country exposure by the supervisory authorities might be improved and ways to better ensure that banks' lending decisions are both based on adequate information on borrowers' circumstances and prospects and safeguarded by effective internal assessment and control procedures. In recent years significant improvements have been made in the measurement and statistical reporting of country exposure by the national authorities, some of which is disseminated through the BIS, and supervisors in several

countries have paid increased attention to assessment of their banks' methods for measurement and control of country risk. The Committee recently requested the national authorities to survey the internal procedures employed by banks and to submit this information to the Committee, with a view to improving supervisors' understanding of alternative systems and their effectiveness.

Recently there have been further efforts to broaden the scope of international understandings on supervision. In July 1979 the Bank of England, in cooperation with the Committee, hosted a conference of banking supervisors from a large number of countries, and in September 1981 a similar conference will be hosted by the U.S. supervisory authorities. A more narrowly defined joint meeting of members of the Cooke Committee and supervisors invited from a number of offshore centers was held in October 1980, at which the latter generally expressed agreement with the basic principles of the Concordat.

Another channel for the coordination of supervisory practices is the European Community. Besides efforts in such areas as common standards of accounting, in December 1977, a directive was issued calling for exchange of information between supervisory authorities. The Community's counterpart of the Cooke Committee, the so-called *Groupe de Contact*, in effect involves all the members of the Community in the process of coordination of supervisory standards. As one step in that direction, data are currently being collected for the calculation of solvency (capital-asset) observation ratios.

Lending Spreads and the Direction of International Lending

A noteworthy development over the last year is the confirmation of the allocative effect of lending spreads. While it is clear that higher spreads can evoke more lending when no great question of risk or exposure concentration is involved,²⁴ it has sometimes been argued that under more difficult circumstances bank lending to particular countries is not very elastic with respect to spreads. For loans to developing countries, for example, most banks report that they have strict internal country lending limits based on risk appraisal and exposure concentration. Even at the level of the

²⁴ A recent example is the 1980 experience of many prime borrowers. With the slowdown in lending activity by European and Japanese banks, prime borrowers found it necessary to attract greater participation by U.S. banks, many of which had previously refused to participate because of low spreads. By basing spreads on the U.S. prime rate, rather than on LIBOR (which for U.S. banks, particularly the smaller ones, constitutes better terms), borrowers were able to call forth much greater U.S. participation in loan syndications.

individual bank, this need not imply a zero elasticity of lending volume with respect to spreads, since the extent to which the internal limit is utilized may be affected by the spread. But once that limit is reached, at least for medium-term lending,²⁵ a rise in spreads is often said to be ineffective in calling forth further lending.

The experience of 1980 suggests that this view is unduly pessimistic. During the first three quarters of 1980, average spreads on publicized medium-term credits to the non-oil developing countries rose only marginally from the record low level of the fourth quarter of 1979; reflecting bank concerns about risk and exposure concentration, the volume of credits to such countries remained well below the level of the previous year. In the fourth quarter, however, the average spread for such borrowers rose sharply to 1.07 per cent, and at the same time new syndications attained an annual rate of \$37 billion, 50 per cent above the annual rate in the first three quarters. These trends largely reflect the experience of one large borrower but are also confirmed by disaggregated data. Of the 17 largest borrowers among the non-oil developing countries, 5 of the 6 who experienced a clear upward trend in spreads obtained larger commitments as spreads increased.²⁶ For the other borrowers, spreads remained stable or declined, presumably because the countries were not pressing up against bank exposure limits; of the five countries for which spreads actually declined,

only one increased its borrowing and in that case to only a minor degree.

Discussions with bankers about their reactions to the greater dispersion of spreads among individual borrowing countries that developed in 1980 suggest that, for even the largest borrowers, some banks are not heavily committed and a marked increase in spreads can encourage some of them to consider major involvement in a country for the first time, adjusting their country lending limits accordingly. Some bankers, moreover, suggest that the growing positive experience with debt reschedulings has made them more prepared to take risks if the spread is attractive.

Besides the spread over LIBOR (or other reference rate) charged on loans, part of the return to bank intermediation is the spread below the reference rate on the actual cost of funds to the banks. Where large deposits are placed for recognized standard periods, depositors usually are able to command a return close to current interbank rates, although where depositors have special requirements, the differential may be greater, reflecting the banking system's assumption of the administrative costs and risk involved in more complex maturity transformation. Recently, however, some banks report that they have been discouraging additional deposits from some customers by offering them below-market rates, either because of the sheer volume of the funds being offered or because of uneasiness about the stability of their relationship with the depositor. It is impossible to assess the quantitative significance of this development, but, like the reports that terms on unpublicized loans are harder than those on syndicated credits, it implies that the effective return on international lending may in fact have risen more than is suggested by the published data.

²⁵ Banks' limits on short-term lending, particularly when related to trade, tend to be flexible in any case.

²⁶ For some of these non-oil developing countries, the interruption of new commitments in the early part of the year was so severe that, even with a very large volume in the latter part of the year, the total for 1980 was somewhat below that of 1979. The 17 largest borrowers are listed in Table 34.

IV Developing Country Access to Bond Markets

Policy Background

In June 1975 the Development Committee established a Working Group of government representatives to review possible impediments to developing country access to international bond markets (foreign bonds and Eurobonds) and to identify means of promoting such access, including official action for this purpose. The Working Group, with the assistance of the staff of the Fund, the World Bank, and some regional development banks, examined a number of subjects related to the question of access, including: (1) the implications of legal and other regulations in the capital market countries that might inhibit access of developing countries to their capital markets; (2) possible measures to improve market perceptions of developing country creditworthiness; (3) possibilities for technical assistance to familiarize potential borrowers with the requirements and potential for the various bond markets; and (4) possible financial mechanisms (for example, official guarantees, cofinancing between development banks and private financial institutions, etc.) to assist potential borrowers with the problems of initial access.²⁷

Recommendations of the Working Group in these areas were incorporated into the Committee's reports to the Boards of Governors of the World Bank and the Fund in 1975–76 and 1976–77. Certain of the recommendations, dealing with actions by the capital market countries, were adopted by the Committee at its meeting of October 1976 in Manila.²⁸ It was agreed that those countries "should endeavor, as far as their balance of payments situation permitted, to move progressively toward greater liberalization of capital movements, in particular capital outflows." When regulations governing capital outflows were "unavoidable," the governments "would afford favorable treatment, as among foreign borrowers, to developing country borrowers" with respect to: (1) "permissions to make an issue or

placement in the issue calendar"; (2) keeping developing country borrowers outside "quantitative limits on the amount of foreign issues" in the capital market countries; and (3) possibilities for Eurobond issues in the currencies of countries "which maintain restrictions on international issues denominated in their currencies." The Committee also noted a number of recommendations of the Working Group that "consideration be given to the removal of legal and administrative barriers so far as is consistent with investors' protection," urging that these be given "earnest consideration."

The Committee had recognized early on that improving developing country access to the international bond markets would be a slow process that could affect only marginally the overall transfer of resources to the developing countries as a group. Nevertheless, the Committee attached considerable importance to progress in this area because it saw a need for the important market borrowers among the developing countries to diversify their sources of commercial credit as far as practicable and, more broadly, for identification of possible means to promote access for creditworthy developing countries in the light of uncertainty about whether commercial bank lending to these countries would be maintained at adequate levels.

Following the Committee's action at its Manila meeting, the question of access was discussed by the Conference on International Economic Cooperation (CIEC) in Paris, and in the agreed text (May 1977) it was indicated that the participants "pledged to support efforts to expand developing countries' access to capital markets." The CIEC also endorsed a role for the Fund in reviewing the progress toward implementation of the Development Committee's recommendations. The Fund's Executive Board subsequently decided that the staff would continue to inquire into recent developments regarding the implementation of the recommendations and to report its findings periodically. Such reports were prepared each year from 1978 through 1980 and were discussed by the Fund's Board and transmitted to the Development Committee. These reviews have not been limited to actions taken specifically in response to the Development Committee's recommendations of

²⁷ Part of the work of the Group is covered in its report to the Development Committee, summarized in the *IMF Survey*, December 6, 1976, pp. 354–57.

²⁸ See the Development Committee's Press Communiqué issued in Manila, October 3, 1976 (*IMF Survey*, October 18, 1976, pp. 310–11).

1976. Actions taken by the authorities of capital market countries that directly affect general foreign access to their markets or the use of their currencies in the Eurobond markets are also relevant.

Recent Policy Developments

The general views of the authorities in the capital market countries on impediments to developing country access and the description of official policies provided in IMF Occasional Paper No. 1 (September 1980) remain generally valid. Accordingly, the discussion here is limited to supplementary information, as necessary, to update that report.

The volume of international bond issues by developing country borrowers, as discussed below, declined sharply again in 1980. In spite of this development and the poor market conditions to which it may mainly be attributed, there were some positive factors, including official actions, that should help support a growing volume of international bond issues over the longer term, among them those of the developing countries. The most important of these was the effective reopening of the capital market of the United Kingdom following the elimination of exchange controls in the latter part of 1979. That measure removed all formal or administrative impediments to issues by any foreign borrower in the U.K. capital market and, equally as important, abolished the restrictions on acquisition of foreign securities by residents. In Switzerland, the authorities permitted central banks and other foreign monetary authorities to acquire private placements and note participations in credits denominated in Swiss francs, provided that they undertake to hold them until maturity. This measure eliminated the only remaining restriction on the acquisition of foreign issues denominated in Swiss francs by nonresidents and may serve to enlarge the market for such instruments.

A number of actions taken in Japan are relevant to this broad review. First, the suspension on private placements by foreign borrowers imposed in late 1979 was lifted in January 1981. This opened the channel to the Japanese capital market, which is used in particular by developing country borrowers that are not sufficiently well established in the market to make public issues. Second, sovereign borrowers were added to the list of borrowers eligible to make public issues in the Euro-yen market, and two issues were made by sovereign borrowers. Third, the major Japanese security dealers, who consult informally on aggregate issue volume and timing, announced in March 1981 that market developments would permit an acceleration in the pace of new foreign public issues. This should assist a number of

borrowers currently in the queue, including some developing countries, to make a greater volume of issues during the remainder of the year.

There also were encouraging developments in respect of the possibilities for Eurofranc bond issues. Issues in this market, to which investors were increasingly receptive in 1980, are de facto subject to prior approval by the French authorities who manage the issue calendar through the intermediation of French banks, which participate as lead managers in every issue. Given the strong investor interest, the authorities—in consultation with the security dealers—permitted a substantial increase in issue volume, which approximately tripled to almost \$1 billion in 1980. One developing country issuer was included among these.

There are no federal government restrictions on access of foreign borrowers to the capital markets in the United States, although the disclosure and registration procedures of the Securities and Exchange Commission (SEC) sometimes have been described by foreign borrowers as cumbersome and were identified by the Development Committee's Working Group as a possible barrier to bond issues by developing countries. In 1980 the SEC adopted a new so-called shelf registration procedure for sovereign foreign borrowers in the U.S. market rated AAA, thus providing potential borrowers with much more flexibility. Under the new procedure, a prospective borrower can periodically file a prospectus with the SEC, indicating the global amount it intends to raise on the market. When an actual issue is planned, the borrower need only provide the SEC a few days in advance with updated information on its economy and prospects. At least one developing country already has made use of the shelf registration procedure.

On the negative side, restrictions on foreign access to the capital markets were imposed or intensified in a few cases. These actions, which mainly reflected the outcome of informal discussions between the financial authorities and the major resident security dealers, were taken against the background of weakening conditions in the markets and in light of the balance of payments situation and prospects of the capital market country. Examples of such actions are: (1) the marked slowdown in new foreign issues agreed among the major Swiss underwriting banks in March 1980; (2) the suspension of new private placements by foreign borrowers in Japan during 1980 and the limitations on new public issues during that year; and (3) the decision in late 1980 by the German Capital Market Subcommittee, an unofficial group of underwriters in which the Deutsche Bundesbank participates as observer, to halt nonresident bond issues both on the traditional foreign market and on the Euromarket through the first quarter of 1981.

In the case of Switzerland, the agreement among the major issuing banks to slow the pace of new issues in the first quarter of the year was an attempt to avoid disorderly market conditions. In the case of the Federal Republic of Germany and Japan, the actions to restrict new foreign issues temporarily were also taken against the background of rising interest rates and related deterioration of capital market conditions, but balance of payments considerations were also relevant. The actions of the issuing houses were taken in informal consultation with the authorities. In both cases the limitations on foreign access proved to be temporary—a year in the case of private placements in Japan and a quarter in the case of international issues in the Federal Republic of Germany. Issues by international organizations such as the World Bank were held outside the limitations in the latter case. Developing countries, however, were not exempt from these guidelines. Although these actions were not intended to be discriminatory against developing countries, they may inadvertently have been so because many of these potential borrowers are at a disadvantage vis-à-vis borrowers having a better established position in the markets.

The authorities of capital market countries clearly have been, and are likely to remain, generally unwilling to directly discriminate in favor of developing countries in a manner suggested by the Development Committee's recommendations on improving developing country access. In some cases the principle of nondiscrimination is firmly held (even though international institutions may be given favorable treatment) by those authorities which exercise formal or informal control over access to their capital markets or international issues in their currencies. More broadly, most authorities were never persuaded that intervention in the markets to officially promote one issue or another would be productive, even if possible within their institutional framework. These authorities generally view the markets' perceived risk of the borrower as the major barrier to entry and believe that, taking into account prudential considerations, the investors must make and be responsible for their decisions on lending, without official guidance.

At the same time, the Committee's recommendation that progress be made toward elimination of impediments to capital flows in general has been viewed sympathetically, and some progress has been made. In some cases, the acquisition of nonresident bonds by residents or the possibilities for purchases by nonresidents of foreign bonds issued in their markets were liberalized. Nevertheless, except for the elimination of exchange control in the United Kingdom, the progress has been of an erratic nature, depending on the balance of payments circumstances of specific market countries.

The Statistical Record

A detailed discussion of the magnitude, direction, sources, and terms of developing country borrowing in the international bond markets appears in Appendix II. In summary, 20 developing countries that are members of the Fund made 55 international issues or placements in 1980 for an aggregate value of \$2.5 billion. This reflected a marked decline from the peak year in 1978 (\$5.8 billion) and also was over 30 per cent below the 1979 total (\$3.5 billion). There was a sharp decline in new issues in both the traditional foreign markets (about 50 per cent less) and, to a smaller degree, in the Eurobond markets (some 20 per cent less).

With respect to the foreign bond markets, the volume of developing country issues increased modestly in the United States but declined sharply in Japan, both in absolute terms (from \$733 million to \$341 million) and in relative terms (from 44 per cent of foreign issues in 1979 to about 33 per cent in 1980). In the Eurobond sector, developing country issues denominated in deutsche mark increased modestly in 1980, whereas U.S. dollar-denominated issues declined from over \$1.3 billion in 1979 to less than \$800 million in 1980.

Although the aggregate volume of international issues was about the same as in 1980, the markets generally were more depressed for longer periods than had been the case even in 1979. In such circumstances investors are rather selective about new issues and, when they become possible, it is mainly the "best names" that are brought to the market. Thus, the markets were relatively more limited for many developing countries than for other borrowers, as reflected in a further significant decline in the developing country share, to about 6 per cent in 1980.²⁹ This outcome contrasts sharply with the success of the developing countries in the aggregate in maintaining their significant share of publicized medium-term syndicated bank credits.

As far as the relative magnitudes are concerned, the value of international bond issues by developing countries in 1980 represented only about 7 per cent of the value of syndicated bank credits, and even in the peak year (1978) for their bond issues, the proportion was only about double that. However, the eight largest developing country issuers of international bonds together made new issues of about \$9 billion during the 1978–80 period, equivalent to about 16 per cent of syndicated credit commitments taken up by them in that period; for some individual countries in the group, the ratio exceeded 20 per cent. In terms of net medium-

²⁹ The share had peaked at 16 per cent in 1978 and declined to 10 per cent in 1979.

term financing flows (that is, after loan repayments and bond redemptions), the proportion represented by bonds would be considerably higher. Thus, for the higher-income developing countries with a record of access in recent years, the sums raised in the international bond markets have been far from negligible.

The data contained in Appendix II suggest a continued significant increase in the cost of borrowing through the international bond markets. The bulk of such borrowing was denominated in U.S. dollars and in deutsche mark, and longer-term interest rates in those currencies moved up steadily throughout the year, averaging about 14 per cent by December 1980 for medium-term Eurodollar bonds and almost 10 per cent in the case of deutsche mark-denominated instruments. The developing countries also made some issues and placements of Eurobonds in the form of floating rate notes, initially reserved primarily for issues by banks and other financial institutions. These instruments are priced at a small spread ($\frac{1}{4}$ to $\frac{1}{2}$ per cent) over six-month LIBOR. The base interest rate rose from an average of 14.5 per cent in December 1979 to almost 17 per cent by the end of 1980 and has subsequently increased further. Thus, the effective borrowing cost on floating rate notes initially is considerably higher than for the fixed-rate issues, but the overall cost will, of course, depend on future movements in the rates. In short, average borrowing costs have risen substantially in bond transactions and do not seem likely to decline quickly.

Prospects

A broad assessment of the short-term prospects for the international bond markets is given in Section V. In a period as short as that covered in this paper, the prospects for the developing countries necessarily depend heavily on the general course of market developments. But, as evidenced by developments in 1979–80, a sustained or even growing volume of aggregate issues does not imply that developing country borrowers as a group will be able to maintain or improve upon their position in the market. The secular growth in the international bond markets, which would be supported by a significant increase in reflows to the markets from redemptions and interest payments, has been stifled for

some time by upward movements in interest rates. But the movements in rates, since the latter part of 1979, also have been very volatile, and in these circumstances the markets have opened and closed with increasing frequency as rate changes and perceptions of changes have been altered sharply by short-run developments. When the markets have strengthened temporarily, there has been a spate of new issues, but the dealers try to take advantage of this “opening of the window” to bring to the market the highest quality issues possible. For the most part developing country borrowers are disadvantaged in these circumstances. These conditions continued in the first quarter of 1981, when developing country issues and placements (\$300 million) represented only about 4 per cent of total international issues.

Conditions in the individual markets are another factor. Developing countries are in a better position when the large uncontrolled Eurodollar sector is strong—that sector traditionally has been a major source of their bond market funding—in part because there is a higher proportion of individual to institutional investors than typically characterize the national capital markets. The Eurodollar sector is not likely to show a sustained strong performance until there is a widely held perception that short-term interest rates have peaked and will be coming down. The Swiss bond market has grown steadily and has absorbed a timely, steady volume of developing country issues, but the latter's share has declined in recent years. One positive factor is the likelihood that the volume of foreign issues may be much greater in Tokyo than it was in 1980. The developing countries have maintained an important share of this market, in part because Japanese investors have been familiar with their issues since the opening of the market. The receptivity of their issues to Japanese investors is evidenced by the relatively small yield differential, compared with issues of developed country borrowers, and the fact that some 80–90 per cent or more of such issues are typically taken up by residents. The possibilities for developing country issues would be enhanced further if there were to be further easing of their limitations on foreign private placements.

On balance, taking into account the overall prospects, it is possible that the total volume of developing country issues may increase in 1981, but at this juncture it would not seem reasonable to expect that even the total achieved in 1979 (\$3.5 billion) will be reached in 1981.

V Short-Term Prospects for the International Capital Markets

The major question about the prospects for the international capital markets in 1981 continues to be the extent to which they will serve as the major conduit of funds to the oil importing developing countries. This assessment of the prospects begins with the present outlook for payments imbalances and other macroeconomic factors affecting the demand for and supply of market finance, as projected in the most recent *World Economic Outlook* (June 1981). Taking into account the extent to which prudential considerations might constrain the ability of banks to continue large-scale international financial intermediation, some tentative conclusions are given on the prospective flows through the markets in 1981.

Balance of Payments Prospects

As noted in the recent *World Economic Outlook*, a major feature of the prospective international payments situation is a continued large, if declining, current account surplus for the oil exporting developing countries during 1981, but with a substantial shift in the pattern of the corresponding current account deficits (Table 4). The current account of the seven largest industrial countries together is projected to be approximately in balance, in contrast to a deficit of about \$16 billion in 1980. The deficit of the smaller industrial countries is projected to remain approximately unchanged from 1980 at \$28 billion. The aggregate current account deficit of the non-oil developing countries is projected to increase to almost \$100 billion (from \$82 billion in 1980), an increase which is broadly distributed among these countries. Thus, the requirement for balance of payments finance by the groups of countries most dependent on the international capital markets for such finance—the smaller industrial countries and the middle-income to high-income non-oil developing countries—can be expected to increase in the current year.

The larger financing requirement of the non-oil developing countries is projected to be met partly through

some increase in nondebt-creating flows and official loans and through a quadrupling in the use of reserve-related credit facilities. Nevertheless, the residual financing requirement of those countries with access to the private financial markets still is expected to increase significantly in 1981. For the smaller industrial countries, there may be some scope for additional off-market financing of the deficits through direct recycling of oil producer surpluses, although this is not likely to reduce significantly their aggregate demand for market finance over the next year or so.

As the largest industrial countries rely much less on market borrowing by public entities for balance of payments finance, the projected improvement in their payments position does not in itself have a major direct impact on aggregate demand for market finance. The fact that much of the improvement comes from a slowdown in the rate of growth of the value of their imports, however, means that their demand for additional bank trade finance in 1981 should be less than in 1980. The growth of imports of the non-oil developing countries is also projected to slow to some degree. Trade developments thus suggest a slowdown in the growth of demand for short-term trade-related finance. For the smaller industrial countries and the non-oil developing countries, however, the slowdown in the growth of trade finance means that the increase in their requirement for longer-term credit will be that much larger.

An aspect of balance of payments developments that is likely to be important in 1981 is the growing tendency of the oil producing countries to move their surplus funds through channels other than banks. The *World Economic Outlook* estimates the proportion of the cash surplus that went into bank deposits at 35 per cent in 1980, compared with 58 per cent in 1979. BIS data, moreover, show a sharp decline in the pace of oil exporters' accumulation of bank deposits in the second half of 1980, and there is no reason to expect that the trend toward direct recycling will not continue. Such flows can satisfy part of the demand for finance that would otherwise be focused on banks, at least in the industrial countries.

Table 4. Current Account Positions¹ and Aspects of their Financing, 1978–81
(In billions of U.S. dollars)

	1978	1979	1980	1981
Balances on current account				
Industrial countries	30	-11	-44	-29.5
Seven largest	34	1	-16	-1
Other	-4	-12	-28	-28.5
Oil exporting developing countries	3	68	112	96
Non-oil developing countries	-38	-58	-82	-97
Net oil exporters	-8	-8	-11	-15
Major exporters of manufactures	-10	-22	-32	-38.5
Low-income countries	-7	-11	-16	-16.5
Other net oil importers	-13	-17	-24	-27.5
Global sum of current account deficits	-87	-94	-153	-160
Non-oil developing countries:				
Financing of current account deficits				
Balance of current accounts	-38	-58	-82	-97
Accumulation of reserves (increase -)	-15	-12	-2	-1
Total financing requirement	-53	-70	-84	-98
Nondebt-creating flows and long-term borrowing from official sources (net)	30	36	42	48
Use of reserve-related credit facilities (net)	-1	—	3	8
Other borrowing (net) ²	24	34	39	42
Oil exporting countries: Bank deposits in per cent of cash surplus	25.0	58.0	35.0	...

Source: IMF, *World Economic Outlook*, Occasional Paper No. 4 (June 1981).¹ Goods, services, and private transfers.² Includes errors and omissions.

Other Macroeconomic Factors

The growth rate of real GNP in the industrial countries is projected in the *World Economic Outlook* to decline slightly in 1981, and gross fixed investment is projected to fall in real terms. These declines are likely to be associated with a decelerating demand for credit in real terms in the industrial countries, thus providing banks with an incentive to seek lending opportunities outside the major industrial countries, including lending to the non-oil developing countries.

Judging by the monetary targets announced for 1981 by the seven largest industrial countries, the slowdown in the rate of monetary expansion in those countries in 1979 and 1980 can be expected to continue. With inflation continuing at a high, if declining, rate, no substantial easing of interest rates from the high levels of 1980 is expected in 1981 by most observers. Besides their effects on domestic economic activity and credit demand, high real interest rates affect the demand for international credit, but for balance of payments finance the demand is likely to be rather inelastic with respect to the real rate of interest, at least in the shorter term.

Taken together with the balance of payments outlook, these considerations suggest that some easing in the global demand for capital market finance is prob-

able. Within that global aggregate, however, the decline is likely to be most concentrated in shorter maturities, particularly trade finance, and in longer-term credit to industrial countries, other than for purposes of balance of payments finance. The demand for longer-term credit by the non-oil developing countries, on the other hand, can be expected to increase strongly.

Bond Market Prospects

The weakness of domestic and international bond markets in 1979 and 1980 has been to a large extent the result of the rise in short-term interest rates and uncertainties about future rates reflected in inverse yield curves in major currencies. So far in 1981 interest rates in many major currencies have continued to be highly volatile, and they show no signs of early stabilization at lower levels. The inhibiting effect of the interest rate situation on international bond market activity also is exacerbated by exchange rate fluctuations. Under such circumstances, the major bond markets are likely to remain relatively weak in 1981, though "windows" are likely to continue to emerge from time to time, helping to maintain gross volume of issues at the levels of recent years.

Prospects are far from uniform, however. In Japan and Switzerland, for example, the concerns about financial market instability and balance of payments weakness, which led to a slowdown of new issues in 1980, have diminished. In Japan, the recovery is expected to be particularly strong, and the total amount of foreign public offerings may be close to \$2 billion equivalent, about twice the volume of 1980. At the same time, the possibility of foreign private placements, which was very limited in 1980, was considerably eased at the outset of 1981. As long-term interest rates remained relatively low by international standards—in the first quarter of 1981, interest rates on bonds were below 9 per cent—foreign borrowers' interest in this market has been strong in the first months of 1981 and is expected to continue.

A significant increase in the volume of foreign issues since the beginning of the year has also taken place in the United Kingdom, where three issues by sovereign borrowers, including one developing country, were launched in the first four months. A relatively high volume of foreign issues in the rest of 1981 is possible, given the attractive features provided to borrowers by the U.K. bond market, such as the large size of issues, well-developed secondary markets, and long maturities. On the other hand, prospects for issuing activity are less favorable than in 1980 in the Federal Republic of Germany. Although the temporary ban on foreign and Euro-deutsche mark issues imposed toward the end of 1980 was allowed to expire at the end of March 1981, the issue calendar is likely to be managed cautiously, in part because of the magnitude of the current account deficit. In the light of what happened in the first quarter of the year and continuing weak conditions in the capital market, the volume of foreign deutsche mark-denominated new issues is expected to be lower than it was in 1980.

In the dollar sector of the Eurobond market, the strength of the dollar is currently maintaining investor interest, but the continuing fluctuations in short-term interest rates, which have been more accentuated than in other markets, are leading to frequent changes in market sentiment and fluctuations in the flow of new issues. Prospects for issuing activity over the rest of 1981, at least for issues with fixed interest rates, will thus greatly depend on the direction and degree of stability of interest rates, and the same considerations continue to inhibit new foreign issues in the U.S. bond market. Issue volume in the Euro-French franc sector in the first quarter of 1981 was, at an annual rate, twice as large as in 1980, but subsequent exchange market developments may well dampen foreign investor interest in issues denominated in that currency for a time.

In light of the factors mentioned above, the total

volume of international bond issues in 1981 may somewhat exceed that of 1980. However, the outlook depends greatly on the course of interest rate developments and expectations. The outlook for developing country borrowing in the international bond markets has been set out in Section IV. Broadly, some recovery from the exceptionally low level of those countries' issues and placements recorded in 1980 is in prospect for 1981, but no major increase should be expected.

The prospects for the bond markets have a major bearing on the prospective demand for bank credit. After the first round of oil price increases, the rapid expansion of international bond issues, from \$12 billion in 1974 to \$34 billion in 1976, played an important role in increasing the flow of international finance at a time when there were some strains on international intermediation by banks. Although the developing countries did not meet a major part of their external borrowing requirements in the bond markets, the fact that other borrowers were able to do so helped indirectly to ease the access of such countries to bank credit. In 1980, net new issues in the bond markets were below the level of 1975 in real terms; with no major improvement in prospect for 1981, the demands for bank intermediation will be high.

Prudential and Supervisory Constraints on Bank Intermediation

As noted in Section III, bankers continue to express concern about the riskiness of international intermediation, particularly vis-à-vis developing countries. The growth of current account deficits, which is exacerbated by high interest rates as well as high oil prices, is a discouraging factor, and bankers' concerns are not likely to dissipate until there are clear signs of an improvement in current account situations. Nonetheless, some signs of a more relaxed attitude have become apparent in recent months, and it seems unlikely that concerns about risk will be so great in 1981 as to imply any significant slowing of international bank lending in the aggregate or to the non-oil developing countries as a group.

There appears to be an increasing tendency to focus on the fundamental economic strength and appropriate policy stance of the major borrowers among the non-oil developing countries. Bankers continue to express doubts about the longer-run prospects for some countries, but in contrast to the views they were expressing in 1980, they do not appear to foresee any imminent difficulties for the major borrowers. The recent signs of a softening in oil prices have contributed to an easing of bankers' concerns in this regard. Encouragement has come from the fact that no wave of debt crises has

emerged, despite the strains of the last two years, and that relatively orderly procedures now seem to have been worked out for restructuring bank debt in those few cases where problems have arisen. Similarly, the growing role of the Fund in financing adjustment programs has helped to maintain market confidence. Concerns expressed in 1980 about other aspects of the environment for international lending also seem to have dissipated to some extent. This generally more sanguine attitude has tended to be self-reinforcing, as part of the uneasiness of a year ago reflected concern that a collective pullback by banks could precipitate crises.

Supervisory practices do not seem likely to be a major constraint on international banking flows in 1981. In some respects changes in regulations (for example, the greater flexibility given to Canadian banks in raising capital) have eased the situation. Against this, the fact that balance sheet consolidation in Switzerland is being phased in and is in prospect in the Federal Republic of Germany may have some continuing inhibiting effect in those countries. Although supervisors continue to impress upon banks the need to be aware of their concentration of exposure, the differences among banks in the geographical concentrations of their exposures provide considerable flexibility on a system-wide basis. This flexibility has been demonstrated recently by the ability of some borrowers to attract large amounts of new finance through an acceptance of higher spreads.

Prospects for International Bank Lending

While it is not feasible to quantify the prospects for international bank lending—its volume, direction, and terms—with any degree of precision, it is possible to suggest some broad orders of magnitude that appear to be consistent with the current outlook for the macroeconomic environment and the prudential constraints perceived by banks. The actual outcome, of course, will differ from the projection to the extent that the actual evolution of macroeconomic and prudential factors diverges from current expectations.³⁰ In 1980, for example, many observers expected a slowdown in international bank lending, particularly to the non-oil developing countries, because bankers were increasingly concerned about the risk of such lending. The view expressed in the Fund staff paper (Occasional Paper

No. 1) was that, for a number of reasons, the increase in bank claims was not likely to decelerate from the pace of 1979 (24 per cent) but in view of bankers' prudential concerns, no significant increase was likely. In the event, the balance of payments financing requirements of the smaller industrial countries and of the non-oil developing countries exceeded expectations, prudential factors proved less of a constraint than many observers had anticipated, and the growth in bank claims was 25 per cent.

The current outlook for the macroeconomic environment, as summarized earlier in this section, suggests that while there may be a slight moderation when compared with 1980, the demand for international credit will remain strong in 1981. Its composition, however, will shift to lower demand for increases in trade credit and in credit to finance investment and business activity in the industrial countries but stronger demand for balance of payments finance by the countries that rely heavily on the international capital markets for such finance. Some of the increased demand for balance of payments finance may be met through channels other than banks, such as additional use of Fund resources, but there will nonetheless still need to be some increase in the amounts borrowed by such countries from banks.

A major factor in the maintenance of bank lending in 1981 is thus the extent to which banks will be prepared to respond to the shifting pattern of demand by increasing their lending to countries needing balance of payments finance. Under normal circumstances, a declining demand for business and investment finance in the industrial countries would lead banks to expand their role elsewhere, but given their already large exposure to the non-oil developing countries, they express reluctance to do so. A large part of the increase in their claims on such countries in 1980, moreover, was in the form of short-term trade finance, on which banks are more flexible than on other types of credit. In view of the prospective slowdown in the growth of the value of trade in 1981, the proportion of the financing requirement that will have to be met through forms of credit more affected by prudential constraints will need to increase.

The extent to which banks are willing to accommodate the increase in the demand for longer-term finance of the non-oil developing countries is thus of major importance. The total increase in bank claims needed to meet the prospective financing requirements of such countries, however, is somewhat less in percentage terms than in 1980.³¹ As banks' perceptions of

³⁰ The actual stock of bank claims at any point in time can also be affected by short-run developments in exchange rates and interest rates, which result in temporary surges or declines in international bank lending to finance hedging or speculative positions. Exchange rate changes also have valuation effects that need to be allowed for in assessing developments.

³¹ Putting the data in Table 4 for "Other borrowing, net" of the non-oil developing countries on a basis comparable with the BIS data on net bank lending suggests that the requirement for 1981 would be met by a 24 per cent increase in bank claims on such countries, compared with 27 per cent in 1980.

the risk of lending to such countries seem to be easing to some extent, on balance it seems likely that the required lending will be forthcoming for developing countries in the aggregate. It is encouraging in this regard that the volume of new syndicated medium-term loans to non-oil developing countries in the first half of 1981 seems to have maintained the momentum seen during the latter part of 1980. But for individual countries among them (which have achieved access to medium-term credits) whose adjustment policies are viewed as inadequate, market resistance may well stiffen considerably.

Maintenance of the growth of bank assets vis-à-vis the smaller industrial countries and the non-oil developing countries at the rate of 1980, together with some slowdown in lending to borrowers in the major industrial countries, implies an overall growth rate somewhat below that recorded in 1980, but still somewhat in excess of 20 per cent. As the stock of bank claims was some \$810 billion at the end of 1980, it seems reasonable to expect \$1 trillion by the end of 1981, implying an increase of 23 per cent. In dollar terms such an increase would involve net financing flows of \$190 billion, compared with \$165 billion in 1980.

Such a prospect is consistent with what is known of the lending plans of banks in the capital market countries. U.S. banks, which substantially accelerated their international lending in 1980, are expected to continue to be active. Canadian banks, which through the rapid expansion of their international assets in the last few years have become much more significant in the overall picture, also are expected to remain active. Japanese banks, whose international activity in 1980 was heavily concentrated in channeling short-term capital flows into Japan, are now set for a substantial resumption of their international lending to other countries. Although new commitments are not expected to reach the record level of 1979, nonetheless, the lending programs proposed by the banks suggest that their longer-term international assets should grow considerably faster in 1981 than the growth of 17 per cent recorded in 1980.

In Europe the picture is mixed. With the end of exchange control, U.K. banks are rapidly increasing their international assets after many years of relatively slow growth of such assets. At the other extreme are German banks, for which the relatively slow pace of lending recorded in 1980 may well continue. The pace of their lending is affected by their large exposures in Eastern Europe at a time of significant political uncertainty, by the poor profitability of many banks resulting from their relatively large portfolios of fixed-interest rate assets, by the Federal Republic of Germany's balance of payments position (which resulted in the sharp temporary curtailment of their longer-term deutsche

mark lending early this year), and by the tightening in capital requirements in prospect under new legislative proposals. Other banks in Europe fall between the two extremes. Swiss bank lending, like that of German banks, is being affected by tighter capital requirements resulting from balance sheet consolidation. French banks, whose lending is exceptionally concentrated in credit related to the country's exports, may be affected by the slowdown in world import demand. This factor may also affect German banks, which under present circumstances are concentrating their activity in lending that gives rise to ancillary business. The continuing strength of U.S. and Canadian bank lending, however, together with the probable increase in Japanese bank activity in the longer maturities, suggests that even a continued slowdown in activity by European banks will not lead to any major slowdown at the aggregate level.

The steady reduction in lending spreads which began in 1976 appears to have come to an end in 1980. Though a few borrowers are still managing to obtain better terms, for many borrowers a slight hardening seems to be occurring. In view of the large demands for credit of the non-oil developing countries in 1981 and the concentration of those demands in the longer maturities, the trend in 1980 toward greater differentiation of spreads may continue. The degree to which banks lose lending opportunities through the slowdown in the industrial countries will be a major determinant of their willingness to continue lending to many developing countries on relatively fine terms. The fineness of those terms suggests that the banks' interest in lending to developing countries is still strong, and a hardening of terms is by no means a foregone conclusion. Any increase in spreads, moreover, will be small relative to the current high level of interest rates.

On the funding side, some of the largest depositors reportedly are facing some reluctance by the major banks to increase their concentration of deposit exposure. If such depositors neither accept those lower interest rate offers nor expand the lists of banks with which they do business, the result will be an acceleration of the disintermediation of which direct recycling is an example. Since disintermediation lessens demand for bank services on both the lending and deposit sides, however, the competition among banks for the remaining business may well lead to easier access to bank credit by those borrowers who cannot shift to other sources of finance.

Beyond 1981 the picture remains uncertain. If the projections given above for 1981 are fulfilled, bank claims on the non-oil developing countries will once again have increased relative to the total size of bank balance sheets (though not necessarily relative to banks' total international book), and the volume of debt to

banks as well as debt service requirements will be larger for many countries relative to their total output and their exports. Banks' concerns about the risk of lending to such countries will thus remain high and will continue to do so until there are clear signs of improvement in such countries' prospects.

Even without early improvement in those prospects, however, the general level of bank exposure to developing countries is not likely to be so high even by mid-1982 as to seriously impede their willingness to continue lending. The fact that spreads have risen so little for most countries—and the extremely large volumes of

additional finance that have been forthcoming for the few countries whose spreads have risen—supports this view. While banks in some countries may from time to time slow their activity, the experience of the last few years suggests that, in the absence of crises such as those which followed the 1974 bank failures, any such slowdown is not likely to be general. As time goes by, moreover, banks outside the traditional capital market countries are playing a larger role. Banks with a Middle Eastern base, for example, are growing very rapidly and are beginning to play a significant role in international lending.

Annex

Supervision of Banks' Foreign Establishments*

Introduction

The object of this report is to set out certain guidelines for cooperation between national authorities in the supervision of banks' foreign establishments, and to suggest ways of improving its efficacy.

Three types of foreign banking establishments are distinguished: branches, which are integral parts of a foreign parent bank; subsidiaries, which are legally independent institutions incorporated in the country of operation and controlled by one foreign parent bank; and joint ventures, which are legally independent banks incorporated in the country of operation and controlled by two or more parent institutions, most of which are foreign and not all of which are necessarily banks.

In addition, banking supervision is considered in this report from three different aspects: liquidity, solvency, and foreign exchange operations and positions. The Committee recognizes that these different aspects are to some extent overlapping. For instance, liquidity and solvency problems can shade into one another; and both liquidity and solvency considerations are among the reasons why countries supervise their banks' foreign exchange operations.

The Need for Cooperation

The Committee is agreed that the basic aim of international cooperation in this field should be to ensure that no foreign banking establishment escapes supervision.

It is also agreed that each country has a duty to ensure that foreign banking establishments in its territory are supervised; and that in the case of joint ventures involving parent institutions in more than one country there is no practicable alternative to supervision by host authorities.

Acceptance that supervisory authorities are responsible for ensuring that foreign banks in their territory are supervised will not, however, necessarily preclude there being gaps in the supervision of such establishments. Thus, owing to differences in definition, a particular foreign establishment may be classified as a bank by its parent, but not by its host, supervisory authority; and in some countries not represented on the Committee there may be no supervision whatever of foreign banking establishments.

* This is a report to the Governors by the Group of Ten's Committee on Banking Regulations and Supervisory Practices. The work of the Committee is briefly described in Section III. The document reproduced here is the 1975 Concordat, which was aimed at ensuring that banks' foreign establishments were adequately supervised. In March 1981 the document was released to the public by Peter Cooke, Chairman of the Committee.

Furthermore, it is desirable not only that all foreign banking establishments are supervised but that this supervision is adequate, judged by the standards of both host and parent authorities. In that connection the Committee noted that host authorities are interested in the foreign banks operating in their territories as individual institutions and from the point of view of what happens in their own markets, while parent authorities are interested in them as parts of larger institutions which they are responsible for supervising.

For a variety of reasons, therefore, adequate supervision of foreign banking establishments, without unnecessary overlapping, calls for contact and cooperation between host and parent supervisory authorities. It is one of the Committee's purposes to foster cooperation of that kind among its member countries. In addition, the Committee considers that any guidelines for cooperation it may agree on should be communicated to other countries with a significant role in international banking, in the hope of obtaining their cooperation too. The Committee has already established contacts with the supervisory authorities of a number of such countries and, if the Governors accept this report, will consider which other countries it might approach.

Supervisory Responsibilities and Interests of Host and Parent Authorities

Having agreed on the need for contact and cooperation between supervisory authorities, the Committee went on to consider the extent to which the division of responsibilities for supervision could be codified. Their discussions showed that it is not possible to draw up clear-cut rules for determining exactly where the responsibility for supervision can best be placed in any particular situation. Nevertheless, the Committee was able to agree on a number of general guidelines in this field.

Liquidity. In managing their liquidity foreign banking establishments rely heavily on local practices and comply with local regulations, including those established for monetary policy purposes. Responsibility for supervising their liquidity must therefore rest in the first place with the host authority. Moreover, in practice, only the authority on the spot can carry out the continuous supervision of liquidity which may from time to time be required. For the management of liquidity in foreign currencies, and especially the currency of the parent bank, local practices and regulations may be less important and not all host authorities accept the same degree of responsibility.

In the case of a foreign branch, liquidity cannot be judged in isolation from that of the whole bank to which it belongs. This applies particularly when a branch is free to deposit funds with its parent bank. Furthermore, the parent authority, in controlling the liquidity of the parent bank, must take account of calls that its foreign branches might make on its liquid resources. For these reasons the liquidity of foreign branches is a matter of concern to parent authorities also.

In the case of foreign subsidiaries or joint ventures, too, parent authorities may be concerned. For example, such banks may have stand-by facilities available to them from their parent institutions. In such cases the parent supervisory authority concerned ought to be informed by the host authorities of the importance they attach to these stand-by facilities in judging the liquidity of the banks in question. Moreover, though the legal position of foreign subsidiaries and joint ventures is different from that of foreign branches, parent authorities cannot be indifferent to the moral responsibilities of the parent institutions.

Solvency. In the case of solvency controls, there is again some sharing of responsibility for supervision between host and parent authorities, with the emphasis

varying according to the type of establishment concerned. For foreign subsidiaries and joint ventures, primary responsibility rests with host authorities; but, in addition, parent authorities must take account of the exposure of their domestic banks' foreign subsidiaries and joint ventures because of those parent banks' moral commitments to those foreign establishments. For foreign branches, solvency is indistinguishable from that of the parent bank as a whole. It is therefore essentially a matter for parent supervisory authorities. The "dotation de capital" imposed by the host authorities in certain countries on foreign branches is above all intended to do two things: to oblige foreign branches that set up in business in those countries to make a certain minimum investment in them; and to equalize competitive conditions between foreign branches and domestic banks.

Foreign Exchange Positions. Banks' foreign exchange positions are supervised partly for prudential reasons, partly for balance of payments reasons and partly for the purpose of maintaining orderly market conditions. So far as concerns prudential supervision the considerations set out in the previous paragraphs govern the division of responsibility, while the other matters are by definition the concern of host authorities.

Aids to Cooperation

The Committee considers that, in seeking to improve the supervision of banks' foreign establishments and to implement the guidelines for cooperation set out earlier in this report, efforts should be made to remove, or at any rate reduce, certain restraints which at present hamper such cooperation. In particular, it believes that action could usefully be taken in the following areas:

1. Direct Transfers of Information Between Supervisory Authorities

Parent authorities may wish to obtain copies of reports submitted to host authorities, particularly in cases where host authorities waive certain requirements in respect of foreign banks established in their territory, where their control requirements are less stringent than those of the parent authorities or where they take into account, for prudential purposes, commitments to such banks by their parent institutions. Normally they should obtain such reports direct from the banks concerned, provided that host authorities are previously informed. At the same time it would be desirable that host authorities be permitted to transfer copies of such reports to parent authorities when circumstances so warrant. The Committee is aware that such transfers of information are often impossible because of banking secrecy laws in host countries; but many of its members consider that the operation of these laws should over time be modified so as to permit them. (This same point also applies in the case of the proposals in 2 and 3 below.) The Committee wishes to emphasize that the sole purpose of such transfers would be to facilitate prudential control of banks and that in no circumstances would they be directed to the affairs of individual customers.

2. Direct Inspections by Parent Authorities of Their Domestic Banks' Foreign Establishments

These are likely to be particularly helpful for purposes of solvency control, including control of banks' foreign exchange positions. Such inspections already take place, sometimes on an informal basis and sometimes as a result of formal reciprocal agreements between pairs of countries. Wherever possible steps should be taken to facilitate such arrangements, if necessary by amendment of legislation.

3. Indirect Inspections of Foreign Banking Establishments by Parent Authorities Through the Agency of Host Authorities

Host authorities that do not allow direct inspections by parent authorities of their domestic banks' foreign establishments should give favourable consideration to carrying out, at the request of the parent authorities concerned, specific inspections of foreign banks operating in their territory and to reporting their overall findings to them.

The Committee believes that in seeking to remove restraints on transfers of information between, and foreign inspections by, supervisory authorities it would be wise to begin with foreign branches, where the problems presented appear less difficult than with subsidiaries and joint ventures.

The Committee asks that the Governors, if they are in agreement with the recommendations of this report, should take advantage of any opportunities that present themselves to further the removal of restraints on cooperation.

September 26, 1975

Appendix I

Bank Lending in 1980

At the end of 1980, international bank claims³² amounted to some \$810 billion. Despite widespread expectations of a deceleration in international bank lending in 1980, the volume of net lending³³ amounted to \$165 billion, compared with \$130 billion in 1979. The resulting increase in outstanding claims (exchange rate adjusted) was about 25 per cent, a slightly higher growth rate than in 1979. Despite the concerns expressed at the beginning of 1980 about a slowdown in lending to some of the non-oil developing countries, the distribution of lending in 1980 was not greatly changed from previous years. The pronounced easing of terms that had persisted for several years appears to have come to an end in 1980; with the exception of a few cases, however, terms did not harden significantly, at least on publicized medium-term credits.

This Appendix describes these developments in detail and gives background information on the factors accounting for them.

Environment for International Lending in 1980

World economic developments are related to the volume, direction, and terms of international intermediation by banks in a variety of ways. International banking can best be viewed as one component of global banking, of which purely domestic intermediation is much the larger component. Part of the demand for international bank lending (and deposit taking) may be ascribed to developments that are themselves international in character, such as loans to finance current account deficits or reserve increases or loans to finance

³² Unless otherwise indicated, figures used here refer to banks in the BIS (Bank for International Settlements) reporting area and are net of redeposits among those banks. The BIS reporting area comprises banks in the Group of Ten countries, Austria, Denmark, Ireland, and Switzerland and the branches of U.S. banks in the Bahamas, the Cayman Islands, Hong Kong, Lebanon, Panama, and Singapore.

³³ The volume of international bank lending is calculated as the difference between end-of-period stocks of claims, adjusted for valuation effects associated with exchange rate changes.

particular types of international transactions, mainly international trade. With the growing integration of national financial markets, however, much of the flow of finance through international banking channels results not from a need for international finance as such, but rather represents an alternative to domestic finance.³⁴ From this point of view, the analysis of the factors affecting international bank intermediation must take into account the factors affecting global demand for money and credit, such as the global level of economic activity. Decisions on production and investment in turn are affected by the cost and availability of credit, which can largely be explained in terms of the stance of monetary policies. While global credit demand is thus in a sense exogenous to the banking system, the efficiency of the system, as measured by the margin between lending and deposit rates, has a bearing; and the efficiency of international banks relative to domestic banking or other financial channels has a major effect on the distribution of financial flows among the various channels.

This discussion of the economic environment for bank lending in 1980 thus begins with developments related to international payments and then turns to global economic activity and monetary policies. Some aspects of these developments are summarized in Table 5.

International Payments

A major element in the demand for international intermediation in 1980 by banks was the increased requirement for balance of payments finance associated with the oil price increases of 1979–80. The increase in the total of current account deficits of industrial and non-oil developing countries and centrally planned economies, from \$87 billion in 1978 to \$153 billion in

³⁴ While the distinction between international and domestic demand is useful for this exposition, it is highly arbitrary. Working capital to finance imports, for example, could be provided as well through domestic credit as through cross-border lending.

Table 5. Growth in International Lending and Selected Economic Indicators, 1973–80

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

	1973	1974	1975	1976	1977	1978	1979	1980
International lending								
1. Net new international lending through bank and bond markets ¹	41	59	58	96	94	112	151	183
<i>Bank lending</i>	33	50	40	70	68	90	130	165
Growth in the stock of bank claims (per cent) ²	24	29	18	27	21	21	24	25
<i>Bond markets</i>	8	9	18	26	26	22	21	18
2. Share of net external claims in total claims of banks in 14 major capital market countries (per cent) ³	9.3	10.4	11.5	12.6	13.1	13.0	14.7	16.0
International payments								
3. Total of identified current account deficits ⁴	-27	-80	-80	-80	-82	-87	-94	-153
<i>Seven large industrial countries</i>	-4	-26	-8	-12	-17	-15	-13	-35
<i>Other</i>	-23	-54	-72	-68	-65	-72	-81	-118
4. Total current account surpluses of oil exporting developing countries	7	68	35	40	31	3	68	112
5. Change in bank deposits of oil exporting developing countries								
Gross	...	30	14	12	11	6	38	44
Net of new borrowing	...	6	3	2	2	-8	31	38
6. Increase in value of world trade (per cent)	37.8	46.0	4.2	12.7	13.9	16.1	25.7	21.8
7. Borrowing for reserve building by non-oil developing countries ⁵	6	1	-3	8	6	10	9	1
Production and investment								
8. Growth in GNP of industrial countries (per cent)	14.1	12.5	10.5	13.2	11.8	11.8	11.8	10.3
9. Growth in value of fixed investment in seven major industrial countries (per cent)	...	...	...	...	7.3	6.0	4.6	-1.9
Monetary developments								
10. Monetary expansion in seven major industrial countries (per cent) ⁶	14.8	10.2	12.1	11.7	12.3	12.5	9.9	8.4
11. Interest rates (six-month Eurodollar deposit rate, in per cent)	9.3	11.2	7.6	6.1	6.4	9.4	12.0	14.2

Sources: BIS; World Bank; *World Economic Outlook*, IMF Occasional Paper No. 4 (June 1981); and Fund staff estimates.¹ Net of double-counting due to bank purchases of bonds.² Adjusted for valuation effects of exchange rate changes.³ External claims (net of redepositing among banks in the BIS reporting area) and total assets of banks of 14 major capital market countries: Group of Ten countries plus Austria, Denmark, Ireland, and Switzerland.⁴ Goods, services, and private transfers. Includes all nonmember countries of the Fund.⁵ Defined as the increase in foreign exchange reserves of these countries, less the total of their current account surpluses.⁶ Weighted average (1979 weights) of growth rate of money plus quasi-money.

1980 (Table 5, line 3), was a major source of incremental demand.³⁵ At the same time the flow of oil exporters' deposits to banks, net of new borrowing, reversed from a withdrawal of \$8 billion to a placement of \$38 billion as the aggregate current account surplus increased from \$3 billion in 1978 to \$112 billion in 1980 (Table 5, lines 4 and 5), reflecting the large increase in income and wealth and the high short-run marginal propensity to save of oil exporting countries.

³⁵ The increase in deficits also reflects developments other than the increase in oil prices; major factors for some countries in 1980 were the sharp increase in the interest rates on their external debt and the increase in prices of their imports of manufactures. Another aspect of current account developments in 1980, which had the effect of increasing requirements for balance of payments finance, was the great divergence of current account developments among the major industrial countries, with some moving into strong surplus positions, whereas in 1979 there had been considerable convergence.

The increase in the value of world trade from year to year (Table 5, line 6) carries with it a need for increased trade finance, much of which comes from banks. This need normally arises more or less independently of the total of current account deficits—from 1974 to 1977, for example, there was virtually no change in the total of deficits, but the value of world trade almost doubled—but in 1979–80 the fact that much of the increase in deficits was associated with a higher value of imports meant that a substantial part of the requirement for balance of payments finance could be met through bank trade credit. This was perhaps most strongly evident in Japan. The fact that banks' readiness to provide short-term trade-related credit is less constrained by prudential considerations than is their readiness to provide medium-term credit enhanced the international role of banks in this period.

Borrowing for the augmentation of international reserves³⁶ was a significant factor in the demand for international bank credit in the second half of the 1970s, at least on the part of the non-oil developing countries. In 1980, however, borrowing for reserve accumulation fell to \$1 billion (Table 5, line 7), from an annual average of \$8 billion in 1976–79. This reflected the much higher financing needs of most of the non-oil developing countries in 1980 and the tighter terms faced by some borrowers.

Exchange market instability tends to increase banks' external assets and liabilities because of increased speculative borrowing and hedging operations. These positions are generally reversed once exchange markets calm down. Exchange rates have exhibited a high sensitivity with respect to changes in uncovered interest rate differentials, which were relatively large in 1980. Some of the speculative positions established in connection with the substantial exchange rate changes in late 1980 may not have been unwound by the end of the year in the expectation of further substantial exchange rate changes. This was in some contrast with the relative calm in the foreign exchange markets in late 1979 and may have contributed to an increase in bank claims between the two year-ends.

Production and Investment

Much of the demand for money and credit on a global basis is associated with developments in production and investment. With the growing international integration of national economies, much of this demand spills over into international channels, so that such developments, particularly in the industrial countries, have an impact on international lending. In 1980 incremental demand arising from this source was weak relative to 1979. The growth of nominal gross national product (GNP) in 1980 in the industrial countries slowed by about 1.5 percentage points (Table 5, line 8), reflecting a decline of more than 2 per cent in real GNP, which was partly offset by a 1 per cent increase in GNP deflators. The value of fixed investment, which had risen by 4.6 per cent in 1979, declined by 1.9 per cent in 1980 (Table 5, line 9).

The effect of the slowdown of economic activity in the industrial countries may have been greater on domestic credit than on international lending. An increasing proportion of the credit requirements of industrial country borrowers was met internationally,

as the already high relative efficiency of the international credit markets was enhanced by the impact of high interest rates. The principal reasons for the increased shifting offshore of the booking of transactions are discussed below.

Monetary Developments

In the absence of capital controls, interest rates in the international money markets for particular currencies move closely in line with those in the domestic markets. International lending and deposit rates, in turn, closely follow the money market rates, after allowance is made for the margin required by banks to cover their cost, including risk. While these margins change over time, sometimes abruptly, fluctuations in money market rates, which reflect monetary developments and policies in the major capital market countries, are a more important factor in changes in the total cost of credit. With slower monetary growth in industrial countries in 1980 (Table 5, line 10), interest rates were generally higher. The average six-month Eurodollar deposit rate, for example, rose from 12.0 per cent in 1979 to 14.2 per cent in 1980 (line 11), and *ex post* real interest rates were generally significantly positive. These developments presumably tended to reduce the demand for domestic and international bank credit in 1980, particularly on the part of private borrowers in industrial countries. The demand for medium-term international bank credit by sovereign borrowers is probably less interest elastic, at least in the shorter run.

Another effect of high interest rates is that they tend to encourage the shift in the booking of deposits and loans offshore to take advantage of the lower costs of such international intermediation (often referred to as the roundtripping of funds). The generally higher level of interest rates in 1980 magnified the cost advantages to depositors and borrowers in placing or borrowing funds in the Euromarkets rather than in domestic markets; this cost differential stems from the noninterest-bearing reserve requirement applied for banks' domestic liabilities in many capital market countries. Other elements of monetary policy in the United States and the United Kingdom that also affected offshore intermediation in 1980 are reviewed below.

The factors discussed here have mainly had a bearing on the demand for international intermediation, although in some respects they also affect supply—for example, weak demand for domestic credit may encourage banks to seek international lending opportunities. By and large, however, the extent to which banks are willing to carry out intermediation is related to prudential considerations, which have been discussed at some length in Section III of this paper.

³⁶ Such borrowing is, of course, only ascertainable *ex post*. A proxy for such borrowing is the increase in reserves adjusted for the sum of current account surpluses, thus effectively assuming that current account surpluses are reflected in reserve accumulation.

Table 6. External Lending and Deposit Taking¹ of Banks in the BIS Reporting Area,² 1977–80
(In billions of U.S. dollars)

	1977	1978	1979	1980 ³				1980
				First Quarter	Second Quarter	Third Quarter	Fourth Quarter	
Destination of lending⁴	68	90	130	15	65	30	35	165
Industrial countries	39	40	71	22	37	13	16	100
Oil exporting developing countries	9	14	7	-4	3	2	4	6
Non-oil developing countries	14	25	41	1	18	13	14	52
Centrally planned economies ⁵	4	7	7	-4	4	—	2	2
International organizations and unallocated	2	4	4	—	3	1	—	5
Sources of funds⁴	68	90	130	15	65	30	35	165
Industrial countries	41	65	68	8	40	17	30	108
Oil exporting developing countries	11	6	38	10	16	9	4	44
Non-oil developing countries	13	15	15	-4	7	4	-1	7
Centrally planned economies ⁵	—	2	5	-3	—	1	2	—
International organizations and unallocated	3	2	5	4	2	—	—	7
Change in net claims⁶	—	—	—	—	—	—	—	—
On industrial countries	-2	-25	3	14	-3	-4	-14	-8
On oil exporting developing countries	-2	8	-31	-14	-13	-7	—	-38
On non-oil developing countries	1	10	26	5	11	10	15	45
On centrally planned economies ⁵	4	5	2	-1	4	-1	—	2
International organizations and unallocated	-1	2	-1	-4	1	1	—	-2

Sources: BIS and Fund staff estimates.

¹ The data on lending and deposit-taking are derived from stock data on banks' claims and liabilities (net of redepositing among banks in the BIS reporting area) including an adjustment for valuation changes due to exchange rate changes. The adjustment of the overall claims and liabilities is based on information contained in BIS quarterly press releases, while the distribution of the adjusted flows among the major groups of borrowers and depositors is a Fund staff estimate.

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

³ Not adjusted for valuation changes due to exchange rate changes.

⁴ The breakdown by major groups of borrowers (depositors) was derived from BIS data in the following manner. For industrial countries, gross claims (liabilities) were reduced by redepositing among banks in the reporting area but increased by claims on (liabilities to) offshore centers. The latter thus were assumed, in the absence of the availability of a country breakdown of the onlending from (deposit taking by) offshore centers, to represent lending to (deposit taking from) industrial countries. For the other groups of borrowers and depositors, net claims (liabilities) were taken to be equivalent to gross claims (liabilities).

⁵ Excludes Fund member countries.

⁶ Lending minus sources of funds.

Bank Lending and Deposit Taking³⁷

Industrial Countries

Net bank lending to industrial countries rose from \$71 billion in 1979 to an estimated \$100 billion in 1980 (Table 6), an increase reflecting the continuing integration of capital markets as well as the need to finance much larger current account deficits. The deterioration of their external payments positions led a number of industrial countries to increase public sector borrowing from foreign banks, while in some other countries the external situation, together with the stance of domestic financial policy, led to the emergence of domestic banks or the nonbank private sector as large borrowers from foreign banks. Much of this additional borrowing was related to trade, but syndicated medium-term credits also rose substantially.

Most of the borrowing from foreign banks by industrial countries in 1980 occurred in the first half of the year, as economic activity weakened during the year and certain special factors affecting the financial markets of the United States and the United Kingdom were less important in the second half.

International bank lending to individual industrial countries cannot be established precisely from the data available,³⁸ but some tentative conclusions can be drawn from incomplete data.³⁹ Foreign bank lending

³⁸ To derive banks' net claims on industrial countries, total gross claims (for which a breakdown by country is available) were reduced by redepositing among banks in the BIS reporting area and all claims on offshore centers were added (see also footnote 4 of Table 6). The distribution by individual country of net international bank lending to all industrial countries derived in this manner cannot be established because of the absence of a breakdown by country of redepositing among banks and of onlending through offshore centers.

³⁹ The BIS provides data on international claims on the non-bank sectors in individual countries of banks located in Europe, including the branches of foreign banks, and on foreign assets and liabilities of banks in individual capital market countries.

³⁷ Changes in external claims and liabilities of banks in the BIS reporting area.

to the nonbank sectors in the Federal Republic of Germany, Italy, Sweden, and some other European deficit countries was strong (see Table 25). A sizable amount of foreign funds was also channeled through banks in Europe for domestic onlending. This is indicated by the substantial increase in the net foreign liability position of the banks in most European countries in 1980 (see Table 26). An exception was German banks, whose position was affected by a reduction in nonresident deposits in deutsche mark in reaction to changing exchange rate expectations. Japanese banks were also large borrowers of foreign funds, mainly for domestic onlending for import finance and other purposes.⁴⁰ Their net foreign liabilities, which had remained virtually unchanged in 1979, rose by \$9 billion in 1980.

Foreign bank lending to the United Kingdom and the United States—two countries with sizable current account surpluses in 1980—was influenced to a considerable extent by special effects of interest rate developments and monetary policy measures giving rise to increased offshore intermediation of funds. In the case of the United Kingdom, the volume of offshore intermediation of sterling was relatively high in late 1979 and the first half of 1980. With the elimination of exchange control, nonbanks were free to place deposits abroad, while at the same time the supplementary special deposit requirement (the so-called corset)⁴¹ on U.K. banks, which effectively constrained their domestic booking of sterling loans, provided an incentive to borrow sterling from abroad. Borrowing from banks abroad by the U.K. nonbank sector fell after the corset was removed (see Table 25). The relatively sizable borrowing by the U.S. nonbank sector from banks in Europe in the first quarter of 1980 may have reflected not only the strength of the domestic economy, but also intermediation shifting offshore due to high interest rates (see Table 25). To satisfy strong domestic credit demand, U.S. banks also borrowed sizable amounts from foreign banks, including their own foreign branches, in the first quarter of 1980.⁴² In the second

quarter and part of the third quarter of 1980, the nonbank sector in the United States continued to be a relatively large borrower of foreign bank funds in response to the domestic credit controls in effect in the period March–June 1980 and the steeper decline of Eurodollar interest rates than the U.S. prime rate.

Industrial countries have been the main suppliers of funds to the international banking system, except for short periods immediately following major increases in oil prices. This is, of course, primarily a reflection of the large amount of savings generated by the industrial countries. In a sense, moreover, the industrial countries are the residual suppliers of funds to the international banking system; that part of the international lending of banks not funded by deposits from developing and centrally planned economies and by deposits from industrial countries held in offshore centers is by definition funded by deposits from inside the industrial countries. The availability of such funds is generally not in question—at some interest rate, banks can obtain the funds they need by borrowing either in their domestic markets or in other industrial countries.

The use of funds from industrial countries for banks' international lending activity in 1980 amounted to \$108 billion, compared with \$65 billion in 1979⁴³—a growth reflecting the lower inflow of funds from non-oil developing countries and centrally planned economies and the sharp slowdown in fresh bank deposits by oil surplus countries during 1980. On a net basis, industrial countries were net users of international bank funds in 1979 (\$3 billion) and in the first quarter of 1980 (\$14 billion) but emerged again as large net suppliers of funds in the period April–December 1980 (\$22 billion).

Oil Exporting Countries

Total new deposits by oil exporting countries, which amounted to \$6 billion in 1978 and \$38 billion in 1979, are estimated to have reached about \$44 billion in 1980⁴⁴ (Table 6). The inflow of new deposits reached a peak of \$16 billion in the second quarter of 1980, thereafter decelerating markedly to \$4 billion in the

⁴⁰ The termination of special programs under which the Japanese authorities had supplied foreign exchange for trade financing was a factor in this regard.

⁴¹ Under the Supplementary Special Deposit Scheme, known as the corset, banks had to place supplementary noninterest-bearing deposits with the Bank of England if the growth of their interest-bearing eligible liabilities exceeded certain guidelines.

⁴² The marginal reserve requirement on managed liabilities of banks in the United States (including Eurocurrency borrowing by banks in the United States and loans by foreign offices of banks in the United States to U.S. residents) in effect between October 1979 and July 1980 did not affect the cost of funding in the United States relative to funding abroad because it applied equally to domestic and foreign liabilities. The 3 per cent basic reserve requirement on net Eurocurrency liabilities and nonpersonal time deposits introduced in November 1980

did, however, affect relative costs insofar as it equalized the cost of domestic and Eurocurrency funds, but the impact on funding in 1980 was minimal because the new regulation is being phased in gradually. Eurocurrency liabilities were defined to include lending to U.S. residents by the offices outside the United States of banks operating in the United States.

⁴³ Including deposits held in offshore centers, all of which are assumed here to be held by residents of industrial countries (see footnote 4 of Table 6).

⁴⁴ These figures exclude funds that entered the market through trustee accounts in industrial countries, mainly Switzerland.

final quarter of 1980⁴⁵ (Table 6). To some extent the deceleration may have reflected some diminution of those countries' current account surplus, but a more important factor was the increase in direct recycling—bilateral lending to governments, purchases of securities in the markets and direct investment abroad. Expressed as a percentage of the estimated total cash surplus of oil surplus countries, the increase in bank deposits fell from 58 per cent in 1979 to 35 per cent in 1980 (see Table 27),⁴⁶ repeating the pattern observed in 1974–75. Net repayments of bank loans by oil exporting countries were large (\$4 billion) in the first three months of 1980, but a resumption in borrowing thereafter resulted in total borrowing of \$6 billion for the year.

The net supply of funds (deposits less loans) by oil surplus countries in 1980 is estimated at about \$38 billion, compared with \$31 billion in 1979, but the sharp slowdown of deposits in the fourth quarter of the year, together with the increase in banks' lending, meant that in that quarter the oil exporting countries were no longer a net supplier of funds. The stock of deposits by oil exporting countries with foreign banks reached about \$155 billion at the end of 1980, almost double the level in December 1978 (see Table 28); bank net liabilities to them more than tripled over the same period to reach \$90 billion at the end of 1980 (see Table 29).

Centrally Planned Economies⁴⁷

International bank lending to centrally planned economies fell from \$7 billion in 1979 to \$2 billion in 1980 (Table 6). This reflected mainly much lower lending to Poland, the largest borrower among centrally planned economies, whose economic situation deteriorated in 1980. Lending to other Eastern European countries seems to have been little affected by the crisis surrounding Poland's external debt but undoubtedly was influenced by East-West tensions. Some countries reduced their outstanding debt to banks in the first quarter and drew down their deposits, but bank lending, particularly to Hungary, the German Democratic Republic, and Czechoslovakia, mainly in the form of short-term credits, resumed in the second quarter of 1980, and deposits were also rebuilt to the level at the outset of the year. The net debtor position of centrally planned economies vis-à-vis banks increased by \$2 billion in 1980.

⁴⁵ Not adjusted for valuation changes. Adjusted for valuation changes in stocks, the flow in the second quarter would be somewhat lower and the flow in the fourth quarter somewhat larger.

⁴⁶ The figures on new deposits in Table 27 differ somewhat from the figures in Table 6 because of a difference in source.

⁴⁷ Excluding Fund member countries.

Non-Oil Developing Countries

Bank lending to non-oil developing countries in 1980 amounted to about \$52 billion, compared with \$41 billion in 1979 (Table 6). In the early part of the year, banks were reluctant⁴⁸ to maintain the pace of their lending to many of the non-oil developing countries at the then prevailing level of spreads. Since the borrowers were reluctant to accept any significant tightening of terms, the result was a postponement of action on both sides. Borrowing from banks by non-oil developing countries thus amounted to only \$1 billion (not adjusted for valuation changes) in the first quarter of 1980. As the year progressed, some borrowers did acquiesce to tighter terms in order to obtain the necessary financing, while others found banks more prepared to lend at the prevailing level of spreads. Bank claims thus grew at a quarterly rate around \$15 billion a quarter in the last three quarters of 1980.

To compensate for the relatively small amount of bank borrowing in the first quarter of the year, some non-oil developing countries reduced substantially their deposits with banks (Table 6 and also see Table 28). The withdrawal of deposits again gave way to an accumulation in mid-1980, but a further small reduction took place in the fourth quarter. The net flow of funds from banks to such countries rose from about \$5 billion in the first quarter of 1980 to \$15 billion in the fourth quarter, totaling some \$45 billion for the year. These figures may significantly understate the actual flow, as the banks of some of the non-oil developing countries reportedly borrowed intensively through their branches in offshore centers.⁴⁹

The 31.5 per cent share of non-oil developing countries in banks' total net international lending in 1980 was unchanged from 1979, but significantly higher than in 1977 and 1978 (see Table 30). There was little change in 1980 in the distribution of lending to non-oil developing countries among the major groups of countries.⁵⁰ Borrowing by the major exporters of manufactures (excluding the offshore centers, Hong Kong and Singapore) accounted for 46 per cent of banks' total net lending to non-oil developing countries in 1980, net oil exporters (excluding the offshore center, Bahrain) for 27 per cent, and other net oil importers for 25 per cent.

⁴⁸ The evolution of banks' prudential concerns about lending to non-oil developing countries is traced in Section III of this paper.

⁴⁹ That is, in 1980 a significant part of the increase in bank claims of the BIS reporting area on offshore centers may have represented onlending to non-oil developing countries, rather than lending back to industrial countries (as is assumed in Table 6). Few data are available on the direction of lending from offshore centers.

⁵⁰ Grouping used in the *World Economic Outlook*: major exporters of manufactures, net oil exporters, low-income countries, and other net oil importers.

Table 7. Medium-Term Publicized International Bank Credit Commitments, 1977–81¹

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

	1977	1978	1979	1980	Annual Rates					
					1980				1981	
					First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter ²
Industrial countries	12.9	33.5	22.3	33.5	25.2	23.5	34.9	50.2	29.0	30.6
Oil exporting developing countries	5.5	10.2	7.5	5.3	3.9	5.2	8.9	3.1	3.2	5.0
Non-oil-developing countries	12.9	26.6	34.6	28.0	25.0	24.3	25.4	37.4	25.9	34.0
Centrally planned economies	2.6	3.0	4.0	1.5	—	1.3	2.4	2.4	1.6	1.8
International organizations	0.2	0.2	0.3	0.6	0.1	1.9	—	0.1	—	...
Other	0.1	0.2	0.2	0.1	—	0.4	—	—	—	...
Total	34.2	73.7	68.9	68.9	54.2	56.6	71.6	93.2	59.7	71.4
<i>Memorandum items</i>					<i>(In per cent)</i>					
Share of non-oil developing countries in new commitments	37.7	36.1	50.2	40.6	46.1	42.9	35.5	40.1	41.6	47.6
Ratio of publicized medium-term commitments to total net new lending	45.6	67.0	53.0	43.1						

Source: World Bank.

¹ For a more detailed country breakdown, see Table 34.² Preliminary figures.

These shares were all somewhat higher than in 1979, while the share of borrowing by low-income countries, which have never been large market users, fell from 7 per cent in 1979 to 2 per cent in 1980. The share of banks' claims on non-oil developing countries in their total net international claims continued to increase in 1980, reaching 29.0 per cent at the end of the year (see Table 31).

The data on outstanding bank claims on broad country groupings—and large borrowers within the country categories—presented in Table 32 indicate a sizable increase in debts to commercial banks by several countries in recent years. Of the important market borrowers identified among the non-oil developing countries, notable increases in bank claims are shown for Argentina, Brazil, Chile, Mexico, Korea, the Philippines, Greece, Venezuela, and Yugoslavia during the period 1978–80. But in several of these cases, the growth of export earnings moved apace or exceeded the growth in outstanding debt to banks. For example, the ratio of bank claims to export earnings declined between 1978 and 1980 for Brazil, Mexico, and Venezuela and was about unchanged for the Philippines and Yugoslavia. The ratio rose in the case of Argentina, Chile, Greece, and Korea. Such debt outstanding at the end of 1980 exceeded the equivalent of two years of export earnings for Argentina, Brazil, and Mexico; in the case of the last two the ratio had declined during the past two years.

Changes in the concentration of banks' claims on

the largest of the borrowing countries among the non-oil developing countries were small in 1980. Brazil and Mexico, the two largest borrowers, continued to account for a little more than one third of banks' claims on non-oil developing countries, the largest 10 borrowers for somewhat less than 70 per cent, and the largest 20 borrowers for about 85 per cent. By geographic region, banks' claims on non-oil developing countries in the Western Hemisphere rose by 26 per cent in 1980, while the indebtedness of non-oil developing countries in Europe increased by 29 per cent (see Table 32). Claims on countries in Asia rose by 26 per cent in 1980, and the increase in banks' claims on countries in Africa was 10 per cent. Banks' claims on non-oil developing countries in the Middle East rose by 20 per cent. These growth rates were close to those recorded in 1979. The share in non-oil developing countries' total long-term external debt of debt owed or guaranteed by public institutions to banks rose to over 30 per cent in 1980, a small change compared with 1979 but more than doubling the share since 1973 (see Table 33).

Medium-Term Publicized Bank Credit Commitments

Medium-term publicized bank credit commitments amounted to \$69 billion in 1980, the same level as in 1979 but somewhat lower than the \$74 billion recorded

Table 8. Undisbursed Credits as Per Cent of Outstanding Bank Claims, 1978–80
(In per cent)

	1978		1979		1980	
	June	December	June	December	June	December
Industrial countries (other than Group of Ten, Austria, Ireland, and Switzerland)	24.9	22.6	24.6	21.9	28.1	31.2
Oil exporting developing countries	36.9	32.9	35.8	29.3	28.1	24.8
Non-oil developing countries	29.3	30.5	33.0	26.3	27.2	23.2
Centrally planned economies	22.6	23.5	29.7	16.9	17.0	15.5
All countries	28.9	28.8	31.8	24.5	26.0	23.4

Source: Table 35.

in 1978⁵¹ (Table 7). The stagnation in the value of new commitments at a time when total bank lending grew was due to a number of factors. One element was that, as the trend toward generally softer terms came to a halt in 1980, the incentive for borrowers to refinance existing credits disappeared, whereas the refinancing of existing loans to industrial as well as non-oil developing countries had accounted for a relatively large part of new commitments in 1978 and 1979. Another factor was that there were more unpublicized medium-term loans, either club deals or arrangements with single banks. Such loans were reportedly particularly important for those non-oil developing countries for which terms were tightening and which wished to avoid publicizing that fact. Furthermore, many loans took the form of short-term credits, particularly trade finance, whose increase was facilitated by the increase in the value of imports. The interbank disputes that arose with respect to Iranian loans at the end of 1979 also made some banks reluctant to enter large medium-term syndications, at least temporarily. Overall, the ratio of publicized new commitments of medium-term loans to total net new bank lending fell from 53 per cent in 1979 to 43 per cent in 1980.

Most of the factors inhibiting syndications were strongest in the early part of 1980, and new commitments thus began at a slow pace, considering the larger *ex ante* financing needs in 1980. The value of new commitments at annual rates was about \$54 billion in the first quarter of 1980, about the same level as in the first quarter of 1979.⁵² New commitments remained approximately unchanged in the second quarter but

gradually picked up in the rest of the year, and by the fourth quarter they were running at an annual rate of \$93 billion, compared with \$70 billion in the corresponding period of 1979. The sharp increase in new commitments in the fourth quarter applied to both the industrial countries and the non-oil developing countries. In the latter case, the increase coincided with a marked rise in spreads, as several borrowers seemed to have accepted the fact that larger market access implied higher spreads. Total new publicized medium-term credit commitments in the first quarter of 1981 were \$60 billion at an annual rate, somewhat higher than in the first quarter of 1980 but well below the pace of the latter part of 1980. There was, however, a sharp pickup in the pace of syndications in the second quarter of 1981 as total new commitments reached \$71 billion, mainly reflecting a rise in the volume of loans to non-oil developing countries.

The ratio of undisbursed credit commitments to total foreign claims of banks in the BIS reporting area had fallen from 28.8 per cent in December 1978 to 24.5 per cent by the end of 1979, as both oil exporting and non-oil developing countries drew on existing commitments. Despite the low level of publicized new medium-term loan commitments in the first half of 1980, the ratio rose by 1.5 percentage points to 26.0 per cent, mainly reflecting an increase for industrial countries⁵³ (Table 8). A relatively large drawdown of commitments by oil exporting and non-oil developing countries in the second half reduced the overall ratio to 23.4 per cent by the end of 1980.

The total value of new credit commitments to industrial countries was over \$33 billion in 1980, compared with \$22 billion in 1979 (Table 7). Much larger borrowing by Canada and Italy (whose current account position turned from a substantial surplus in 1979 to a large deficit in 1980) accounted for most of this increase (see Table 34). As in 1979, Belgium, Denmark,

⁵¹ World Bank data. OECD (Organization for Economic Cooperation and Development) data on international medium-term and long-term loans are somewhat different. For example, the World Bank includes only Eurocurrency loans, but the OECD includes loans where the participating banks all come from one country and the loan is in their own currency. The OECD figures are \$65.8 billion for 1978, \$78.3 billion for 1979, and \$78.0 billion for 1980.

⁵² Publicized new medium-term commitments exhibit some seasonality, with traditionally low borrowing in the first quarter and high borrowing in the fourth quarter of each year.

⁵³ Country details are given in Table 35.

Table 9. Nominal and Real Interest Rates, 1977–80
(In per cent)

	1977	1978	1979	1980
United States				
Three-month Eurodollar deposit rate	6.0	8.7	12.0	14.4
GNP deflator	5.8	7.3	8.5	9.0
Real interest rate ¹	0.2	1.3	3.2	5.0
Germany				
Three-month money market rate	4.4	3.7	6.7	9.5
GNP deflator	3.8	3.9	3.9	5.0
Real interest rate ¹	0.6	-0.2	2.7	4.3
Japan				
Three-month gensaki rate ²	5.6	5.1	5.9	10.7
GNP deflator	5.5	4.0	2.0	1.9
Real interest rate ¹	0.1	1.1	3.8	8.6

Sources: IMF, *International Financial Statistics*; Deutsche Bundesbank, *Monthly Report*; Bank of Japan, *Economic Statistics Monthly*.

¹ If i represents the nominal interest rate, $\dot{p}$ the growth of the GNP deflator, and r the *ex post* real interest rate, $i = r + \dot{p} - r\dot{p}$.

² Bond repurchase agreements.

Spain, and Sweden, most of which had larger current account deficits in 1980, were large borrowers. New commitments to non-oil developing countries fell from \$35 billion in 1979 to \$28 billion in 1980. Such countries' share of new commitments declined from the relatively high level of 50 per cent in 1979—the average share was 37 per cent in 1977–78—to just over 40 per cent in 1980. This decline is largely explained by a reduction in new commitments to a few large borrowers, notably Brazil, China, and Mexico (see Table 34). On the other hand, Malaysia and Thailand together borrowed about \$1.5 billion more in 1980 than in 1979. Oil exporting developing countries reduced their new medium-term borrowing from \$7.5 billion in 1979 to about \$5 billion in 1980, mainly on account of lower new commitments to Algeria and Nigeria. The centrally planned economies were absent from the medium-term credit market in the early part of 1980, and new commitments in 1980 as a whole fell to \$1.5 billion, compared with \$4.0 billion in 1979.

Terms and Conditions

Developments in the terms of borrowing in international banking markets in 1980 were characterized by a rise in average interest rates, a larger differentiation between borrowers as expressed in a wider dispersion of lending spreads, and generally shorter maturities on new loans.

Interest rates reached historic peaks in some capital market countries in 1980, reflecting tighter monetary conditions and expectations of continued high inflation. U.S. dollar interest rates as measured by the three-month Eurodollar deposit rate reached a peak of close to 20 per cent in March 1980 and climbed again to

over 18 per cent in the fourth quarter, after having fallen below 10 per cent in June 1980. The average three-month Eurodollar rate amounted to 14.4 per cent in 1980, compared with 12.0 per cent in 1979 and 8.7 per cent in 1978, and interest rates for other currencies also rose markedly in 1980 (Table 9). Deflating these interest rates with the respective GNP deflators shows a marked increase in *ex post* real interest rates in 1979–80 from barely positive levels in 1977–78.

A significant development in the latter part of 1980 was the more frequent use of the U.S. prime rate rather than the London interbank offered rate (LIBOR) as the reference rate for lending spreads on medium-term syndicated loans. This had the effect of increasing participation in syndications by U.S. banks, particularly the regional banks, which rely largely on their domestic deposit base for funding international loans. Banks apparently do not regard Euromarket funds and domestic deposits as perfect substitutes, perhaps because of a lingering apprehension about market segmentation. Interest rate spreads on the portion of loans based on the U.S. prime were normally set $\frac{1}{8}$ per cent below the spread on the LIBOR-based portion, as prime, unlike LIBOR, is already a lending rate for final borrowers.

The "spread of spreads" rose during 1980. In the fourth quarter of 1980 the difference between the average spreads for borrowers in OECD countries and for those in developing countries was 47 basis points, compared with 25 basis points in the fourth quarter of 1979 (Table 10).⁵⁴ This was, however, still well below the difference of 62 basis points in the fourth quarter of 1977. The wider differentiation of spreads in 1980 appears to have helped in the allocation of funds; for a number of large borrowers among non-oil developing

⁵⁴ Data on the distribution of spreads are presented in Table 36.

Table 10. Terms on Publicized Medium-Term Bank Credit Commitments, 1977-80
(Rates in per cent)

	Six-Month Eurodollar Deposit Rate ¹	Spreads over LIBOR ²					Maturities	
		Lowest	Weighted averages				Longest (years)	Average (years/ months)
			All borrowers	OECD countries ³	CMEA countries ⁴	Other non-OECD countries ⁵		
1977 I	5.67	1 $\frac{1}{2}$ ₁₆	...	...	...	...	8	6/8
II	5.94	1 $\frac{1}{2}$ ₁₆	...	...	...	...	10	6/6
III	6.71	$\frac{7}{8}$	...	...	...	...	10	6/5
IV	7.37	$\frac{5}{8}$	1.17	0.84	1.05	1.46	10	7/0
1978 I	7.68	$\frac{5}{8}$	1.05	0.82	0.97	1.22	12	7/9
II	8.50	$\frac{5}{8}$	1.10	0.80	0.70	1.26	12	8/4
III	9.25	$\frac{1}{4}$ - $\frac{3}{8}$	0.90	0.72	0.74	1.15	12	8/5
IV	12.02	$\frac{1}{2}$	0.87	0.69	0.73	1.03	15	8/11
1979 I	10.69	$\frac{1}{2}$	0.87	0.65	0.90	0.95	15	8/9
II	10.73	$\frac{3}{8}$	0.76	0.62	0.63	0.87	18	9/3
III	12.00	$\frac{3}{8}$	0.73	0.67	0.61	0.76	15	7/9
IV	14.56	$\frac{1}{4}$ - $\frac{3}{8}$	0.64	0.49	0.57	0.74	15	9/3
1980 I	16.98	$\frac{3}{8}$ - $\frac{1}{2}$	0.67	0.56	0.58	0.78	15 $\frac{1}{2}$	8/9
II	11.29	$\frac{3}{8}$ - $\frac{1}{2}$	0.69	0.57	0.73	0.84	15	7/8
III	12.17	$\frac{1}{4}$ - $\frac{1}{2}$	0.68	0.54	1.17	0.82	12	7/6
IV	16.16	$\frac{1}{4}$ - $\frac{3}{8}$	0.75	0.56	0.96	1.03	12	7/7

Sources: Morgan Guaranty Trust Company, *World Financial Markets* (for series on Eurodollar rate); and OECD, *Financial Market Trends*.

¹ Average of month-end prime banks' bid rates; the London interbank offered rates (LIBOR), commonly used as a basis for Euro-dollar lending, are generally 0.125 per cent above bid rates.

² On loans of \$50 million and over, with a maturity of at least three years, completed or signed during the period; excludes tax-sparing loans.

³ Excluding Turkey.

⁴ Members of the Council for Mutual Economic Assistance.

⁵ Excluding the People's Republic of China.

countries, the rise in spreads was associated with an increase in syndications.

Average spreads on loans to industrial countries amounted to about 55 basis points in 1980, with little fluctuation within a year. This spread was higher than in the fourth quarter of 1979 but somewhat below the average of 61 basis points in 1979 as a whole. Thus, the higher volume of new lending to industrial countries was not accompanied by wider spreads, apparently reflecting what some observers have called a rush to quality. This tendency was enhanced by the decision of some of the larger U.S. banks to abandon their policy of not participating in loans with spreads below certain minimums ($\frac{1}{2}$ to $\frac{3}{4}$ per cent).

The weighted average spread on loans to non-oil developing countries, which had fallen steadily in 1979, rose from a low of 74 basis points in the fourth quarter of that year to 103 basis points in the fourth quarter of 1980. The increase in spreads in 1980 was, however, confined to a few large borrowers, while many other borrowers enjoyed market access on terms roughly similar to 1979. Countries which had previously borrowed very little succeeded in obtaining very fine spreads on loans that were large in relation to their outstanding

liabilities to banks. This differentiation of terms appears to have mainly reflected banks' desire for greater portfolio diversification rather than a view of the relative risk of lending.

Average maturities on new publicized medium-term credit commitments declined in the first half of 1980 and were, on average, slightly shorter in 1980 as a whole (eight and a half years) than in 1979 (eight years, ten months) (Table 10).⁵⁵ A more general tendency toward shorter maturities is suggested by BIS data on the remaining maturity of international bank claims, as the share of claims with maturities of less than one year in banks' total international claims rose in 1980 with respect to all major groups of countries with the exception of centrally planned economies (Table 11).⁵⁶ Within the group of non-oil developing countries, the increase was quite significant for some of the larger borrowers.⁵⁷

⁵⁵ Data on the maturity distribution of new medium-term publicized Eurocurrency credits are presented in Table 37.

⁵⁶ These data have to be interpreted with caution because they are based on remaining rather than original maturity. Thus a medium-term loan with a remaining maturity of one year or less would be shown as a short-term claim.

⁵⁷ Country details are given in Table 35.

Table 11. Short-Term Claims¹ as Per Cent of Total International Bank Claims, 1978–80
(In per cent)

	1978	1979		1980	
	December	June	December	June	December
Industrial countries (other than Group of Ten, Austria, Denmark, Ireland, and Switzerland)	41.5	41.3	41.4	42.4	43.1
Oil exporting developing countries	47.6	48.8	50.8	50.3	53.1
Non-oil developing countries	44.3	42.9	42.8	43.2	45.5
Centrally planned economies	43.6	45.3	42.0	37.1	39.1
All countries	44.1	44.0	43.8	43.3	45.5

Source: Table 35.

¹ Time remaining to maturity of one year or less.

Lending by Location or Nationality of Bank

One of the major developments in international bank lending in 1980 was the acceleration in foreign lending by U.S. banks, whose international assets had grown rather slowly since 1977 in response to the declining profitability of international lending relative to domestic lending (Table 12).⁵⁸ The previous slow growth had reflected the increased competition in international lending from banks of other countries as well as the buoyancy of credit demand in the United States. Including all interbank claims, the growth of foreign claims of U.S. banks, including those of their branches elsewhere in the BIS reporting area, decelerated from 32 per cent in 1976 to 12 per cent in 1979 but amounted to 16 per cent in 1980⁵⁹ (Table 12). International lending by U.S. banks rose sharply in the second quarter of 1980 and continued strong in the remainder of 1980. It is estimated that about one third of the total gross outflow of banks' own funds (\$40 billion) was lending to foreign nonbanks. About \$11 billion went to foreign offices of U.S. banks, and about \$15 billion was placed with foreign banks. Net foreign claims of U.S.-owned banks, including claims of their foreign branches,⁶⁰ rose by 19 per cent in 1980, compared with 12 per cent in 1979 and 8 per cent in 1978.

The increase in international lending by U.S. banks in the second quarter of 1980 was mainly the result of a weakening of domestic credit demand, but a number of other factors were also important. The imposition of a ceiling on the growth of banks' domestic credit in March 1980 led U.S. banks to increase the volume of transactions booked abroad. The steep decline of U.S. interest rates in the second quarter of 1980 encouraged

nonresidents to increase their dollar borrowing. As was discussed above, the generally high level of U.S. dollar interest rates in 1980 also created incentives for domestic U.S. intermediation to take place offshore. Another contributing factor was the decision by some of the large banks to begin to participate in loans with low spreads. Finally, the increased use of the U.S. prime rate as the reference rate on international loans improved the attractiveness to many U.S. banks of international lending.

Consolidated international claims of Canadian banks, which had been important market leaders in 1977–79, continued to grow strongly in 1980, increasing at a rate of 46 per cent.

Total international claims of Japanese banks grew strongly in 1980 despite the fact that the rate of growth of consolidated medium-term and long-term claims of Japanese banks declined from over 60 per cent in 1979 to 17 per cent in 1980. The restraint on new medium-term and long-term lending largely reflected prudential considerations, which had led to a consensus between the authorities and banks to slow medium-term and long-term lending. Short-term lending, however, was not affected by this consensus and increased substantially in 1980. The international activity of Japanese banks in London increased markedly, largely reflecting the onlending of funds raised in London to banks in Japan.

Data on the consolidated position of head offices and foreign branches of European banks are not available. This limits the analysis of the international activity of these banks to a review based on the geographic location of the bank (head office, subsidiary, or branch) where the loan is booked. The validity of this analysis is further limited by the inclusion of interbank claims that may distort the picture of flows to final borrowers.

The growth of international claims of banks in most European countries slowed in 1980, although the slowdown as recorded in Table 12 is somewhat exaggerated by the effect of the appreciation of the U.S. dollar on the U.S. dollar value of domestic currency claims. The

⁵⁸ With the slowdown in lending, the share of U.S. banks in gross foreign claims of banks in the BIS reporting area declined to 26 per cent in 1979 from a peak of 36 per cent in 1976.

⁵⁹ These data are comparable to the data on gross claims of all banks in the BIS reporting area.

⁶⁰ Excluding foreign subsidiaries of U.S. banks and including U.S. subsidiaries of foreign banks.

Table 12. Growth in International Claims of Banks of Major Capital Market Countries, 1976–80

(Percentage increase in claims in U.S. dollars)

	1976	1977	1978	1979	1980
Gross claims of U.S. banks in the United States and their foreign branches ¹	32.4	15.3	12.8	11.7	16.1
Net foreign claims of U.S. banks ²	...	14.7	8.4	12.3	18.6
Consolidated foreign claims of Canadian banks ³	13.9	53.0	31.9	28.9	45.7
Consolidated medium-term and long-term claims of Japanese banks	-3.6	12.5	135.5	60.8	16.7
Gross claims of banks located in:					
Japan	4.6	—	56.5	30.6	43.3
Branches of Japanese banks in the United Kingdom	13.6	-3.6	65.9	30.3	43.9
Belgium ⁴	20.0	31.6	38.9	73.4	32.0
France	25.0	28.0	33.8	25.3	14.6
Germany, Fed. Rep. of	27.2	21.4	25.2	13.4	5.8
Luxembourg ⁵	30.0	37.5	32.5	36.2	9.9
Netherlands ⁴	27.2	23.6	34.6	21.6	14.2
Switzerland	15.4	28.0	35.2	16.6	0.8
United Kingdom ⁵	4.2	8.0	18.4	25.0	30.9
Gross claims of all banks in the BIS reporting area	23.9	19.9	31.1	24.4	19.1

Sources: BIS, *Quarterly Reports on International Banking Developments*; Board of Governors of the Federal Reserve System, *Federal Reserve Bulletin*; Bank of England, *Quarterly Bulletin*; data provided by the Bank of Canada, the Board of Governors of the Federal Reserve System, and the Japanese Ministry of Finance; and Fund staff estimates. (See also Table 38.)

¹ Adjusted to exclude claims on local residents of the foreign branches of U.S. banks.

² Fund staff estimates. Includes claims of U.S. subsidiaries of foreign banks and excludes claims of foreign subsidiaries of U.S. banks; also includes claims of foreign branches of U.S. banks on foreign branches of other U.S. banks.

³ Includes local lending of foreign branches of Canadian banks but excludes all claims on foreign banks.

⁴ Foreign currency claims only.

⁵ Excludes claims of branches of foreign banks.

lower rate of expansion of foreign claims of banks in the Federal Republic of Germany was partly related to the anticipated requirement of balance sheet consolidation for German banks. The poor profits of some large German banks—mainly the consequence of the high proportion of assets at fixed interest rates—may also have dampened their lending activity. Another factor was the generally lower lending to Eastern Europe, where German banks had a relatively large exposure. The December 1980 gentlemen's agreement between the Deutsche Bundesbank and German banks, limiting new foreign lending from the Federal Republic of Germany at fixed interest rates and with maturities of four years and over, had only a limited impact in 1980. For Swiss banks, balance sheet consolidation of foreign subsidiaries and head offices may have played a role in the slowdown of their lending, as capital requirements in Luxembourg and other offshore centers are lower than in Switzerland, although the impact of the change in regulations was cushioned by modifications of the previous requirements and by permitting a gradual approach to meeting the new requirements. Because much of the international lending of German and Swiss banks is channeled through their Luxembourg subsidiaries, foreign lending by banks in Luxembourg also slowed. The slowdown was also partly due to low

credit demand in Germany, as a sizable number of loans to German industry from German banks are channeled through Luxembourg subsidiaries.

The rate of growth in international assets of banks in France and the Netherlands also fell substantially in 1980. On the other hand, U.K. banks increased their international claims booked in the United Kingdom at a somewhat faster pace in 1980 than in 1979, to some extent reflecting the removal of exchange controls in late 1979 and of the so-called corset in mid-1980.

The Eurocurrency Market and International Claims of Banks Outside the BIS Reporting Area

The analysis of international banking flows in this Appendix has largely been in terms of BIS data on international lending by banks in the BIS reporting area (net of interbank lending within the reporting area), which includes the Group of Ten countries, Austria, Denmark, Ireland, and Switzerland, and the branches of U.S. banks in the Bahamas, the Cayman Islands, Panama, Lebanon, Hong Kong, and Singapore. Other data series help to indicate the scope and significance of those data (Table 13).

Table 13. The Eurocurrency Market and International Claims of Banks Inside and Outside the BIS Reporting Area, 1976–80

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

	1976	1977	1978	1979	1980
Gross foreign claims of banks in the BIS reporting area	548	690	893	1,111	1,323
Growth in per cent ¹	23.9	19.9	31.1	24.4	19.1
Eurocurrency market ²	305	385	502	640	751
Growth in per cent	18.2	22.6	30.4	27.5	17.3
Other	243	305	391	471	572
Growth in per cent ¹	32.1	16.5	32.1	20.5	21.4
Gross claims of banks in certain offshore centers outside the BIS reporting area ³	...	77	107	135	175
Growth in per cent	...	...	39.0	26.2	28.1
Gross foreign claims of deposit money banks, <i>IFS</i> series	684	859	1,123	1,413	1,685
Growth in per cent	23.0	25.6	30.7	25.6	19.3

Source: BIS; IMF, *International Financial Statistics*; and Fund staff estimates.¹ Growth rates do not always correspond to stock figures because of breaks in the data series.² Foreign currency claims of banks in Europe.³ Claims of non-U.S. banks in the Bahamas, the Cayman Islands, Panama, Lebanon, Hong Kong, and Singapore, and claims of all banks in Bahrain and the Netherlands Antilles.

The collection of data on international bank lending had its origins in the early 1960s with the BIS statistics on Eurodollar lending. The narrowly defined Eurocurrency market, which is limited to the international claims and liabilities in foreign currency of banks in Europe, continues to account for over half of international bank claims in the BIS reporting area. Some types of data are available for the Eurocurrency market which are not available for the more broadly defined market, such as the currency distribution of claims. The U.S. dollar has maintained its dominant position in the market, accounting for about 70 per cent of claims.

A sizable and probably also increasing part of international lending is carried out through banks that are not located in the traditional BIS reporting area. Some of this activity is captured in the data—recently published by the BIS for the first time—on gross international claims of non-U.S. banks in certain offshore centers (the Bahamas, the Cayman Islands, Panama, Lebanon, Hong Kong, and Singapore) and of all banks in other offshore centers (Bahrain and the Netherlands Antilles), which have been outside the traditional reporting area. International claims of these banks have risen faster than the foreign claims of banks inside the BIS reporting area. The additional amount of net international lending involved is probably not very substantial because most of it represents onlending of funds obtained from within the BIS reporting area and is thus already included in BIS net claims.

An indication of the global scale of international banking comes from the series on international bank claims published in *International Financial Statistics*

(IFS), a monthly publication of the Fund. These data suggest that banks in the BIS reporting area account for slightly less than 80 per cent of global gross claims, a proportion that has declined slightly over the last five years. Data are not available on net lending by the banks included in the *IFS* series, but the proportion accounted for by banks in the BIS reporting area is likely to be substantially higher than for the gross series.

Financing of Payments Imbalances Through International Capital Markets⁶¹

Global Payments Imbalances and Flows Through International Capital Markets

The oil price increases of 1973–74 and 1979–80 resulted in a sharp widening of global payments imbalances and a dramatic shift in the pattern of external payments positions of the main groups of countries. For the international capital markets, the change in relative prices meant a much larger *ex ante* demand for balance of payments financing by oil importing industrial and developing countries; it also meant a much larger inflow of funds to banks from oil exporting countries once the deficits of the oil importing countries were financed.

⁶¹ The financing of payments imbalances through private capital markets in the period 1974–78 is reviewed in detail in Appendix I of *International Capital Markets: Recent Developments and Short-Term Prospects*, IMF Occasional Paper No. 1 (September 1980).

Table 14. Financial Flows Through International Capital Markets, 1973–80

(In billions of U.S. dollars)

	1973	1974	1975	1976	1977	1978	1979	1980
New bank lending (net) ¹	33	50	40	70	68	90	130	165
Lending through bond markets ²	8	11	20	30	31	30	30	28
Less double counting due to banks' acquisition of bonds	1	2	2	4	5	8	9	10
Total financing through private markets	40	59	58	96	94	112	151	183
<i>Memorandum items</i>								
Medium-term publicized credit commitments	21	29	21	29	34	74	69	69
Accumulation of deposits by oil exporting developing countries	...	30	14	12	11	6	38	44
Current account surplus of oil exporting developing countries	7	68	35	40	31	3	68	112
Global sum of current account deficits	-27	-80	-80	-80	-82	-87	-94	-153

Sources: BIS; World Bank; *World Economic Outlook*, IMF Occasional Paper No. 4 (June 1981); and Fund staff estimates.¹ Net of redepositing among banks.² Net of redemptions.

In 1973 net lending through private international capital markets had amounted to about \$40 billion annually, while the global sum of current account deficits was less than \$30 billion (Table 14). In 1974 the current account surplus of the oil importing countries increased tenfold to \$68 billion, and the global sum of deficits rose to \$80 billion. These increases were accompanied by a 50 per cent increase, to about \$60 billion, in net foreign lending through banking and bond markets. Most of the additional private market finance was provided by banks, whose net international claims rose by about 30 per cent in 1974.

In 1975 the current account surplus of the oil exporting countries declined sharply, but with economic recession in the industrial countries, the current account deficits of non-oil developing countries widened; the global sum of deficits remained at \$80 billion (Tables 14 and 15). At the same time, international financial intermediation by banks was adversely affected by the strains in the interbank market which developed in the aftermath of the 1974 bank failures. Non-U.S. dollar-based banks had trouble obtaining U.S. dollar funds in the interbank market as large U.S. banks reviewed their interbank lending and oil exporters became more selective in the banks they would do business with. As a result, many banks withdrew from international lending, and lending spreads rose abruptly. However, the sharp reduction in the external financing needs of the industrial countries and their ability to borrow through bond markets—international bond market activity picked up strongly in 1975, mainly in response to a substantial fall

in short-term interest rates—enhanced the availability of bank finance to the non-oil developing countries. With a doubling of bond issues offsetting the decline in bank lending, net lending through private financial markets in 1975, both overall and to the non-oil developing countries, remained at about the same level as in 1974.

In the period 1976–78, the global sum of current account deficits remained about the same in nominal terms as in 1974–75, declining in real terms. The surpluses of oil exporting countries declined, and the normal pattern of industrial countries exporting capital to the non-oil developing countries was gradually re-established. Associated with this development was a change in the role of the private international capital markets from the recycling of oil surpluses to the intermediation to developing countries of savings generated in the industrial countries. With confidence in the interbank market restored, the external payments position of most non-oil developing countries improving, and international bank lending profitable, banks rapidly expanded their international lending activity. By 1978, total lending by international banks and lending through bond markets had more than doubled from the level of 1974–75.

The oil price increases of 1979–80 affected external payments positions in much the same way as in 1974.⁶²

⁶² One significant difference between the two periods was that in 1979, in contrast to 1974, the counterpart of the increase in oil producers' surpluses was more a decline in large surpluses of some of the large oil importers, rather than an increase in deficits. The global sum of deficits thus grew little in 1979 but then recorded a very large increase in 1980.

Table 15. Current Account Positions and Private Market Financing by Principal Groups of Countries, 1973–80
(In billions of U.S. dollars)

	1973	1974	1975	1976	1977	1978	1979	1980
All industrial countries								
Current account position	19	-12	17	-2	-6	30	-11	-44
Borrowing through private markets	19	27	24	51	59	58	91	121
Banking	16	22	10	31	39	40	71	100
Bonds	3	5	14	20	20	18	20	21
Medium-term credit commitments	12	18	6	9	13	34	22	34
Seven large industrial countries^{1,2}								
Current account position	14	-5	22	7	7	34	1	-19
Borrowing in bond markets	3	4	8	14	11	10	12	12
Medium-term credit commitments	9	13	2	5	7	22	12	19
Other industrial countries³								
Current account position	6	-7	-5	-9	-13	-4	-12	-28
Borrowing in bond markets	4	6	6	6	9	8	8	9
Medium-term credit commitments	3	5	4	4	6	12	10	15
Oil exporting developing countries								
Current account position	7	68	35	40	31	3	68	112
Borrowing through private markets ³	3	3	8	9	11	18	7	6
Medium-term credit commitments	3	1	3	3	6	10	8	5
Non-oil developing countries								
Current account position	-12	-37	-47	-33	-29	-38	-58	-82
Borrowing through private markets	11	16	16	23	17	29	44	54
Banking	10	15	15	21	14	25	41	52
Bonds	1	1	1	2	3	4	3	2
Medium-term credit commitments	5	9	9	13	13	27	35	28
Centrally planned economies⁴								
Current account position	-5	-5	-11	-13	-9	-6	-3	-5
Borrowing through private markets ³	3	4	9	8	4	7	8	2
Medium-term credit commitments	1	1	3	2	3	3	4	2

Sources: BIS; World Bank; *World Economic Outlook*, IMF Occasional Paper No. 4 (June 1981); and Fund staff estimates.¹ France, the Federal Republic of Germany, Italy, Japan, the United Kingdom, and the United States.² The data available do not permit a split in the volume of net bank lending between the seven large and the other industrial countries.³ Almost all borrowing was from banks.⁴ Excluding Fund member countries.

The resulting increase in financing requirements appears to have been accommodated by the international capital markets more smoothly than in the earlier period. A major factor in the smoother adjustment was that, with the intervening growth in the markets, the increase in global current account deficits, from \$87 billion in 1978 to \$153 billion in 1980, was considerably smaller relative to the size of the markets.⁶³ In the absence of disruptions in the interbank market, bank lending was able to expand at a steady pace, so that the weakness of the bond markets in the face of high and rising interest rates did not prove to be a problem. Total net international lending rose by more than \$70 billion, all of which represented net bank lending as the volume of bond issues stagnated. Bank's net external claims rose by about 25 per cent at an annual rate in 1979–80—a growth rate considerably smaller than in 1974 but much larger than in 1975. The total volume of bank finance

in 1979–80 was three and one half times the volume in 1973–74 and was equivalent to about 120 per cent of the cumulative current account deficits, against less than 80 per cent in the earlier period.

Financing Through Private Markets of Current Account Deficits of the Principal Groups of Countries

The current account positions of the major groups of countries and their net borrowing from banks are set out in Table 15. While the strong upward trend in borrowing by the industrial countries reflects the growing integration of their capital markets more closely than their current account positions, the growth in borrowing has been strongest in periods of increasing net balance of payments deficits, particularly 1979–80. Borrowing from banks by other groups of countries has been more directly related to current account developments. This is not to say that current account deficits of these countries were always the cause and bank lending the con-

⁶³ Between 1973 and 1974 (or 1975) the global sum of deficits increased by \$53 billion, one third more than the volume of net lending in 1973. Between 1978 and 1980 the increase in deficits was \$66 billion, little more than half the volume of net lending in 1978.

Table 16. Non-Oil Developing Countries: Current Account Positions and Private Market Financing, 1973–80
(In billions of U.S. dollars)

	1973	1974	1975	1976	1977	1978	1979	1980
All non-oil developing countries								
Current account position	-12	-37	-47	-33	-29	-38	-58	-82
Borrowing through private markets	11	16	16	23	17	29	44	54
Banking	10	15	15	21	14	25	41	52
Bonds	1	1	1	2	3	4	3	2
Medium-term credit commitments	5	9	9	13	13	27	35	28
Major exporters of manufactures								
Current account position	-4	-19	-20	-12	-8	-10	-22	-32
Borrowing through private markets	...	...	...	12	7	15	30	25
Banking	...	...	...	11	6	13	18	24
Bonds	1	1	1	1	1	2	2	1
Medium-term credit commitments	...	4	3	6	5	10	14	13
Net oil exporters								
Current account position	-3	-5	-10	-8	-7	-8	-8	-11
Borrowing through private markets	...	...	...	7	3	6	11	14
Banking	...	...	...	6	2	5	10	14
Bonds	— ¹	— ¹	— ¹	1	1	1	1	— ¹
Medium-term credit commitments	...	2	3	3	4	9	10	8
Low-income countries								
Current account position	-4	-8	-8	-4	-3	-7	-11	-16
Borrowing through private markets ²	...	...	...	— ¹	— ¹	2	3	1
Medium-term credit commitments	...	— ¹	— ¹	— ¹	— ¹	— ¹	4 ³	1 ³
Other net oil importers								
Current account position	-1	-5	-9	-9	-11	-13	-17	-24
Borrowing through private markets ²	...	...	...	5	6	6	10	13
Medium-term credit commitments	...	3	3	4	4	8	7	6
Memorandum items								
Accumulation of reserves	10	2	-2	13	13	15	12	2

Sources: BIS; World Bank; *World Economic Outlook*, IMF Occasional Paper No. 4 (June 1981); and Fund staff estimates.¹ Less than \$0.5 billion.² Almost all borrowing was from banks.³ Mainly China.**Table 17. Non-Oil Developing Countries: Current Account Positions and Aspects of Their Financing, 1973–80**
(In billions of U.S. dollars)

	1973	1974	1975	1976	1977	1978	1979	1980
Sum of current accounts deficits	-16	-38	-48	-38	-36	-42	-61	-83
Sum of current account surpluses	4	1	1	5	7	5	3	1
Accumulation of reserves (-)	-10	-2	2	-13	-13	-15	-12	-2
Total financing requirement	-22	-39	-45	-46	-42	-52	-70	-84
Nondebt-creating flows (net)	10	13	12	12	15	15	22	21
Long-term borrowing from official sources (net)	6	10	12	11	13	14	15	21
Use of reserve-related facilities (net)	—	2	2	4	-1	-1	—	3
Other borrowing (net) ¹	6	14	19	19	15	24	33	39
Memorandum items								
Borrowing in bond markets, net of repayment	1	1	1	2	3	4	3	2
Borrowing from banks, net of repayment ²	10	15	15	21	14	25	41	52
Total net market borrowing in per cent of total financing requirement	50.0	41.0	33.3	45.7	40.5	55.8	62.9	64.3

Sources: BIS; *World Economic Outlook*, IMF Occasional Paper No. 4 (June 1981); and Fund staff estimates.¹ Includes errors and omissions.² BIS series, which includes all private and public borrowing from banks.

sequence. In 1977–78, in particular, when the perceived risk of lending to developing countries and centrally planned economies was low, the ready availability of bank credit probably permitted these countries to run larger current account deficits than would have otherwise been possible, although much of the borrowing by non-oil developing countries in this period was for the purpose of building up reserves, which had declined relative to the value of imports after the oil price increase of 1973–74. This kind of precautionary borrowing was helped by the easing of terms on loans to non-oil developing countries, and it provided some countries with a cushion of reserves or undisbursed balances to help finance their growing current account deficits.

Private market borrowing by non-oil developing countries rose substantially in 1979–80, when the oil price increases caused a sharp increase in external financing needs. The favorable response of the markets to the larger demands was facilitated by the fact that the increase in the current account deficit of non-oil devel-

oping countries between 1978 and 1980 was only about 50 per cent larger than the level of net borrowing through private markets in 1978, whereas the rise in the current account deficit between 1973 and 1975 was three times the amount of market borrowing in 1973 (Table 16). Borrowing net of repayment by non-oil developing countries from private markets in 1980—most of which was bank credit, as conditions in the bond markets were generally not very favorable—was equivalent to about two thirds of the aggregate current account deficit and total reserve accumulation in 1980 (Table 17). This ratio was somewhat higher than in 1978–79 and substantially higher than the previous ratios.

Table 16 shows the relative importance of private market financing of current account deficits for major exporters of manufactures and net oil exporters among the non-oil developing countries. On the other hand, borrowing through private markets has been of little significance in the financing of the current account deficits of low-income countries.

Appendix II

Developments in International Bond Markets

Overview

In 1980, activity in the international bond markets was characterized by sharp swings, as strong fluctuations in short-term interest rates in the United States and other capital markets during the year frequently modified the propensity of investors to commit funds to longer-term financial instruments. As usual, long-term interest rates followed the direction of movements in short-term rates, but with more limited oscillations. The broad parallelism in interest rate fluctuations across capital markets to a large extent reflected the concern of national authorities that movements in short-term interest differentials should not impact unduly on the exchange markets. In the first quarter of 1980 short-term interest rates rose sharply, attracting funds toward shorter-term investments and, despite a gradual increase of long-term rates, markedly weakening demand for longer-term securities. As a result, bond issuing activity was reduced in most international capital markets in this period. This situation was reversed for a time after April 1980, with the decline in short-term rates (first in the dollar sectors and then in other markets), which led to expectations of a prospective decline in long-term rates also and renewed investor interest in longer-term financial instruments. Toward the end of the year, a rise in interest rates again adversely affected bond issuing activity in many capital markets. While these broad developments were representative of the main trends in the international capital markets, the issue volume in each market was also influenced by more specific factors, in particular by investors' expectations regarding exchange rate developments.

The strength of the U.S. dollar in the exchange markets during the year and the high yield on dollar-denominated assets led to a sizable increase in non-resident demand for U.S. dollar-denominated bond issues in the Euromarket. However, in view of interest rate uncertainty, a sizable proportion took the form of

floating rate notes,⁶⁴ thus offering investors protection against subsequent increases in interest rates. The share of issues of dollar bonds and notes in the Euromarkets rose, while the share of deutsche mark-denominated bonds declined. Two sectors of the Eurobond market where issuing activity expanded considerably in 1980 were the pound sterling and French franc sectors, as investors were attracted by the exchange market strength of these currencies and high interest rates. Total new Eurobond issues amounted to \$22.1 billion equivalent in 1980, a 25 per cent increase from the \$17.8 billion recorded for 1979 (Table 18). Yields in all sectors of the market were on average higher in 1980 than in 1979; the increase in average yield was the highest in the U.S. dollar sector (250 basis points), while in the deutsche mark sector the increase was about 150 basis points.

The volume of foreign bond issues increased in the German capital market but declined in the other major markets (Switzerland, the United States, and Japan), as the pace of issuing activity in the first months of the year was slowed by the rise in short-term interest rates and, in the case of Japan, by balance of payments considerations as well. For the year as a whole, the total issues of foreign bonds were about \$16 billion, well below the \$20 billion recorded in 1979. The outcome of these contrasting developments in the various sectors was that total international bond issues and placements (Eurobonds and traditional foreign issues) in 1980 were at a level similar to that of 1979.

Issues and placements by developing countries on the Eurobond markets in 1980 were somewhat below the amount in 1979 and considerably lower than that in 1978 (Table 19). But developing country issues and placements of foreign bonds, which take place almost entirely on the Swiss, Japanese, and U.S. capital

⁶⁴ The interest rate on such notes generally is fixed at a small margin over the six-month London interbank offered rate (LIBOR).

Table 18. International Bond Issues and Placements, 1976–81¹
(In millions of U.S. dollars)

	1976	1977	1978	1979	1980	1981 ² Jan.–March
Foreign bonds						
Industrial countries	12,379	10,157	13,057	12,306	9,278	2,338
Developing countries	967	1,609	2,584	1,668	1,036	189
Oil exporting	—	333	571	105	46	96
Non-oil exporting	967	1,276	2,013	1,563	990	93
Centrally planned economies	—	6	—	18	—	—
International organizations	5,193	4,748	5,706	5,840	5,797	606
Other	405	90	196	133	51	—
Total foreign bonds	18,934	16,610	21,543	19,965	16,162	3,133
Eurobonds						
Industrial countries	10,995	13,167	9,832	12,730	17,433	4,077
Developing countries	1,125	2,617	3,183	1,865	1,425	127
Oil exporting	177	453	1,082	309	132	127
Non-oil exporting	948	2,164	2,102	1,556	1,293	—
Centrally planned economies	72	249	30	30	50	—
International organizations	3,063	2,412	2,719	2,831	3,080	363
Other	112	1,040	176	344	144	—
Total Eurobonds	15,368	19,484	15,939	17,800	22,132	4,567
Total international bonds						
Industrial countries	23,374	23,324	22,889	25,036	26,711	6,415
Developing countries	2,092	4,225	5,767	3,533	2,461	316
Oil exporting	177	786	1,653	414	178	223
Non-oil exporting	1,915	3,439	4,114	3,119	2,283	93
Centrally planned economies	72	256	30	48	50	—
International organizations	8,256	7,160	8,425	8,671	8,877	969
Other	517	1,130	371	477	195	—
Total international bonds	34,311	36,094	37,482	37,765	38,294	7,700

Source: World Bank, *Borrowing in International Capital Markets*.

¹ The country classifications are those used by the Fund.

² Preliminary figures.

markets, declined much more sharply than their Eurobond issues. Total international issues and placements by developing countries amounted to only \$2.5 billion in 1980, compared with \$3.5 billion in 1979 and the peak level of \$5.8 billion in 1978.

The Record in 1980

The distinction between Eurobonds and foreign bonds denominated in the same currency has lost some of its sharpness in recent years. On the one hand, domestic investors in capital market countries have become more aware of investment opportunities in Euro-market issues denominated in their own currencies and, on the other hand, demand by nonresidents for foreign issues in the domestic market has become sizable. Interest rate developments for bonds in any particular currency in the two sectors tend to be parallel, with the difference in yields mainly reflecting perceived differences in the quality of borrowers that make use of the two sectors, different maturities, etc. Developments in new issue activity also tend to differ along currency lines rather than between Euromarkets, on the one

side, and national markets for foreign bonds, on the other side,⁶⁵ in the absence of general restrictions on access to the two sectors (such as issues in U.S. dollars and deutsche mark). Nevertheless, market imperfections were evident in 1980, as noted below.

The volume of issues in the U.S. dollar sector—foreign bonds in the United States and Eurobonds—rose in 1980 from the levels of 1978 and 1979. Issuing activity was concentrated in relatively short periods—between April and August, and again in October—when interest rates were declining. The yield on Eurodollar bonds, after having risen from an average of 11.5 per cent in September 1979 to 13.7 per cent in March 1980, declined to 11.3 per cent in June. They started rising again in the third quarter and, after a pause in October, resumed their rise in the last two months of 1980

⁶⁵ Eurobond issues continue to differ from the issue of foreign bonds in domestic markets, mainly because of technical and institutional aspects, such as the method of issue. Eurobonds are issued through syndicates of international banks, which place the issue through a geographically diversified selection of investors, while issues in domestic markets rely mostly on domestic issuing houses. Also, disclosure and publicity requirements are considerably more stringent in the national markets.

Table 19. Total International Bond Issues and Placements, 1965, 1970, and 1975–81

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

	1965	1970	1975	1976	1977	1978	1979	1980 ¹	1981 Jan.–March
Issues or placements of bonds in foreign markets									
Of which:									
Developing countries ²	2.4	2.4	12.3	18.9	16.6	21.5	20.0	16.2	3.1
As per cent of total	0.1	—	0.6	1.0	1.6	2.6	1.7	1.0	0.2
	4.2	—	4.9	5.3	9.6	12.1	8.3	6.4	6.0
Issues in the Eurobond market	0.9	3.5	10.5	15.4	19.5	15.9	17.8	22.1	4.6
Of which:									
Developing countries ²	—	0.1	0.7	1.1	2.6	3.2	1.9	1.4	0.1
As per cent of total	—	2.9	6.7	7.1	13.3	20.1	10.5	6.4	2.8
Total international bond issues ³	3.3	6.0	22.8	34.3	36.1	37.4	37.8	38.3	7.7
Of which:									
Developing countries ²	0.1	0.2	1.3	2.1	4.2	5.8	3.5	2.4	0.3
As per cent of total	3.0	3.3	5.7	6.1	11.6	15.5	9.4	6.3	4.1

Sources: Data for 1965 and 1970 are from OECD, *Financial Statistics*; data for later years are from the World Bank, *Borrowing in International Capital Markets*.

¹ Preliminary figures.

² The country classification is that used by the Fund.

³ Components may not add to totals due to rounding.

(Chart 8). A small decline in the interest rate in January 1981 again fueled intense issuing activity, as borrowers waiting to tap the market rushed to take advantage of favorable investor sentiment.

Within the U.S. dollar sector, the volume of Eurobond and foreign bond issues experienced divergent trends in 1980, as the former increased considerably in comparison with 1979, from \$10.6 billion to \$13.7 billion, while the latter declined from \$4.6 billion in 1979 to \$2.6 billion (Tables 20 and 21; also see Table 39). A number of factors contributed to this development. Traditional issuers of foreign bonds in the United States, such as the World Bank, and Canadian entities were largely absent in 1980. Yields were at times lower in the Eurodollar bond market because non-U.S. resident investors, attracted by the strength of the U.S. dollar, shifted their bond portfolios toward dollar-denominated instruments. The exchange rate outlook plays a lesser role in the U.S. domestic market, where U.S. investors, particularly institutional investors, are prevalent. Arbitrage between the two markets thus is less than perfect. Also, foreign issues in the United States are all traditional fixed-interest-rate instruments, whereas a significant share of the issues in the Eurodollar sector are floating rate notes. In periods of interest rate fluctuations and uncertainty these notes have been more attractive to investors than the fixed-rate bonds. While in the past floating rate notes have been issued mainly by banks, more recently also corporate and sovereign borrowers, including non-oil developing countries, have had recourse to this instrument, and the total volume of floating rate notes increased again in 1980 (see

Chart 8. International Bond Yields¹

(In per cent)

Source: OECD, *Financial Statistics*.

¹ Secondary market yields.

² With remaining maturity of 7 to 15 years.

³ With remaining maturity of 3 years and over.

⁴ With remaining maturity of 3 to 7 years.

Table 20. Total Eurobond Issues and Placements by Currency of Denomination by All Countries, 1976–81
(In millions of U.S. dollars and in per cent)

	1976		1977		1978		1979		1980 ¹		Jan.–March 1981	
	Total Amount	Per Cent	Total Amount	Per Cent	Total Amount	Per Cent	Total Amount	Per Cent	Total Amount	Per Cent	Total Amount	Per Cent
Deutsche mark	2,821	18.4	5,215	26.8	6,531	41.0	4,655	26.2	4,254	18.9	—	—
French franc	62	0.4	—	—	103	0.7	334	2.1	1,003	4.5	418	9.2
Japanese yen	—	—	111	0.6	79	0.5	115	0.6	301	1.4	97	2.1
Netherlands guilder	467	3.0	363	1.9	384	2.4	345	1.9	744	3.3	291	6.4
U.S. dollar	9,999	65.1	12,336	63.3	7,693	48.2	10,614	59.7	13,664	60.6	3,494	76.5
Composite currency units	103	0.7	34	0.2	235	1.5	412	2.3	99	0.5	68	1.5
<i>European Currency Unit</i>	—	—	—	—	—	—	—	—	—	—	—	—
<i>European Unit of Account</i>	103	0.7	34	0.2	203	1.3	305	1.7	80	0.4	42	0.9
<i>Special Drawing Right</i>	—	—	—	—	32	0.2	107	0.6	19	0.1	26	0.6
Canadian dollar	1,450	9.4	654	3.3	—	—	468	2.6	270	1.2	—	—
Kuwaiti dinar	304	2.0	130	0.7	481	3.0	384	2.2	26	0.1	7	0.1
Pound sterling	—	—	221	1.1	287	1.8	291	1.6	1,089	4.9	166	3.6
Saudi Arabian riyal	—	—	103	0.5	95	0.6	—	—	—	—	—	—
Austrian schilling	—	—	—	—	—	—	—	—	235	1.0	—	—
Norwegian krone	—	—	—	—	—	—	—	—	101	0.5	19	0.4
Other currencies	162	1.0	317	1.6	52	0.3	141	0.8	346	1.5	7	0.2
Total	15,368	100.0	19,484	100.0	15,930	100.0	17,799	100.0	22,132	100.0	4,567	100.0
Issues and placements by developing countries ²	1,125	7.3	2,617	13.4	13,183	20.0	1,865	10.5	1,425	6.4	127	2.8

Sources: World Bank, *Borrowing in International Capital Markets*; and Business International Corporation.

¹ Preliminary figures.

² The country classifications are those used by the Fund.

Table 40). Finally, convertible issues by corporate borrowers in the Eurodollar sector rose sharply, supported by favorable price developments in some stock markets, particularly Japan.

The volume of new issues of international bonds denominated in deutsche mark, combining Eurobond

issues and foreign issues in the Federal Republic of Germany, increased to \$7.7 billion in 1980, from \$6.5 billion in 1979. The level of long-term interest rates in deutsche mark, which remained considerably below that in U.S. dollars (Table 22), proved attractive to borrowers in circumstances where 1980 exchange rate

Table 21. Foreign Bond Issues and Placements by Market Country, 1976–81
(In millions of U.S. dollars)

	1976	1977	1978	1979	1980	Jan.–March 1981
Austria	38	—	29	99	81	—
Belgium	—	43	148	137	—	—
France	76	62	231	75	94	—
Germany, Fed. Rep. of	1,309	1,511	1,677	1,834	3,496	245
<i>Public offerings</i>	539	298	699	417	1,900	...
<i>Private placements</i>	770	1,213	978	1,417	1,596	...
Japan	287	1,394	4,687	3,055	1,731	399
<i>Public offerings</i>	219	1,161	3,378	1,646	1,068	...
<i>Private placements</i>	68	233	1,309	1,409	663	...
Luxembourg	37	80	206	208	159	47
Netherlands	692	182	352	163	325	86
Saudi Arabia	295	645	246	86	21	—
United Kingdom	—	—	56	—	178	146
Switzerland	5,444	4,959	7,553	9,517	7,441	2,060
<i>Public offerings</i>	1,495	1,601	2,779	3,377	3,308	...
<i>Private placements</i>	3,949	3,358	4,774	6,140	4,133	...
United States	10,632	7,688	6,359	4,602	2,637	150
<i>Public offerings</i>	6,527	5,533	4,826	4,102	2,376	150
<i>Private placements</i>	4,105	2,155	1,533	500	261	—
Other countries	133	66	—	189	—	—
Total	18,943	16,610	21,544	19,965	16,162	3,133

Source: World Bank.

Table 22. Secondary Market Yields on Eurobonds, 1979–81

(In per cent per annum; at end of period)

	1979	1980				1981
	December	March	June	September	December	March
Eurodollar bonds						
With remaining maturity of 3–7 years ¹	11.9	14.5	10.8	12.3	14.0	14.3
With remaining maturity of 7–15 years ²	11.5	13.7	11.3	12.5	13.3	13.7
Deutsche mark-denominated bonds						
With remaining maturity of 3–7 years ²	7.8	10.1	8.3	8.6	9.7	10.5 ³
With remaining maturity of 7–15 years ²	7.8	10.1	8.2	8.6	9.4	10.0 ³

Source: OECD, *Financial Statistics*.¹ Rates for bonds of private corporations.² Unweighted average of rates for bonds of international organizations, public sector entities, and private corporations.³ February 1981.

developments apparently dispelled the widely held expectations of previous years of the inevitable appreciation of that currency. In the first months of 1980 the rise of long-term rates in the deutsche mark sector was more moderate than in the U.S. dollar sector and issuing activity was relatively buoyant, while the fixed-rate dollar sector was very weak. Issuing activity intensified after April, as interest rates eased. In contrast with developments in the U.S. dollar sector, Euro-deutsche mark issues were somewhat smaller in 1980 than in 1979, whereas foreign issues rose significantly.⁶⁶

Apparently, nonresident interest in Euro-deutsche mark issues declined sharply in comparison with previous years, as a result of changed expectations regarding the exchange rate in light of market developments and Germany's balance of payments prospects. Evidence suggests that nonresidents also liquidated part of their existing holdings of deutsche mark bonds, which were taken up by residents. The large capital outflow through the capital markets added to pressure on the exchange rate and led to restrictions on such outflows. The Capital Market Subcommittee, an unofficial group of major issuing banks, in which the central bank participates as observer, decided in early December 1980 to halt deutsche mark bond issues and private placements by nonresidents temporarily, both on the domestic market and on the Euromarket. The measure was in effect through the end of March 1981. Issues and placements of international organizations were exempt.

The volume of foreign bond issues in Switzerland declined in the first four months of 1980, as rising

interest rates and exchange market developments were limiting investors' demand, a sizable proportion of which traditionally is from nonresidents. The coupon rate rose in that period by 50 basis points to 6 per cent. In these circumstances, the major Swiss issuing banks agreed among themselves in March 1980 to slow the pace of new foreign issues markedly and to limit the maximum amount of each issue to Sw F 80 million rather than the customary Sw F 100 million. The volume of foreign issues recovered after April, spurred by stable interest rates, and remained relatively high for the rest of the year. For the year as a whole the volume of foreign issues and placements totaled \$7.4 billion equivalent, well below the \$9.5 billion in 1979. Nevertheless, foreign bonds represented almost 60 per cent of total bond issues and placements in the Swiss market in 1980, a proportion similar to that of previous years. In early 1981 some floating rate notes were issued for the first time, but the authorities have viewed this development with reluctance.

Two markets that became increasingly active in 1980 were those for French franc-denominated and sterling-denominated international bonds. Almost all issues of international bonds denominated in French francs are launched in the Euromarket, in part because of the existence of a withholding tax on interest payments, which applies on bonds issued in the domestic market. Only a few European international organizations have made recurrent access to the domestic market.⁶⁷ Euro-French franc issues during 1980 have been met with favor by foreign investors because of the strength of the exchange rate, the high level of interest (between 13 and 14.5 per cent), and the relative stability of interest rates. The 1980 issue volume rose to \$1,003 million, the highest volume ever recorded on that market, compared

⁶⁶ Eurobond issues differ from issues on the domestic market because their underwriting syndicate includes, together with a German bank lead manager, non-German banks as underwriters and also as co-lead managers, while in the case of domestic market issues the syndicate is composed only of German banks. All deutsche mark public issues are listed on a German stock exchange and therefore are subject to the same trading and issuing supervision. A single issue calendar covers both sectors; it is managed by a so-called Subcommittee on Capital Markets, formed by the leading issuing banks, with the Deutsche Bundesbank as observer.

⁶⁷ Foreign issues in the Euro-French franc market had been relatively active in the early 1970s, but *de facto* had been closed by the authorities in 1976 when the French franc had weakened as a result of a deterioration in the balance of payments.

with about \$100 million in 1978 and \$330 million in 1979. Subscribers seem to have been broadly diversified by origin, but with a strong participation by Middle Eastern investors.

In the sterling sector, the abolition of exchange controls in 1979 made it possible for foreign borrowers to enter the domestic market as well as the sterling Euro-market. There was only one issue in the domestic market in 1980 (\$178 million equivalent) because potential borrowers were waiting for a decline in interest rates, which did not materialize. The volume of sterling Eurobond issues, sustained by strong nonresident demand for sterling assets, in light of the favorable outlook for the exchange rate and high interest rates, rose sharply to \$1,089 million equivalent, over three times the amount issued in each of the two preceding years. Maturities in the sterling Eurosector are in general much shorter than in the domestic sector, where issues are taken up by traditional institutional investors who have a demand for long-dated paper with maturities up to the 20-year to 30-year range. However, given the high level and structure of interest rates, borrowers were much more willing to tap the sterling Euro-market for shorter maturities than to enter the domestic market to issue high-yield obligations of long maturity.

In the Japanese foreign bond market, issuing activity was very limited in the first four months of 1980, as sharply rising interest rates deterred investors' demand and the weakness of the exchange rate arising from an unfavorable balance position tended to discourage nonresident investors. When interest rates declined after April⁶⁸ and the exchange rate strengthened, investors' sentiment became more favorable and issuing activity picked up noticeably. Difficulty in absorption by the market emerged again in the fourth quarter, and the leading issuing houses decided at the end of November to halt new issues temporarily, an action that was reversed in January 1981. Total foreign bond issues and placements in 1980 amounted to \$1.7 billion, considerably below the level of the two preceding years (\$4.7 billion in 1978 and \$3.1 billion in 1979) as a result both of the limited amount of public issues in the first part of the year and the fact that foreign private placements⁶⁹ *de facto* were not permitted between late 1979 and early 1981.⁷⁰

⁶⁸ Long-term interest rates in 1980, after having risen between January and April from 9 to 12 per cent, fell in the second quarter to below 9 per cent; during the second half of the year they remained stable at that level, proving quite attractive to borrowers as the rate was at the lower end of the spectrum of interest rates in the major capital markets.

⁶⁹ In 1979 private placements had accounted for approximately 45 per cent of total foreign issues and placements.

⁷⁰ There were, however, special placements of the World Bank with the Bank of Japan.

Euro-yen bond issues, which have been officially permitted only since 1977 and which remained very limited in volume through 1979 (about \$100 million equivalent a year), rose close to \$300 million in 1980, reflecting in part a more relaxed attitude of the authorities in light of balance of payments developments and a growing international interest in the currency. In 1980 six Euro-yen issues were brought to the market (against two in 1979 and one in 1978). For the first time, sovereign borrowers were allowed to issue Euro-yen bonds, and two such issues took place.

Foreign issues in the Netherlands were greater in 1980 than in 1979 (\$325 million versus \$163 million), although less than in 1978. Borrowers were mainly international organizations and governments of a few developed countries. The large domestic borrowing requirement of the Government has continued to exert pressure on the capital market, contributing to the maintenance of relatively high long-term interest rates. Guilder-denominated instruments continued to be attractive to foreign investors, so that a sizable number of foreign bond issues in the domestic market in 1980 were taken up by foreigners. The Euroguilder note market, where medium-term paper is issued, is used both by foreign and by Netherlands borrowers, especially financial institutions, which are attracted by the less regulated and cheaper issuing procedures. The volume of new issues, which is controlled by the Netherlands Bank, more than doubled in 1980 to about \$750 million.

The volume of foreign issues in the small Luxembourg capital market was \$150 million in 1980, somewhat below the 1979 volume. Borrowers are traditionally international institutions and private sector companies. No foreign issues took place in 1980 in Belgium, compared with about \$150 million in 1978 and 1979.

A sector of the Euromarket that opened in 1980 was the Norwegian krone sector, in which four issues were floated in 1980, for \$100 million equivalent. These instruments have appealed in particular to certain Middle Eastern investors. One international organization brought to the Euromarket for the first time an Austrian schilling-denominated bond. After a relatively large number of issues in Kuwaiti dinars were floated in 1978 and 1979, only one issue was arranged in 1980, partly because of high domestic interest rates and shortcomings in the functioning of the secondary market. New issues denominated in Canadian dollars remained limited in number.

Institutional and Policy Factors

Balance of payments and exchange rate developments, as well as capital market conditions, were major

factors behind informal measures by the authorities of a few capital market countries in 1980 that have led to changes in the degree of openness of these markets to foreign issues. Concern for the maintenance of orderly market conditions in the face of rapidly rising interest rates led, in the case of Switzerland, to an agreement among the major Swiss security houses early in 1980 for a temporary slowdown of new issues that was in effect, however, only for a short period of time. Technical aspects of the regulatory framework also may have an effect on the attractiveness of a capital market to foreign borrowers. In the case of the United States, a more flexible procedure for registration of new issues by sovereign borrowers introduced at the end of 1980, as discussed below, may encourage access to this capital market by such borrowers.

In the Federal Republic of Germany, as mentioned above, concern about the balance of payments impact of capital outflows through nonresident issues in deutsche mark led to an informal agreement between the Deutsche Bundesbank and the Capital Market Subcommittee to halt international deutsche mark issues of foreign bonds and Euro-deutsche mark bonds temporarily, with the exception of issues by international organizations; this measure lapsed at the end of March 1981. To promote capital imports, the existing restrictions on purchases by nonresidents of domestic money market paper and fixed-interest securities of domestic issuers with maturities up to four years were gradually eased in 1980 by allowing subscriptions with increasingly shorter maturities, and such restrictions were eliminated altogether in February 1981. This liberalization probably had a limited effect on capital imports in any case, given the relatively unfavorable attitude of foreign investors toward deutsche mark instruments in 1980 because of both relatively low yields and exchange rate developments. The liberalization measures may, however, lead to a further internationalization of the German capital market over time.

During 1980 the authorities of Switzerland lifted the existing restrictions on capital imports, in light of the exchange market developments for the Swiss franc. Together with the elimination of the prohibition of interest payments on deposits held by nonresidents, the authorities authorized nonresidents to subscribe to short-term paper and permitted central banks and foreign monetary authorities to acquire private placements and note participations in credits denominated in Swiss francs, provided they undertook to hold them until maturity. This measure, which eliminated the remaining restriction on the acquisition of foreign public issues and private placements by nonresidents, may have the effect of enlarging the market for foreign

private placements and credits denominated in Swiss francs. Also, more flexibility was given to the market for private placements, by allowing all domestic domiciled banks, including subsidiaries of foreign banks, to take part in the placement of private notes—a function previously restricted to the issuing banks. The authorities are very keen to prevent the formation of a market for Swiss franc-denominated bonds outside Switzerland, and in this context have firmly and successfully opposed legislative proposals to introduce a withholding tax on the interest on foreign bonds issued in Switzerland, which would have created a strong incentive for the formation of a Euro-Swiss franc bond market.

In Japan, in the face of a large current account deficit and some weakness of the yen toward the end of 1979, security dealers limited the volume of new public issues in the first quarter of 1980. Private placements by foreign borrowers were suspended from the end of 1979. Private placements are the channel for recourse to the capital market, which is used in particular by developing country borrowers which are not sufficiently well established to be allowed to make a public offering of bonds. The suspension of private placements by nonresidents was lifted in January 1981, after the market situation had recovered and the exchange rate had strengthened.

In the United States, the Securities and Exchange Commission in 1980 adopted a simplified procedure for registration of multiple issues by the same borrower. Under this procedure a prospective borrower can periodically file a prospectus with the Commission, indicating the global amount he intends to raise, so that only updated information needs to be provided before an issue is actually launched.

International French franc issues take place almost entirely in the Euro-French franc bond market, with only a few foreign issues of international organizations being absorbed in the domestic capital market. The French authorities exercise control over the issue calendar for Euro-French franc issues through the intermediation of the French banks, which participate as lead managers in every issue. The calendar is aimed at maintaining a balanced composition of issuers between French and foreign names, and between private and public sector institutions, and at permitting the market to expand over time. The relatively sharp expansion in the number of issues and in volume in 1980 reflected the strong demand by nonresidents for French franc-denominated issues and official management of the issue calendar, against the background of the relatively strong external position of France and the level and structure of interest rates. Interest rate policy was

directed toward establishing a positive differential between long-term and short-term rates and to maintaining at the same time reasonable stability in the long-term rate—two factors that were favorable to aggregate bond subscriptions in the French market.⁷¹ The French sector was one of the very few markets in which a normal yield curve (upward sloping, as a function of term to maturity) prevailed during 1980. In the domestic bond market a queue system is organized by the French Treasury and the main banks, with the banks responsible for issues by private business corporations and financial institutions, while the Treasury is in charge of issues of the Government, public agencies, international organizations, and possibly foreign borrowers. In the past, foreign borrowers on the domestic market have been mainly international organizations. The authorities in principle grant access to the calendar for any foreign borrower of a quality that would ensure adequate receptivity by investors without any specific official intervention. The withholding tax on interest payments to both resident and nonresident investors⁷² implies that the yield on issues on the domestic market generally would exceed those on similar issues on the Euro-French franc market. Because of this, and the greater flexibility of issues in the Euro-French franc market, it is not expected that many foreign borrowers would be greatly attracted to the French domestic capital market.

After the abolition of exchange control in the United Kingdom, international issues denominated in sterling could be launched either in the U.K. domestic market or in the sterling Euromarket. The policy of the Bank of England is to act to help ensure that the market for external issues (both Eurobonds and domestic issues) expands in an orderly way; and to this end, with the cooperation of foreign authorities as necessary, it requires that sterling issues be made only in the United Kingdom. All sterling issues must be led by a U.K. issuing house, but foreign-owned institutions will be eligible to act as co-leader if there are reciprocal arrangements in their domestic capital markets for U.K. institutions. There is at present no queuing system for sterling Eurobond issues, as their impact on the domestic capital market is limited. Issue managers must, however, notify the Bank of England in advance and

receive a timing consent. If another issue has been scheduled for the same day, the Bank of England will put the two underwriters in contact. There is a queuing system for foreign issues on the domestic market, with each borrower receiving a date in the queue.⁷³ The queue is administered by the Bank of England on a first-come-first-served basis, without giving priority to any type of borrower. The purpose of the queue is to avoid periods of market congestion such as have happened in the Eurodollar bond market, for example.

Sterling Eurobonds and domestic bonds differ in technical characteristics, such as the fact that the former are bearer bonds on which interest rates to nonresidents are paid gross of any income tax, while traditional bonds are registered and the paying agent or registrar deducts income tax at the standard rate on any interest payments.⁷⁴ The maturity for a Eurobond is generally much shorter than for a bond issued on the domestic market, where maturities can extend up to 30 years, given the participation of institutional investors, such as life insurance companies. The size of a Eurobond issue (generally about £20 million) is considerably smaller than for an issue on the domestic market, where the amount may reach £100 million.⁷⁵

In the domestic markets, foreign issues by offer of sale to the public can qualify for trading in the gilt-edged sector, where they benefit from much lower commissions and greater marketability. Traditionally, access to the gilt-edged sector has been reserved for the U.K. Government and government-guaranteed securities and for Commonwealth Government securities, but in 1980 the authorities announced that they would stand ready to grant admission to the gilt-edged market to issues of foreign central governments and international organizations. The first foreign issue admitted to the gilt-edged market was one of Sweden in April 1981.

The authorities believe that the prospects for an expansion in sterling-denominated issues by foreigners

⁷¹ The domestic French bond market recorded a sharp expansion in 1980 in total gross issue volume, which almost doubled from F 65 billion in 1979 to F 112 billion in 1980.

⁷² The withholding tax is equal to 10 per cent for an investor who chooses to report the interest income in his tax return, or 25 per cent without any further reporting obligation. Treasury bonds are not subject to withholding tax. Public institutions of members of the Organization of Petroleum Exporting Countries have been exempted some years ago from the withholding tax on all bond purchases. Investors of other countries can recuperate the withholding tax on the basis of bilateral tax agreements.

⁷³ Borrowers who are interested in launching an issue but do not want to set a fixed date are placed on a waiting list. If a borrower relinquishes his assigned date, for instance, because he considers the market conditions unfavorable, the Bank of England will offer the place to the names on the waiting list.

⁷⁴ A nonresident investor in traditional registered bonds has, however, the right to contact the tax authorities and establish his status as a nonresident, whereupon the tax authority would allow the registrar to pay him interest without any deduction.

⁷⁵ The methods of issue are also different, as Eurobonds are underwritten by a group of banks, including foreign institutions, which places them directly with its own clients, mostly non-residents. Issues in the domestic market are sold either through an offer of sale to the general public, which consists of an invitation in the form of a prospectus, together with an application form to be published in the press, or through a placing, which involves the placement of the bulk of the issue with institutional investors, with a portion, however, to be made available to stock exchange brokers through whom the public may have access to it.

is more favorable in the domestic bond market rather than in the sterling Euromarket, because of its much wider dimension, the large secondary market, and the possibility of longer maturities and larger amounts.⁷⁶

Market Developments in the First Quarter of 1981

In the first quarter of 1981 issuing activity was relatively strong in some currency sectors of the Eurobond market, such as the U.S. dollar, French franc, and sterling sectors, and for foreign issues in the Swiss, Japanese, and U.K. markets. The total amount of foreign and Eurobond issues, at \$7.7 million, was, however, somewhat lower than a year before.

In the U.S. dollar sector of the Eurobond market, issuing activity accelerated during short periods when demand was fueled by expectations of a decline in interest rates; the strength of the dollar in the foreign exchange market contributed to sustaining the interest of international investors in dollar-denominated issues, in particular those on a floating-rate basis. Only one foreign issue took place in the U.S. domestic capital market.

Issue activity intensified in the Euro-French franc sector, as in the face of favorable demand conditions, the authorities allowed the frequency of issues to increase to one every two weeks from one every three weeks in 1980. The volume of new issues, at \$418 million, was approximately half the amount recorded in the entire year 1980. In the sterling sector, the volume of sterling-denominated issues in the Euromarket at an annual rate was somewhat lower than that recorded in 1980. There was a pickup in activity in the domestic U.K. market, with two foreign issues launched in the first quarter of 1981, for an amount of \$166 million, against one in 1980; in April these were followed by the first issue of a developing country since the reopening of the market to foreign borrowers.

The deutsche mark sector of the international bond market remained *de facto* closed up to the end of March, with issues of international organizations the exception. Four such issues, for a total amount of \$245 million equivalent, were made in February and March.⁷⁷ After the lapse of the gentlemen's agreement

with the Deutsche Bundesbank, the Capital Market Subcommittee at its end-March meeting decided to reopen the market, and new issues for DM 350 million (\$170 million) were brought to the market in April; that amount was much lower than the monthly average in 1980. In view of the German balance of payments situation, it is likely that the issue calendar will continue to be managed with an attitude of caution during the rest of 1981—and taking into account nonresidents' demand for deutsche mark instruments, to avoid excessive net capital outflows. Many observers foresee a volume of nonresident issues in deutsche mark in 1981 below that of 1980.

In the Swiss capital market, issuing activity in the first quarter of 1981 expanded at a faster annual rate than during 1980. Borrowers were attracted by interest rates lower than those in the other markets, but investors' resistance led during the quarter to a rise in interest rates from 5.5 per cent in January to the 6.5–7.0 per cent range in April. It is expected that during the rest of the year the issuing activity will remain at a sustained level, in light of the attractive conditions for borrowers, although the issue terms may harden further.

In Japan, the volume of foreign bond issues accelerated in February and March. In March the underwriting houses agreed on a calendar of two public bond offerings per month, for a total monthly amount of ¥ 40–50 billion (\$180–230 million), which represents a significant acceleration from the pace of new issues in the second half of 1980. With regard to private placements, at the beginning of the year a calendar of one issue per month in an amount of ¥ 10 billion was decided. On this basis, in the year as a whole the total volume of foreign public issues would exceed the ¥ 400 billion reached in 1979 (\$1.6 billion). As long-term interest rates in Japan in the first quarter of 1981 remained below the 9 per cent level, borrowers' interest in the market has been strong and is expected to continue during the year. Reportedly, there are several developing country borrowers, which traditionally have made large recourse to the Japanese market, already in the informal queue.

The volume of foreign issues in the Netherlands and Luxembourg in 1981 is not expected to differ substantially from that of 1980, while in Belgium the weak external situation and very large government financial requirement will continue to keep the market effectively closed to foreign borrowers, other than perhaps some international organizations.

The first months of 1981 have recorded a pickup in issues denominated in SDRs. One issue came to the market in January and two in April for a total amount of SDR 170 million, and one of these issues was, for the first time, on a floating-rate basis.

⁷⁶ The technical difference between registered and bearer bonds can be overcome by issuing bonds in registered forms with the option for the holder to convert them into bearer bonds, making them more advantageous to nonresident investors for tax purposes.

⁷⁷ The yield on these issues ranged between 10 per cent and 10.5 per cent, compared with about 9.5 per cent for issues by similar borrowers in the fourth quarter of 1980.

Table 23. Developing Countries: Issues of Foreign Bonds by Markets, 1977–80
(In millions of U.S. dollars)

	1977		1978		1979		1980 ¹	
	Amount	Per-centage Share	Amount	Per-centage Share	Amount	Per-centage Share	Amount	Per-centage Share
Capital markets								
United States	817	50.8	436	16.8	375	22.5	382	36.9
Switzerland	404	25.1	689	26.7	427	25.6	313	30.2
Japan	379	23.6	1,256	48.6	733	44.0	341	32.9
Germany, Fed. Rep. of	8	0.5	189	7.3	65	3.9	—	—
Netherlands	—	—	—	—	37	2.2	—	—
Others	—	—	15	0.6	30	1.8	—	—
Total	1,608	100.0	2,584	100.0	1,668	100.0	1,036	100.0

Source: World Bank, *Borrowing in International Capital Markets*.

¹ Provisional figures.

Developing Country Borrowing in International Bond Markets

Activity in 1980 and Early 1981

Developing country borrowing in the international bond markets—Euromarkets and domestic capital markets open to foreign borrowers—amounted to \$2.5 billion in 1980, considerably below the \$3.5 billion of 1979 and the \$5.8 billion peak of 1978. While borrowing on the Eurobond market was maintained at a level close to that of 1979, there was a sharp decline in developing country borrowing in the foreign bond markets. In the past this has been concentrated in the Japanese, Swiss, U.S., and German capital markets (Table 23). From 1975 to 1979 a major trend in the foreign bond market had been a sharp decline in the share of developing country bond issues taking place in the United States and an increase in the share of the issues launched on the Swiss and Japanese markets. Issues on the U.S. market in 1975 accounted for 90 per cent of all foreign bond issues and placements by developing countries, while in 1979 the share of the U.S. market was down to 22 per cent versus 44 per cent for the Japanese market and 26 per cent for the Swiss market. In 1980 the share of the U.S. market again rose, to 37 per cent, as a result of a small increase of issue volume in the United States, but more importantly because issue volume fell sharply in Japan (from \$733 million in 1979 to \$341 million in 1980) and to a lesser extent in Switzerland (from \$427 million in 1979 to \$313 million in 1980). A listing of issues by borrowers and markets in 1980 is given in Table 41.

The Japanese market had become an important bond market for developing country borrowing after 1976, with issues and placements by the developing countries accounting for about one fourth of total foreign issues in that market during 1977–79, a share substantially

larger than that in other capital markets.⁷⁸ This reflects the relatively high receptivity of Japanese investors for issues by developing countries and also the fact that developing countries have extensively used the vehicle of private placements, for which the procedures are simple and which are not subject to the screening criteria adopted for public issues, according to which the borrower must have launched other issues previously.⁷⁹ In 1978 and 1979 private placements accounted for about 30 per cent of the total borrowing of developing countries in the Japanese market, but, as mentioned above, private placements were not allowed in 1980.

The closure of the private placement market for foreign borrowers from the fall of 1979 to early 1981 undoubtedly impacted disproportionately on the amounts borrowed by developing countries during 1980; their share of total foreign bond issues declined to 14 per cent. That measure was taken because of concern for the weakening of the balance of payments and of the exchange rate. The volume of public issues by developing countries in Tokyo in 1980 was moderately lower than in 1979. The private placement market was reopened in January 1981 after the yen exchange rate had strengthened considerably as a result of large capital inflow. This development, together with the announcement in March 1981 of an acceleration in the pace of new public offerings and the attractive interest rates for borrowers, is likely to lead to an increased volume of developing countries' aggregate issues and placements in 1981. One public bond issue by a developing country was launched in March 1981.

In Switzerland the decline in developing country bond issues and placements in 1980, in comparison with

⁷⁸ Between 1977 and 1979 the corresponding share of developing country issues in the Swiss market ranged between 5 and 8 per cent and in the U.S. market between 8 and 11 per cent.

⁷⁹ The present requirement for public issues is (1) two successful issues in the preceding 5 years, or (2) five successful issues in the preceding 20 years. One private placement in Japan may be counted as one of the past issues.

1979, was more or less in line with the general reduction of foreign issues and placements. Entry into the capital market is not subject to legal restrictions, and no official preference is accorded to developing country issues; the authorities leave decisions on the size, terms, and timing of any issue to the markets. In time of market weakness, underwriting banks tend to bring the most established names to the head of the queue, with the effect of slowing the flow of issues of developing countries. On the other hand, international development finance institutions generally have received a favorable place in the queue.

In the German domestic capital market no developing country issues were launched in 1980, but that is not surprising; underwriters generally take developing country issues to the Euro-deutsche mark sector, where wider geographical participation of investors gives better assurance of successful flotation. Issues of developing countries in the Euro-deutsche mark sector rose in 1980 to \$555 million equivalent (\$421 million in 1979), accounting for 13 per cent of all Euro-deutsche mark issues, compared with 9 per cent in 1979 (see Table 42). Priority in the calendar is given to issues of development finance institutions, as confirmed by the exemption of their issues from the ban on foreign bond issues which was in effect between December 1980 and March 1981. When the market for nonresident deutsche mark issues was reopened at the end of March 1981, no developing country issue was placed in the calendar for the first month by the Capital Market Subcommittee because of the desire to test the market, perceived as weak, only with the most established names.

Issues by developing countries in the U.S. market have in recent years been limited to a very few selected names. It has been said that the registration and documentation requirements of the U.S. authorities for public issues, together with the possibilities offered by other capital markets and in particular the Eurodollar bond market, have gradually reduced the interest of some developing countries in approaching the U.S. market. In 1980 developing country issues amounted to \$382 million, corresponding to 15 per cent of total foreign issues. Developing country issues in the Eurodollar market declined between 1979 and 1980, from \$1.3 billion to \$0.8 billion, in contrast with the increase in total new issue volume.⁸⁰ In the first quarter of 1981 no developing country issue was launched in the U.S. domestic market, while issues in the Eurodollar market amounted to \$127 million (see Table 41).

In the French franc sector, the sharp expansion of the Euro-French franc market provided new opportuni-

ties for developing country issues. In practice, almost all foreign issues denominated in French francs have been launched on the Euro-French franc market for the reasons previously mentioned. The authorities are ready to give a place in the calendar to developing countries; in 1980 one out of the eight foreign issues on the market was from a developing country borrower.

Despite the strong expansion of the Eurosterling sector and the opening in 1979 of the U.K. capital market to foreign issues, no sterling-denominated issues by developing countries were made in 1980. In April 1981 a developing country tapped the domestic capital market for the first time since its reopening. In the Eurosterling sector, no centrally organized issue calendar exists, and the responsibility for the date on which to take issues to the market rests with the issuing banks. The authorities view the decision reached in 1980 to open the access to the gilt-edged sector of the market to all sovereign borrowers as an important aspect of nondiscriminatory treatment among all potential borrowing countries.

Issues of developing countries on the Netherlands capital market and the Euroguilder market have traditionally been quite limited. After one issue in 1979, there were none in 1980; but there have been a number of issues by international development institutions. The Netherlands Bank operates a queue for public bond issues, based on the first-come-first-served principle and subject to the financing needs of the Government, which are accommodated with priority. There were no developing country borrowers in the queue through March 1981. The high level of interest rates in the Netherlands in comparison with the Federal Republic of Germany, Switzerland, and Japan is considered to be one factor that has discouraged borrowing by developing countries in the Netherlands. The market for Euroguilder notes has been traditionally tapped by Netherlands industrial corporations and financial institutions and by foreign corporations; this market offers more flexibility than the domestic market in terms of timing of issues, less regulation, and lower issuing costs. For these reasons the authorities feel that this market over time could prove attractive to developing countries.

Borrowing by Individual Countries

As in previous years, borrowing in the international bond markets by developing countries in 1980 was concentrated among a limited number of experienced borrowers. Nine countries accounted for 80 per cent of the total volume of developing country bond issues, and the five largest borrowers (Argentina, Brazil, Israel, Mexico, and South Africa) accounted for over two thirds of the total. Despite the preponderance of a few countries in the volume of issues, the number of developing coun-

⁸⁰ Almost all of the issues took the form of floating rate notes, and many were issued by well-known banks.

Table 24. Developing Country Issues and Placements in the International Markets, 1975–80¹

(In millions of U.S. dollars or equivalent)

	1975	1976	1977	1978	1979	1980 ²
Total developing country international bonds³	1,262	2,092	4,225	5,757	3,533	2,461
Algeria	35	147	215	720	183	—
Argentina	16	—	43	266	416	164
Bolivia	—	—	15	—	—	—
Brazil	35	193	856	936	736	316
Chile	53	—	—	50	84	82
Colombia	—	—	—	—	—	55
Costa Rica	—	—	—	20	—	109
Ecuador	—	—	8	62	—	—
Egypt	—	—	—	25	—	30
El Salvador	—	—	—	25	—	—
Gabon	15	—	—	—	—	—
Haiti	—	—	—	—	8	—
Hong Kong	25	—	128	—	—	—
India	—	—	—	—	—	30
Indonesia	17	—	—	104	63	46
Iran	—	30	81	69	—	—
Israel	245	351	340	426	437	456
Ivory Coast	—	10	—	—	—	14
Korea	—	74	72	56	44	48
Kuwait	—	—	—	62	—	—
Lebanon	5	—	—	—	—	—
Malaysia	—	10	43	139	152	—
Mexico	270	428	1,348	687	363	356
Morocco	28	45	28	91	22	23
Panama	—	14	27	215	111	25
Papua New Guinea	25	—	25	—	—	—
Philippines	—	367	130	216	176	67
Portugal	—	—	50	—	—	30
Romania	100	—	—	—	—	—
Saudi Arabia	—	—	10	—	14	—
Singapore	12	175	155	25	25	—
South Africa	372	85	33	482	244	371
Sudan	9	—	—	—	—	—
Thailand	—	—	—	69	176	46
Trinidad and Tobago	—	—	—	150	—	—
Tunisia	—	49	10	26	—	—
Turkey	—	24	—	—	—	—
United Arab Emirates	—	—	42	—	—	—
Venezuela	—	—	438	690	154	131
Yugoslavia	—	90	129	127	96	37

Source: World Bank, *Borrowing in International Capital Markets*.¹ The country classification is that used by the Fund.² Preliminary figures.³ Foreign bonds and Eurobonds.

tries that have made recourse in recent years to bond issues in international markets has been relatively large; in each year since 1977, 20 or more different countries have tapped the bond markets (20 in 1980; Table 24). In 1980 the issue volume by some of the main developing countries' borrowers in the international bond markets, such as Argentina and Brazil, declined considerably, but at the same time other countries, such as Costa Rica, Ivory Coast, Korea, and Egypt, increased their recourse to the market or, as in the case of Colombia and India, approached the market for the first time in recent years.

As in previous years, the total gross amount of funds raised by developing countries in the bond market appears very limited when compared with the volume of their syndicated international banking credit commitments, which amounted in 1980 to \$33.3 billion.

However, net financing through bond issues is not an insignificant net source of funds for a few developing countries, in particular for those which are the most frequent issuers in the markets.

Borrowing Terms

As in previous years, average maturities for developing country issues in 1980 were somewhat longer in the traditional foreign bond markets than in the Eurobond markets (see Table 43). The comparison is, however, less clear than in the past because there are a large number of issues for which the maturity is unknown. In comparison with previous years, there was a sharp drop of issues in foreign bond markets with maturities of over ten years; this long-term category had accounted for 22 per cent of total issues in foreign bond markets

in 1978 but declined to only 2 per cent in 1980.⁸¹ A comparison of the maturity distribution of international bond issues by developing countries in recent years with maturities of syndicated international bank credits is given in Table 44. In 1978 and 1979 bank credit maturities increased substantially, with bank credits with maturities in excess of seven years comprising, respectively, 62 per cent and 77 per cent of the total. While the proportion of bank credits in this maturity range declined to 68 per cent in 1980, it still was larger than that for foreign bonds (52 per cent) or Eurobonds (45 per cent). In assessing these comparisons, it should be taken into account that the average maturity of a bond generally is longer than that for a bank credit of equal *final* maturity, since the former is usually retired at the end of the period rather than through periodic repayment of principal.

⁸¹ Presumably, a part of the issues with unknown maturities in 1980 belongs to this group, however.

A comparison of the yields on newly issued foreign bonds and Eurobonds by developing countries with those of other borrowers in recent years (see Table 45) shows that offering yields on developing country issues are somewhat higher than those of industrial countries and international organizations. The size of the differential varies over time and across markets; it traditionally tends to be quite small in the Japanese foreign bond market and in the U.S. dollar Eurobond market, where average spreads in relation to industrial country issues in 1980 were, respectively, 19 and 12 basis points. This differential is somewhat larger in the German and Swiss foreign bond markets and in the Euro-deutsche mark bond market, where average spreads between developing and industrial country issues in 1980 were between 50 and 100 basis points, a range similar to that recorded in 1979 and smaller than that in 1978.

Appendix III

Role of the SDR in the International Financial Markets⁸²

Although the potential usefulness of the SDR in providing an international store of value and unit of account that is more stable than any currency in the SDR basket has long been recognized, the SDR has only recently begun to play a more important role in the international financial markets. Part of the increasing interest in SDR-denominated financial instruments is attributable to the severity of exchange rate fluctuations in recent months, but a more important factor has been the simplification of the SDR basket. The resulting development of the market for SDR instruments is a self-reinforcing process, as greater depth in the market enhances its attractiveness to potential participants. This Appendix reviews recent developments in the role of SDR-denominated instruments in the international financial markets and summarizes the views on that role expressed by many bankers in the discussions forming the background to this paper.

Simplification of the SDR Basket

The simplification of the SDR basket to five currencies, which took effect January 1, 1981, has, in the view of the market, greatly enhanced the attractiveness to both borrowers and lenders of the SDR as a unit of account for deposits and other financial obligations. The previous SDR basket of 16 currencies had included currencies for which money markets were little developed and which were not actively traded in foreign exchange markets. The inclusion of such currencies had made it virtually impossible for banks to cover SDR deposits in all the component currencies, and handling a basket consisting of 16 currencies was administratively costly. This had led to reluctance on the part of some banks to accept deposits denominated in SDRs, and interest rate quotations were significantly lower than the weighted average of rates on the component currencies.

With the basket simplified, the principal attraction of the SDR—its stability in terms of major currencies—has received more attention, particularly in view of the large exchange rate fluctuations of recent months. In contrast to earlier periods when market interest in SDR-denominated assets was strongest when the U.S. dollar was weak in foreign exchange markets, the recent attention developed at a time when the U.S. dollar was appreciating.

Deposits Denominated in SDRs

The SDR's major advance appears to have been in the market for bank deposits, including certificates of deposit.⁸³ According to market reports, some 40 to 50 banks, as well as official institutions, such as the Bank for International Settlements (BIS) and the Nordic Investment Bank, are now offering time deposit facilities denominated in terms of SDRs. A more recent innovation is the availability at some large banks of demand deposit accounts denominated in SDRs. These facilities permit the use of the SDR for direct payments between account holders without going through another currency and facilitate trading in SDR-denominated securities.

The SDR deposit market is a wholesale market, mainly for deposits for periods up to 12 months. The principal depositors have been multinational corporations, central banks, and governmental and intergovernmental institutions. Interest rates on SDR deposits are calculated on the basis of the weighted average of the Eurocurrency deposit rates of the constituent currencies or by using a specific Eurocurrency rate, usually the Eurodollar rate, and adjusting it for the cost of covering the other four currencies in the SDR basket in the forward markets. According to market reports, SDR deposit rates generally are marginally below the weighted average of interest rates on the five component currencies. This difference has declined with the simpli-

⁸² This Appendix was prepared in collaboration with the Treasurer's Department of the Fund.

⁸³ There are, however, no detailed systematic data available on the volume and distribution of SDR-denominated deposits.

fication of the SDR basket, and some commercial banks currently offer rates matching those on the component currencies. The spread between bid and offered rates for SDR deposits has also narrowed, strengthening the interbank market in SDR deposits. Some banks are offering forward quotations for SDRs against major currencies, in particular the U.S. dollar.

According to many bankers, the major problem associated with taking up SDR deposits, particularly for interbank transactions, has been the relatively limited supply of SDR-denominated assets, which implies that banks accepting SDR deposits and wishing to be fully covered have to split deposits into the component currencies for investment, by converting the appropriate proportion of the vehicle currency into the other four currencies in the SDR basket. Since June 1980, this shortage of SDR-denominated assets has been alleviated by issues of SDR-denominated certificates of deposit (CDs). Development of an SDR-CD market has been facilitated by the standardization of a negotiable instrument proposed by a Steering Committee comprising the most important banks participating in the SDR market. This standardization is likely to assist in the formation of a secondary market in which CDs denominated in SDRs can be traded, thereby rendering the certificates more liquid. There have also been issues of floating rate notes (with maturities of up to three years) denominated in SDRs. The interest rates on the most recent issues have been based on the average rates quoted on SDR deposits rather than on London interbank offered rates (LIBOR) for the constituent currencies.

The simplification of the SDR and the development of a market dealing in standardized instruments would tend to reduce the relative attractiveness of custom-tailored baskets at the specification of clients. As long as SDR deposits needed to be split up into the component currencies for investment, it was not more costly to banks to produce individualized baskets which, though similar to the SDR, were yet sufficiently different to take into account special needs. The present less complex SDR basket accommodates more of the currency diversification needs actually existing in the market.

Loans Denominated in SDRs

In recent months the first syndicated medium-term (5-year to 8-year) loans containing an SDR-denominated portion have been made. Sweden's recent jumbo loan included an SDR tranche of SDR 500 million in addition to a dollar tranche of \$800 million. If the borrower and the bankers agree that the SDR market has developed to such an extent that SDRs can be treated as a currency, repayment of the SDR-denomi-

nated portion will take place in SDRs. The interest rate on the SDR part of the loan is based on six-month LIBOR for the U.S. dollar plus the premium (or discount) on the forward rate of the SDR in terms of U.S. dollars; this premium (or discount) is calculated as the weighted average of forward rates on the currencies in the SDR basket. A recent medium-term loan to Ivory Coast also includes an SDR tranche, but with the proviso that the loan will be repaid if the U.S. dollar rises by more than 10 per cent against the SDR. The reference interest rate over which the spread on this tranche is set is the average of six-month SDR offered rates quoted by five reference banks.

Bonds Denominated in SDRs

The first SDR-denominated bonds were issued on the Eurobond market in 1975. Eleven issues were brought to the market between 1975 and early 1981, amounting to close to SDR 450 million. Three of these have taken place since the change in the SDR basket. They include one bond issue by the Nordic Investment Bank and two floating rate note issues, by a public Italian electricity company and by a large French company.

Many bankers reported that pricing difficulties arising from the thinness of the secondary market were an obstacle to issues of fixed-rate SDR-denominated paper. A broader market for longer-term SDR deposits would be instrumental in easing these pricing difficulties. The trading of SDR-denominated securities should be greatly facilitated by the recently announced introduction of demand deposit accounts denominated in SDRs, which can be used for the clearing of transactions in SDR-denominated bonds. Bankers report that the generally depressed state of the bond markets has dampened investor interest in SDR-denominated bonds as well.

Involvement of the Fund

While the Fund has so far not played a role in the private market for SDR deposits, it temporarily held substantial amounts of SDR deposits with the BIS on behalf of the Trust Fund. While these deposits have now been disbursed, new SDR-denominated accounts with the BIS have been opened for the temporary investment of funds borrowed by the Fund, pending disbursement under the enlarged access policy, and for the temporary investment of the resources of the supplementary financing facility's Subsidy Account. There is also the possibility that short-term or medium-term bearer notes issued by the Fund as evidence of drawings under borrowing arrangements with official institutions will be offered in the private market for SDR instruments. As the option of requesting such notes

and of offering them for sale lies with the lender, it cannot be foreseen whether and to what extent they will in effect be offered for sale in the secondary market for SDR paper.

Other Uses of the SDR as a Unit of Account

The smaller SDR basket should facilitate the use of the SDR as a unit of account in treaties, commercial transactions, and agreements between international organizations. Currently, Suez Canal charges are denominated in terms of SDRs and the Universal Postal Union has, in effect, adopted the SDR as unit of account. The SDR is also used as a unit of account in a number of private contracts and international treaties, and by international and regional organizations, in addition to the Fund itself.

Conclusion

The period following the introduction of the new valuation has been marked by a growing use of the SDR

as a unit of account in financial markets. While the markets for SDR-denominated instruments remain small in relation to the global money and capital markets, it is to be expected that more widespread use will increasingly be made of SDR-denominated instruments. The reduction in the number of currencies in the SDR basket has largely eliminated the administrative difficulties and reduced the cost previously impeding such use. The new basket is also more attractive to investors, who prefer simpler "currency cocktails." New SDR-denominated assets (such as certificates of deposit) have emerged, and more such developments are anticipated by bankers. As a first result, the interbank market in SDR-denominated instruments should widen and thereby facilitate and support trading in SDR instruments. Eventually, more widespread circulation of SDR-denominated assets outside banks could also result. Although the overall role of the SDR remains small, compared with the U.S. dollar and other currencies, market sentiment is that SDR-denominated instruments are likely to assume an increasing role in international financial markets in the future.

Appendix IV

Growth of International Bank Assets: Empirical Analysis

Introduction and Summary

Data published by the Bank for International Settlements (BIS) show that gross external assets in both domestic and foreign currencies of deposit banks in major industrial countries increased from \$39 billion at the end of 1965 to \$964 billion at the end of 1979.⁸⁴ When allowance is made for some minor conceptual breaks in the time series, the average annual rate of increases during the 14-year period was 25.7 per cent. This Appendix presents a simple framework for interpreting the growth of external bank assets over the last several years and, on the basis of econometric analysis for the period 1970–79, discusses developments in 1980 and makes projections for 1981.⁸⁵

The main conclusions from the econometric work can be summarized as follows: (1) the high growth rate of international banking is related in an important, if complicated, way to the rapid expansion of nominal world income and trade; (2) other factors, possibly including increased recognition of the advantages of these markets in terms of higher return and lower cost to participants, may have also contributed in a systematic way to the exceptional growth of international bank assets during the 1970s; (3) while increases in the degree of imbalance in world trade positions may have led to increases in international bank assets and liabilities during particular periods, their contribution to the overall growth

of international bank assets over the entire period 1970–79 was only marginal because the degree of trade imbalance rose considerably during certain periods and declined very sharply during others.

The actual rate of growth of banks' gross external assets (as defined above) was 20.1 per cent in 1980, compared with 24.9 per cent in 1979. Adjusted for exchange rate changes,⁸⁶ the underlying pace of expansion of external assets was broadly maintained in 1980. The slower growth in 1980 of world gross national product (GNP) and trade tended to depress the rate of market growth, whereas the significant increase in global payments imbalance—and attendant increase in demand for balance of payments finance—was a major expansionary counterforce. These seem to have been roughly offsetting.

For 1981, the expectation of slow rate of growth of world trade and income, coupled with the expected decline in world trade imbalance, could exert downward pressure on the pace of expansion of banks' external assets. This suggests that the growth rate of banks' gross external assets in 1981 could decline by 5–6 per-

⁸⁴ Gross external assets of deposit banks in Belgium, Canada, France, the Federal Republic of Germany, Italy, Japan, Luxembourg, the Netherlands, Sweden, Switzerland, the United Kingdom, and the United States. To get a consistent time series, the external assets of banks in Austria, Denmark, and Ireland and of the branches of U.S. banks in certain offshore centers (which were not included in the BIS data until the latter part of the 1970s) were excluded from the BIS totals. Thus the data for recent years are not strictly comparable with the BIS totals shown in the text tables of this paper and in Appendix I. Nevertheless, the annual growth rate of this narrower definition of banks' international assets (claims) has been close to that for the broader aggregate reported by the BIS in recent years.

⁸⁵ This Appendix draws heavily on Henri Ghesquiere and Eliakim Katz, "The Growth of International Banking—An Empirical Analysis" (unpublished paper, International Monetary Fund, November 3, 1980).

⁸⁶ The growth rate is derived from a comparison of the dollar value of the outstanding assets at the beginning and end of the period, given the exchange rate relationships at both points in time. There are claims on nonresidents which are denominated in other currencies besides the dollar; exchange rate changes between the dollar and these currencies give rise to valuation changes. The appreciation of the dollar during 1980 reduced the dollar equivalent of outstanding claims denominated in those other currencies at the end of 1980 and thus reduced the growth rate of total external assets measured in terms of dollars. Although the data on gross external assets do not permit a precise currency valuation adjustment, it appears that such an adjustment would account for most of the recorded deceleration in the growth rate of external bank assets in 1980.

Calculations have been made of the impact of currency valuation adjustments on banks' *net* external assets (excluding certain claims on other banks in the BIS reporting area as a result of redepositing among them). When those data were adjusted to eliminate the impact of the appreciation of the U.S. dollar vis-à-vis other currencies in which banks' external assets are denominated, the rate of increase was about 4 percentage points higher.

These valuation effects are dealt with in the estimating equation through their similar effects on the value of world gross national product and trade.

centage points from the 20 per cent recorded for 1980. This projection relates to the growth in banks' gross external assets, including certain interbank claims (re-depositing among the banks), which on average account for some 40 per cent of the total. It has been observed that this interbank segment grows more rapidly during periods of speculation against the U.S. dollar,⁸⁷ and it may be that the opposite result would obtain during periods when there is upward exchange market pressure on the dollar vis-à-vis other major currencies. During the first half of 1981 the exchange markets have increased strongly in favor of the dollar. If this has not been reversed by the latter part of the year, the interbank segment of banks' external assets could grow relatively more slowly during the year than the segment representing claims on final borrowers. Thus, the rate of increase in net external assets, which excludes interbank transactions and therefore is a better measure of international lending to final borrowers, might well be higher.

Determinants of International Bank Lending

Increases in the growth rates of world trade and income, as well as the size of the world's trade imbalance are all believed to have a positive influence on international bank lending. The demand for external bank loans tends to increase along with world imports because trade financing is often provided to the buyer by a bank located abroad. On the other hand, for a given level of world imports, international lending will be larger the more imbalanced trade is between countries. Larger trade deficits—or more generally, current account deficits—may increase demand for international bank credit, while larger current account surpluses are likely to result in larger official deposits with international banks.

An increase in wealth allows economic agents to expand their assets and liabilities, including international bank deposits and loans. Large increases in the price of oil and other primary commodities during 1973–74 led asset holders in many countries to re-evaluate their wealth and to increase their external public indebtedness accordingly, in anticipation of a future income stream that was larger. Also, the supply of international credit by banks can be assumed to reflect demand for deposits

by bank customers, which one would expect to be positively related to the volume of wealth and income.

The rate of change of international bank credit can thus be expressed as

$$R(Q) = \alpha R(M) + \beta R(I) + \gamma R(W) + u$$

where the R -operator stands for growth rate, Q for international bank assets, M for imports, I for trade imbalance, and W for wealth and where α , β , and γ are each expected to have a positive sign. The degree of world trade imbalance is measured as the sum of the trade deficits and surpluses of individual countries in absolute value, divided by the level of world imports.

Changes in interest rates are not explicitly included in the above equation. The negative impact on international lending of a simultaneous rise in all major interest rates would, however, be captured in its negative impact on nominal wealth and world trade.⁸⁸ An opposite effect arises from the fact that higher interest rates encourage lending and deposit taking to move through international channels, which are generally less subject to controls—such as interest-free reserve requirements and interest rate ceilings on bank deposits.

Quarterly Model

The major growth rate of international bank claims was estimated by using quarterly data for 1970–79. Most of the explanatory variables discussed above are not readily observable, so that proxies had to be constructed.

GRQ , the dependent variable, is the quarterly growth rate of gross external assets, expressed in U.S. dollars, of deposit banks in nine European countries, Canada, Japan, and the United States. The average value for 1970–78 was 5.96 per cent, which corresponds to an annual compound rate of growth of 26 per cent. $GRWIMP$ is the quarterly growth rate of world imports also expressed in dollars. The average value during 1970–78 was 4.73 per cent, or 20 per cent on an annual basis. $GRSUM$ is the quarterly growth rate of the sum of GNP of the United States, Canada, Japan, the Federal Republic of Germany, and the United Kingdom, all expressed in U.S. dollars. This variable is used as a proxy for the growth rate of wealth. Data limitations made it impossible to consider the GNP of a larger group of countries on a quarterly basis. The trade imbalance is the ratio of the sum of the absolute values of

⁸⁷ During periods of speculation against the U.S. dollar, non-banks wish to sell dollars in the forward foreign exchange market, in which case the bank that purchases the forward contract may borrow dollars to cover the exchange risk. It is often assumed that this dollar borrowing exceeds effects tending to reduce borrowing in currencies that are expected to appreciate, thereby leaving a net positive impact on external interbank lending.

⁸⁸ Technically, this is a reduced-form equation of a supply and demand model in which the interest rate of international bank assets themselves has been solved out. Interest rates on substitute assets could have been included, but it is unlikely that they would have improved the empirical results significantly.

trade deficits and surpluses of 56 countries to world imports. The quarterly growth rate of this ratio (*GRIMB*), which has fluctuated between minus 15 per cent and 62 per cent during 1970–79, is entered as an explanatory variable.

Using the ordinary-least-squares method, the following equation was estimated for the period from the second quarter of 1970 through the fourth quarter of 1979:⁸⁹

$$GRQ = \alpha_0 + \alpha_1 GRWIMP + \alpha_2 GRSUM + \alpha_3 GRIMB$$

with the following results:

	α_0	α_1	α_2	α_3
Coefficient	1.48	0.17	0.78	0.13
<i>t</i> -value	1.74	2.70	3.36	4.55

$$D-W = 1.91 \quad R^2 = 0.74$$

The explanatory variables are significantly different from zero at the 95 per cent confidence level. This would seem to lend empirical support to the above hypotheses. Chart 9 depicts actual and estimated values of the quarterly growth rates.

The positive constant term could be interpreted as reflecting the discovery of the advantages of international bank deposits and loans by some new borrowers, depositors (including central banks), or financial intermediaries in terms of higher risk-adjusted returns or lower costs. On the other hand, this coefficient could reflect a shift by developing countries toward preferring resource transfer through the intermediation of foreign banks over direct foreign investment. Also, the advent of greater foreign exchange rate flexibility in the 1970s has boosted demand for forward foreign exchange contracts; it is likely that this has stimulated the growth of the Eurocurrency market, since banks tend to offset the exchange risk they assume when selling such contracts to their customers by borrowing in the interbank market.

The coefficients on the three economic variables may be interpreted as implying that a 1 per cent growth in world imports and GNP causes international bank assets to increase by 0.17 per cent and 0.78 per cent, respectively, while a 1 per cent increase in the percentage of trade imbalance causes international bank assets to increase by 0.13 per cent. These findings are consistent with the fact that the market for international

Chart 9. Quarterly Growth Rate of External Bank Assets¹
(In per cent)

¹ Dotted line represents estimated data for the period from the second quarter of 1970 through the fourth quarter of 1979 and forecasts for the calendar year 1980.

bank credit has two major roles: the provision of financing for trade and the provision of a channel for portfolio diversification by investors. The amount of financing needed for trade is influenced both by the level of world trade and by the degree of trade imbalance. It would thus be expected that measures of both these variables (in terms of rates of change since rates of change are being explained) will have a positive effect on the size of the market. Regarding portfolio effects, market size is likely to be positively related to world nominal wealth.

Analysis of 1980 and Projections for 1981

Out-of-sample forecasts for 1980 were not very accurate on a quarterly basis (see Chart 9), but were reasonably accurate when cumulated into an annual total. Growth during the second quarter was severely underestimated, probably because the proxy variable for wealth is so strongly influenced by quarterly changes in GNP of the United States. Compounding the four

⁸⁹ Also included in the equation is a dummy variable for the fourth quarter, which takes a coefficient of 5.4 with a *t*-statistic of 5.5. This variable may reflect window dressing of end-of-year balance sheets by corporations. A dummy variable was also included for the third quarter of 1974, which took a coefficient of -3.6 with a *t*-statistic of -1.7, reflecting the crisis in the interbank market in the aftermath of the collapse of the Herstatt Bank.

estimated quarterly growth rates, however, resulted in an annual rate of change of 21.7 per cent, compared with the actual rate of 20.1 per cent.

No forecasts have been made for the individual quarters of 1981 because of the unavailability of reliable forecasts of the growth rates of world trade and trade imbalance on a quarterly basis. It may be useful, though, to examine the available forecasts for the annual growth rates of these variables. The annual growth rate of total nominal GNP of the five major industrial countries is estimated at 8.7 per cent in 1981 (using average exchange rates prevailing during the first quarter of 1981), compared with 9.6 per cent in 1980. World trade expressed in nominal U.S. dollars is expected to increase by only 8 per cent, compared with 21.5 per cent in 1980. Finally, the trade imbalance variable is expected to decline to 21.5 per cent in 1981, after increasing to 22.3 per cent in 1980. One reason is that the surplus of oil exporting countries is expected to diminish slightly and that the combined deficits of industrial countries and non-oil developing countries are also expected to decline, while nominal world imports, which function as a scale variable, continue to increase.⁹⁰

⁹⁰ It should be noted that the imbalance variable cannot always be reliably interpreted by focusing exclusively on broad country groupings, because movements between industrial countries can be important. If the trade surplus of the United Kingdom and the trade deficit of Italy increase by a similar amount, for example, the combined deficit of the industrial countries remains unchanged but the trade imbalance variable will increase. It is the underlying assumption of this Appendix that such a development would stimulate international bank lending, *ceteris paribus*, by increasing the supply of funds on

Given the above forecasts, the annual growth rate of gross international bank assets is projected to be 14.2 per cent for the year 1981, compared with 20.1 per cent in 1980.⁹¹ If the above projection proves accurate, 1981 would register the lowest growth rate since 1965, the first year for which data are available. The decline with respect to 1980 would be partly due to a lessening of the degree of real trade imbalance, as defined for the purposes of this Appendix, but more importantly, would be due to the effect of the appreciation of the U.S. dollar in terms of other currencies on world imports and GNP.

This paper has focused on international bank lending net of interbank transactions. In 1980 the average annual rate of growth of net international bank assets was 21.8 per cent, which compares with a rate of increase of 20.1 per cent for the gross series. The latter is expected to increase by about 14 per cent in 1981. But, as the share of interbank transactions in the total is quite volatile and tends to decrease when the U.S. dollar appreciates in the foreign exchange markets, the net series could grow more rapidly than gross international assets in 1981, possibly at about 18–19 per cent. This projection incorporates the valuation effect of the appreciation of the U.S. dollar in the early months of 1981; adjusted for such a valuation effect, the growth rate should exceed 20 per cent, compared with 25 per cent in 1980.

the part of the United Kingdom and demand for international loans by Italy.

⁹¹ On the basis of a simpler annual model, a forecast of 14.1 per cent was obtained for 1981.

Appendix V

Statistical Tables

Table 25. International Claims of Banks in Europe¹ on Nonbanks in Industrial Countries, 1977–80
(In billions of U.S. dollars)

	December 1977	December 1978	December 1979	March 1980	June 1980	September 1980	December 1980
BIS European reporting area ²	48.4	61.1	70.3	72.8	85.7	88.9	86.6
<i>Belgium-Luxembourg</i>	1.8	2.6	3.4	3.8	5.1	5.1	5.1
<i>France</i>	3.3	4.4	5.4	4.9	5.9	6.0	5.9
<i>Germany, Fed. Rep. of</i>	16.0	20.7	21.6	25.5	30.5	33.2	29.4
<i>Italy</i>	3.4	4.9	6.0	6.4	7.3	7.6	8.6
<i>Netherlands</i>	2.2	2.8	3.3	3.4	3.8	4.0	4.0
<i>Sweden</i>	3.8	4.4	4.4	5.1	5.9	6.6	6.8
<i>Switzerland</i>	3.8	4.2	5.3	4.2	5.0	5.5	5.8
<i>United Kingdom</i>	5.3	5.3	6.8	6.5	7.2	6.2	6.3
<i>Other</i>	8.8	11.8	14.1	13.0	15.0	14.7	14.7
United States ³	3.9	4.6	7.4	8.1	9.2	9.5	9.4
Canada and Japan ⁴	1.7	2.1	2.8	3.4	3.6	3.7	3.4

Source: BIS.

¹ Including branches of non-European banks.

² Austria, Belgium-Luxembourg, Denmark, France, the Federal Republic of Germany, Ireland, Italy, the Netherlands, Sweden, Switzerland, and the United Kingdom.

³ Foreign currency claims only.

⁴ Data separating Canada and Japan are not available.

Table 26. Net Foreign Position¹ of Banks in Industrial Countries, 1977–80
(In billions of U.S. dollars)

	December 1977	December 1978	December 1979	March 1980	June 1980	September 1980	December 1980
BIS European reporting area²	12.3	18.6	-1.2	-4.4	-13.9	-21.4	-25.5
Foreign currency position	-11.4	-8.8	-26.1	-32.8	-37.0	-41.9	-49.3
Belgium	-0.6	-1.7	-3.9	-4.0	-4.2	-5.5	-5.5
France	-0.8	2.0	0.8	0.9	-1.2	-1.9	-2.9
Germany, Fed. Rep. of	2.1	1.9	1.7	-2.0	-1.5	-3.2	-2.0
Italy	-6.7	-5.6	-6.9	-9.1	-9.4	-10.8	-13.9
Luxembourg	2.1	3.8	3.8	2.4	2.7	3.1	3.8
Netherlands	1.7	1.0	-0.1	-0.1	0.2	—	-1.6
Sweden	-0.2	-1.1	-3.0	-3.7	-3.9	-3.9	-4.4
Switzerland	5.0	4.5	1.1	—	0.4	1.0	-1.7
United Kingdom	-12.2	-10.6	-12.0	-13.3	-14.0	-13.1	-13.1
Other	-1.8	-3.0	-7.6	-3.9	-6.1	-7.6	-8.0
Domestic currency position	23.7	27.4	24.9	28.4	23.1	20.5	23.8
France	7.3	12.5	16.6	14.2	16.4	15.9	15.8
Germany, Fed. Rep. of	7.2	0.1	-6.7	0.9	-2.0	-2.4	1.1
Switzerland	8.8	12.5	19.8	20.4	20.2	18.9	17.5
United Kingdom	1.1	2.8	3.7	-3.9	-5.7	-5.9	-4.9
Other	-0.7	-0.5	-8.5	-3.2	-5.8	-6.0	-5.7
United States	13.8	27.2	6.0	1.4	21.7	32.6	38.7
Canada	-0.8	-2.7	-7.2	-6.5	-6.7	-6.5	-8.1
Japan	-6.9	-5.3	-5.5	-8.0	-16.4	-15.0	-14.5

Source: BIS.

¹ A negative sign indicates a net foreign liability position.

² Austria, Belgium-Luxembourg, Denmark, France, the Federal Republic of Germany, Ireland, Italy, the Netherlands, Sweden, Switzerland, and the United Kingdom.

Table 27. Oil Exporting Countries: Estimated Disposition of the Current Account Surplus, 1974–80
(In billions of U.S. dollars)

	1974	1975	1976	1977	1978	1979	1980
Current account surplus	68	35	40	31	3	68	112
Total cash surplus	58	39	42	40	20	69	120
<i>Disposition</i>							
Bank deposits ¹	30	11	13	13	5	40	42
As per cent of total cash surplus	51.7	28.2	31.0	32.5	25.0	58.0	35.0
Other	28	28	29	27	15	29	78

Source: *World Economic Outlook*, IMF Occasional Paper No. 4 (June 1981).

¹ Differs slightly from Table 6 because of different source.

Table 28. External Liabilities of Banks in the BIS Reporting Area by Borrowing Country, 1977–80¹

(In billions of U.S. dollars)

	December 1977	December 1978	December 1979	December 1980
Reporting area²	238.8	309.1	370.6	463.7
Reporting area (gross)	408.5	533.5	685.7	823.7
Offshore centers	71.4	96.9	139.2	164.6
Less interbank deposits	241.1	321.3	454.3	524.6
Other industrial countries	18.6	25.8	33.0	33.9
Australia	1.0	1.1	1.3	1.3
Finland	1.3	1.6	2.1	2.7
Norway	2.7	3.0	4.0	5.0
Spain	8.0	13.1	17.5	17.6
Other	5.6	7.0	8.1	7.3
Centrally planned economies³	8.6	11.0	15.6	15.6
Bulgaria	0.5	0.5	0.7	0.8
German Democratic Republic	0.9	1.2	1.9	2.0
Hungary	1.1	0.9	1.2	1.4
Poland	0.4	0.8	1.1	0.6
U.S.S.R.	4.4	5.9	8.6	8.6
Other	1.3	1.7	2.1	2.2
Oil exporting countries	75.1	80.3	117.6	156.3
Algeria	2.0	2.7	3.4	4.6
Indonesia	2.4	2.7	4.3	6.7
Venezuela	8.2	9.5	13.4	15.8
Middle East	51.9	57.1	81.3	108.9
<i>High absorbers</i>	19.2	23.1	36.7	52.0
<i>Low absorbers</i>	32.7	34.0	44.6	56.9
Other	10.6	8.3	15.2	20.3
Non-oil developing countries	74.3	90.7	105.2	110.5
Western Hemisphere	26.4	34.6	40.1	38.5
<i>Argentina</i>	4.3	4.7	7.8	6.6
<i>Brazil</i>	6.3	10.7	8.1	4.7
<i>Chile</i>	0.8	1.4	2.2	3.4
<i>Colombia</i>	1.3	2.0	3.1	3.0
<i>Ecuador</i>	0.6	0.7	0.7	0.9
<i>Mexico</i>	5.3	6.4	8.2	9.4
<i>Peru</i>	0.5	0.8	1.4	2.1
<i>Other</i>	7.3	7.9	8.6	8.4
Middle East	10.0	13.8	15.9	18.9
<i>Egypt</i>	2.8	3.4	3.8	5.1
<i>Israel</i>	3.9	6.0	6.9	8.2
<i>Other</i>	3.3	4.4	5.2	5.6
Asia	21.8	22.3	26.4	26.4
<i>China</i>	2.4	2.4	2.7	2.5
<i>India</i>	1.9	3.1	3.7	3.5
<i>Korea</i>	3.0	2.5	3.1	3.3
<i>Malaysia</i>	2.0	2.1	3.2	3.6
<i>Philippines</i>	1.8	2.2	2.7	3.4
<i>Thailand</i>	1.2	1.1	1.4	1.1
<i>Other</i>	9.5	8.9	9.6	9.0
Africa	7.7	8.5	10.8	12.2
<i>Ivory Coast</i>	0.5	0.6	0.8	0.7
<i>Morocco</i>	0.9	0.9	1.0	0.7
<i>South Africa</i>	0.8	1.0	1.4	2.0
<i>Other</i>	5.5	6.0	7.6	8.8
Europe	8.9	11.5	12.0	14.5
<i>Greece</i>	3.5	4.6	4.7	5.9
<i>Portugal</i>	1.1	1.7	2.4	2.5
<i>Romania</i>	0.2	0.2	0.3	0.3
<i>Turkey</i>	0.6	0.8	0.9	1.2
<i>Yugoslavia</i>	2.3	2.8	2.0	2.5
<i>Other</i>	1.2	1.4	1.7	2.1
Unallocated and international organizations	14.6	18.1	23.0	30.0
Total	430.0	535.0	665.0	810.0

Source: BIS.

¹ The BIS reporting area comprises the Group of Ten countries; Austria, Denmark, Ireland, and Switzerland; and the offshore branches of U.S. banks in the Bahamas, the Cayman Islands, Panama, Lebanon, Hong Kong, and Singapore.² Net of double counting due to redepositing among reporting banks.³ Excluding Fund member countries.

Table 29. Net External Position of Banks in the BIS Reporting Area by Borrowing Country, 1977-80¹

(In billions of U.S. dollars)

	December 1977	December 1978	December 1979	December 1980
Reporting area²	-49.8	-76.8	-73.6	-85.3
Reporting area (gross)	-58.6	-66.6	-98.6	-119.7
Offshore centers	27.4	28.6	16.4	22.9
Less interbank deposits	18.6	36.8	8.6	11.5
Other industrial countries	16.3	14.2	12.9	19.2
Australia	3.5	3.3	3.5	4.7
Finland	3.2	3.5	3.6	4.0
Norway	4.4	5.5	5.3	5.5
Spain	-6.6	-0.4	-2.0	0.6
Other	11.8	2.3	2.5	4.4
Centrally planned economies³	30.2	36.3	38.8	41.2
Bulgaria	2.1	2.7	2.4	1.8
German Democratic Republic	4.0	5.0	5.8	7.5
Hungary	3.7	5.5	6.2	6.0
Poland	8.7	10.9	13.9	14.7
U.S.S.R.	7.2	6.9	4.3	4.8
Other	4.5	5.3	6.2	9.0
Oil exporting countries	-38.4	-27.3	-57.6	-90.5
Algeria	1.4	3.0	3.7	2.8
Indonesia	1.7	1.8	-0.1	-2.4
Venezuela	-0.2	3.3	5.2	5.5
Middle East	-36.6	-35.0	-58.8	-85.3
<i>High absorbers</i>	-8.2	-7.8	-22.5	-37.2
<i>Low absorbers</i>	-28.4	-27.2	-36.3	-48.1
Other	-4.7	-0.4	-7.6	-11.6
Non-oil developing countries	47.0	57.9	84.0	124.7
Western Hemisphere	40.0	46.2	64.8	93.9
<i>Argentina</i>	0.5	2.0	5.3	12.3
<i>Brazil</i>	17.5	21.0	28.8	38.6
<i>Chile</i>	0.8	1.3	2.3	3.3
<i>Colombia</i>	0.4	0.1	0.4	1.3
<i>Ecuador</i>	1.0	1.7	2.3	2.7
<i>Mexico</i>	14.6	16.8	22.5	31.6
<i>Peru</i>	2.7	2.6	2.2	1.8
<i>Other</i>	2.5	0.7	1.0	2.3
Middle East	-4.8	-7.3	-7.7	-9.1
<i>Egypt</i>	-1.5	-1.8	-1.8	-2.0
<i>Israel</i>	-1.1	-2.2	-2.3	-3.4
<i>Other</i>	-2.2	-3.3	-3.6	-3.7
Asia	-1.8	0.2	4.1	11.9
<i>China</i>	-1.9	-1.5	-0.6	-0.3
<i>India</i>	-1.4	-2.4	-2.8	-2.6
<i>Korea</i>	3.0	4.4	7.2	10.7
<i>Malaysia</i>	-0.7	-0.6	-1.3	-1.3
<i>Philippines</i>	1.3	1.8	2.7	3.5
<i>Thailand</i>	0.9	1.6	1.6	2.1
<i>Other</i>	-3.0	-3.1	-2.7	-0.2
Africa	8.0	11.1	10.7	11.5
<i>Ivory Coast</i>	0.2	0.8	1.3	2.0
<i>Morocco</i>	0.4	1.3	1.8	2.3
<i>South Africa</i>	7.2	6.2	5.0	4.8
<i>Other</i>	0.2	2.8	2.6	2.4
Europe	5.1	7.7	12.1	16.5
<i>Greece</i>	0.5	0.3	0.7	1.4
<i>Portugal</i>	0.8	1.3	1.5	2.7
<i>Romania</i>	1.2	2.3	3.7	5.0
<i>Turkey</i>	2.1	2.2	2.0	2.1
<i>Yugoslavia</i>	1.5	2.8	5.5	7.1
<i>Other</i>	-1.0	-1.2	-1.3	-1.8
Unallocated and international organizations	-5.3	-4.3	-4.5	-8.8

Source: BIS.

¹ The BIS reporting area comprises the Group of Ten countries; Austria, Denmark, Ireland, and Switzerland; and the offshore branches of U.S. banks in the Bahamas, the Cayman Islands, Panama, Lebanon, Hong Kong, and Singapore.² Net of double counting due to redepositing among reporting banks.³ Excluding Fund member countries.

Table 30. Bank Lending to Non-Oil Developing Countries, 1973–80

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

	1973	1974	1975	1976	1977	1978	1979	1980
Total net new bank lending¹	10	15	15	21	14	25	41	52
Major exporters of manufactures ²	...	...	...	11	6	13	18	24
Net oil exporters ³	...	...	...	6	2	5	10	14
Low-income countries	...	...	...	— ⁴	— ⁴	2	3	1
Other net oil importers	...	...	...	5	6	5	10	13
Share in total net new bank lending of non-oil developing countries (per cent)	30.3	30.0	37.5	30.0	20.6	27.8	31.5	31.5
Share in net new bank lending to non-oil developing countries (per cent) of:								
Major exporters of manufactures ²	...	...	...	52.4	42.9	52.0	43.9	46.2
Net oil exporters ³	...	...	...	28.6	14.3	20.0	24.4	26.9
Low-income countries	...	...	...	—	2.1	8.0	7.3	1.9
Other net oil importers	...	...	...	19.0	40.7	20.0	24.4	25.0
Increase in claims on non-oil developing countries (per cent) ¹								
All countries	28.0	33.5	25.1	28.7	14.5	20.6	27.6	27.5
Major exporters of manufactures ²	...	...	...	31.6	13.6	23.6	25.8	27.3
Net oil exporters ³	...	...	...	34.3	8.2	17.0	28.6	31.3
Low-income countries	...	...	...	—12.8	12.0	47.6	50.0	11.5
Other net oil importers	...	...	...	24.5	23.6	15.3	26.5	27.2
Memorandum item								
Increase in total net ⁴ international claims of banks in the BIS reporting area ¹	24.1	29.4	18.2	26.9	20.6	20.9	24.3	24.8

Sources: BIS and Fund staff estimates.

¹ Calculations based on claims, excluding valuation changes due to exchange rate changes in the course of one calendar year in the period 1977–80.² Argentina, Brazil, Greece, Israel, Korea, Portugal, South Africa, and Yugoslavia. Excludes the offshore banking centers Hong Kong and Singapore, included in this category in the *World Economic Outlook*, IMF Occasional Paper No. 4 (June 1981).³ Bolivia, the Congo, Ecuador, Egypt, Gabon, Malaysia, Mexico, Peru, the Syrian Arab Republic, Trinidad and Tobago, and Tunisia. Excludes the offshore banking center Bahrain, included in this category in the *World Economic Outlook*, IMF Occasional Paper No. 4 (June 1981).⁴ Less than plus or minus \$0.5 billion.⁵ Net of redepositing among banks in the BIS reporting area.**Table 31. Share of Claims on Developing Countries and Centrally Planned Economies in Banks' Net International Claims, 1973–80¹**

(In per cent)

	1973	1974	1975	1976	1977	1978	1979	1980
Claims on non-oil developing countries	26.4	27.2	28.8	29.2	28.2	27.8	28.5	29.0
Major exporters of manufactures ²	...	...	12.9	13.3	12.8	13.1	13.3	13.6
Net oil exporters ³	...	...	7.0	7.4	6.8	6.5	6.7	7.1
Low-income countries	...	...	1.1	0.8	1.0	1.1	1.3	1.2
Other net oil importers	...	...	7.8	7.7	7.6	7.1	7.2	7.2
Claims on oil exporting developing countries	1.7	2.8	5.4	7.0	8.7	9.9	9.0	8.1
Claims on centrally planned economies ⁴	5.3	5.9	8.3	9.0	9.1	8.8	8.2	7.0
Memorandum items								
Share of claims on largest borrowers in total claims on non-oil developing countries								
Largest two (Brazil and Mexico)	...	...	37.8	40.6	36.1	36.9	35.7	35.8
Largest ten ⁵	...	...	68.1	69.5	66.0	65.8	65.9	67.9
Largest twenty ⁶	...	...	82.1	83.0	81.3	83.0	83.3	84.7
Share of net international claims in total net claims of banks	9.3	10.4	11.5	12.6	13.1	13.0	14.7	16.0

Sources: BIS; and Fund staff estimates.

¹ Net of redepositing among banks in the BIS reporting area.² Argentina, Brazil, Greece, Israel, Korea, Portugal, South Africa, and Yugoslavia. Excludes the offshore banking centers Hong Kong and Singapore, included in this category in the *World Economic Outlook*, IMF Occasional Paper No. 4 (June 1981).³ Bolivia, the Congo, Ecuador, Egypt, Gabon, Malaysia, Mexico, Peru, the Syrian Arab Republic, Trinidad and Tobago, and Tunisia. Excludes the offshore banking center Bahrain, included in this category in the *World Economic Outlook*, IMF Occasional Paper No. 4 (June 1981).⁴ Excluding Fund member countries.⁵ The composition of these two groups changed over time, but the largest market borrowers were generally countries classified as major exporters of manufactures or net oil exporters in the *World Economic Outlook*, IMF Occasional Paper No. 4 (June 1981).

Table 32. External Claims of Banks in the BIS Reporting Area by Borrowing Country, 1977–80¹
(In billions of U.S. dollars)

	December 1977	December 1978	December 1979	December 1980
Reporting area²	189.0	232.3	297.0	378.4
Reporting area (gross)	349.9	466.9	587.1	704.0
Offshore centers	98.8	125.5	155.6	187.5
Less interbank deposits	259.7	358.1	445.7	513.1
Other industrial countries	34.9	40.0	45.9	53.1
Australia	4.5	4.4	4.8	6.0
Finland	4.5	5.1	5.7	6.7
Norway	7.1	8.5	9.3	10.5
Spain	1.4	12.7	15.5	18.2
Other	17.4	9.3	10.6	11.7
Centrally planned economies³	38.8	47.3	54.4	56.8
Bulgaria	2.6	3.2	3.1	2.6
German Democratic Republic	4.9	6.2	7.7	9.5
Hungary	4.8	6.4	7.4	7.4
Poland	9.1	11.7	15.0	15.3
U.S.S.R.	11.6	12.8	12.9	13.4
Other	5.8	7.0	8.3	11.2
Oil exporting countries	36.7	53.0	60.0	65.3
Algeria	3.4	5.7	7.1	7.4
Indonesia	4.1	4.5	4.2	4.3
Venezuela	8.0	12.8	18.6	21.3
Middle East	15.3	22.1	22.5	23.6
High absorbers	11.0	15.3	14.2	14.8
Low absorbers	4.3	6.8	8.3	8.8
Other	5.9	7.9	7.6	8.7
Non-oil developing countries	121.3	148.6	189.2	235.2
Western Hemisphere	66.4	80.8	104.9	132.4
Argentina	4.8	6.7	13.1	18.9
Brazil	23.8	31.7	36.9	43.3
Chile	1.6	2.7	4.5	6.7
Colombia	1.7	2.1	3.5	4.3
Ecuador	1.6	2.4	3.0	3.6
Mexico	19.9	23.2	30.7	41.0
Peru	3.2	3.4	3.6	3.9
Other	9.8	8.6	9.6	10.7
Middle East	5.2	6.5	8.2	9.8
Egypt	1.3	1.6	2.0	3.1
Israel	2.8	3.8	4.6	4.8
Other	1.1	1.1	1.6	1.9
Asia	20.0	22.5	30.5	38.3
China	0.5	0.9	2.1	2.2
India	0.5	0.7	0.9	0.9
Korea	6.0	6.9	10.3	14.0
Malaysia	1.3	1.5	1.9	2.3
Philippines	3.1	4.0	5.4	6.9
Thailand	2.1	2.7	3.0	3.2
Other	6.5	5.8	6.9	8.8
Africa	15.7	19.6	21.5	23.7
Ivory Coast	0.7	1.4	2.1	2.7
Morocco	1.3	2.2	2.8	3.0
South Africa	8.0	7.2	6.4	6.8
Other	5.7	8.8	10.2	11.2
Europe	14.0	19.2	24.1	31.0
Greece	4.0	4.9	5.4	7.3
Portugal	1.9	3.0	3.9	5.2
Romania	1.4	2.5	4.0	5.3
Turkey	2.7	3.0	2.9	3.3
Yugoslavia	3.8	5.6	7.5	9.6
Other	0.2	0.2	0.4	0.3
Unallocated and international organizations	9.3	13.8	18.5	21.2
Total	430.0	535.0	665.0	810.0

See footnotes at end of table.

Table 32. (concluded). External Claims of Banks in the BIS Reporting Area by Borrowing Country, 1977–80¹
(In billions of U.S. dollars)

	December 1977	December 1978	December 1979	December 1980
<i>Memorandum items</i>				
Total gross claims, BIS	689.7	893.1	1,110.7	1,323.1
Gross claims of nonreporting banks in certain offshore centers ⁴	77.0	107.0	135.0	175.0
Total gross claims, IFS	861.6	1,122.4	1,412.9	1,685.3

Sources: BIS; IMF, *International Financial Statistics*.¹ The BIS reporting area comprises the Group of Ten countries: Austria, Denmark, Ireland, and Switzerland; and the offshore branches of U.S. banks in the Bahamas, the Cayman Islands, Panama, Lebanon, Hong Kong, and Singapore.² Net of double counting due to redepositing among reporting banks.³ Excluding Fund member countries.⁴ Claims of non-U.S. banks in the Bahamas, the Cayman Islands, Panama, Lebanon, Hong Kong, and Singapore and claims of all banks in Bahrain and the Netherlands Antilles.**Table 33. Non-Oil Developing Countries: Long-Term External Debt, 1973–80**
(In billions of U.S. dollars and in per cent)

	1973	1974	1975	1976	1977	1978	1979	1980
Total outstanding long-term debt	97	121	147	177	217	273	323	370
<i>Of which:</i>								
Public debt to financial institutions ¹	13	22	30	39	54	74	96	113
Major exporters of manufactures ²	7	10	13	16	21	31	40	46
Net oil exporters ³	4	8	11	16	21	27	31	36
Low-income countries	1	1	1	2	3	4	5	6
Other net oil importers	2	3	5	6	10	13	20	25
Share of debt to financial institutions in total long-term debt (per cent)								
All non-oil developing countries	13.4	18.2	20.4	22.0	24.9	27.1	29.7	30.5
Major exporters of manufactures	16.7	20.2	22.6	23.2	25.9	28.4	31.3	32.1
Net oil exporters	23.7	37.2	35.5	41.0	41.7	43.3	45.0	46.3
Low-income countries	3.2	4.7	4.8	5.3	6.7	7.6	9.0	10.5
Other net oil importers	10.4	12.1	15.3	16.7	21.4	22.9	27.6	27.8
<i>Memorandum item</i>								
Total debt of non-oil developing countries to banks, BIS series ⁴	45	60	75	96	121	149	189	235

Sources: BIS; *World Economic Outlook*, IMF Occasional Paper No. 4 (June 1981); and Fund staff estimates.¹ Owed by or guaranteed by public institutions in the borrowing country.² Argentina, Brazil, Greece, Israel, Korea, Portugal, South Africa, and Yugoslavia. Excludes the offshore banking centers Hong Kong and Singapore, included in this category in the *World Economic Outlook*.³ Bolivia, the Congo, Ecuador, Egypt, Gabon, Malaysia, Mexico, Peru, the Syrian Arab Republic, Trinidad and Tobago, and Tunisia. Excludes the offshore banking center Bahrain, included in the category in the *World Economic Outlook*.⁴ Includes claims on the private and public sectors and short-term claims. Because of changes in the coverage of the stock data, the flows of bank lending to non-oil developing countries in Table 30 are not fully consistent with these stock figures.

Table 34. Medium-Term Publicized International Bank Credit Commitments, 1977-80¹

(In millions of U.S. dollars)

	1977	1978	1979	1980
Industrial countries	12,935	33,544	22,318	33,456
Belgium	—	40	1,000	2,350
Canada	512	9,581	946	6,288
Denmark	873	2,335	1,211	1,323
France	1,865	2,475	2,735	1,940
Italy	779	2,808	3,415	6,244
Norway	623	1,175	1,175	823
Spain	1,880	2,200	3,511	4,312
Sweden	1,376	1,861	1,319	1,329
United Kingdom	2,476	4,722	1,377	944
United States	848	2,465	3,835	3,764
Other	1,703	3,882	1,794	4,139
Developing countries	18,389	36,801	42,121	33,316
Oil exporting countries	5,498	10,184	7,480	5,289
Algeria	427	2,068	1,668	303
Indonesia	88	1,623	670	1,080
Iran	1,761	1,132	—	—
Nigeria	—	1,750	1,116	633
United Arab Emirates	1,037	706	372	92
Venezuela	1,650	2,080	3,226	2,877
Other	535	825	428	304
Non-oil developing countries	12,891	26,617	34,641	28,027
Argentina	828	1,273	2,123	2,171
Brazil	2,341	5,111	5,714	4,385
Chile	227	1,145	685	905
China	—	—	2,995	481
Colombia	43	85	889	728
Ecuador	428	252	936	694
Greece	222	570	945	1,174
Korea	796	1,699	2,590	1,888
Malaysia	130	1,077	197	1,050
Mexico	2,895	6,554	7,655	4,831
Morocco	702	620	450	450
Peru	144	—	525	290
Philippines	705	1,872	1,673	1,013
Portugal	87	641	811	706
Romania	125	725	280	458
Thailand	183	206	197	825
Yugoslavia	371	745	1,512	1,781
Other	2,664	9,153	4,516	4,522
Centrally planned economies²	2,566	2,977	3,956	1,531
German Democratic Republic	692	782	636	176
Hungary	350	515	550	550
Poland	19	374	807	330
U.S.S.R.	—	400	320	—
International Investment Bank	1,000	500	875	—
Other	505	406	768	475
International organizations	197	182	310	550
Other and unallocated	97	220	186	100
Total³	34,185	73,724	68,891	68,934

Source: World Bank.

¹ The country classifications are those used by the Fund.² Includes financial institutions of the Council for Mutual Economic Assistance but excludes Fund member countries.³ Components may not add to totals due to rounding.

Table 35. External Assets of Banks by Maturity and Undisbursed Credit Commitments, December 1978–December 1980¹
(In billions of U.S. dollars)

	December 1978			December 1979			June 1980			December 1980		
	External assets		Undisbursed credit commitments	External assets		Undisbursed credit commitments	External assets		Undisbursed credit commitments	External assets		Undisbursed credit commitments
	Total	Up to and including 1 year		Total	Up to and including 1 year		Total	Up to and including 1 year		Total	Up to and including 1 year	
Industrial countries outside the reporting area	37.6	15.6	8.5	44.2	18.3	9.7	48.1	20.4	13.5	50.5	21.7	15.7
Australia	5.5	2.4	2.4	6.6	2.5	1.9	6.9	2.8	3.9	7.3	2.6	5.2
Finland	5.5	2.6	1.6	6.0	2.6	1.8	6.7	3.3	2.1	7.0	3.9	2.1
Norway	9.1	2.5	1.9	9.7	2.8	2.2	10.4	3.1	2.3	10.8	3.7	2.6
Spain	13.2	5.1	1.9	16.9	7.1	2.7	19.2	8.2	3.5	19.7	8.0	3.8
Other	4.3	3.0	0.7	5.0	3.3	1.1	4.9	3.0	1.7	5.7	3.6	2.0
Oil exporting countries	51.0	24.3	16.8	60.4	30.7	17.7	60.6	30.5	17.0	64.6	34.3	16.1
Algeria	7.6	1.3	3.3	9.0	1.3	3.8	9.3	1.5	3.3	9.0	1.5	2.9
Indonesia	5.8	2.0	1.5	5.8	2.3	2.1	5.9	2.3	2.4	6.3	2.6	2.2
Iran	3.6	3.2	3.2	5.9	1.8	1.3	5.6	1.8	1.0	5.2	1.9	0.8
Venezuela	14.0	7.6	3.6	20.8	12.7	4.1	20.8	12.2	4.2	24.3	14.3	3.7
Other	20.0	10.2	5.2	18.9	12.6	6.4	19.0	12.7	6.1	19.8	14.1	6.5
Non-oil developing countries	162.3	71.9	49.5	214.4	91.8	56.3	223.1	96.3	60.6	254.9	116.1	59.2
Africa	21.3	8.3	6.8	23.5	8.1	5.8	23.8	7.9	6.3	24.6	8.1	6.4
Ivory Coast	1.7	0.4	0.4	2.4	0.7	0.4	2.7	0.9	0.6	3.0	1.0	0.4
Morocco	2.6	0.5	0.6	3.4	0.6	0.3	3.5	0.9	0.3	3.5	0.7	0.3
South Africa	8.1	3.7	3.0	7.3	2.8	2.7	7.3	2.7	2.8	7.2	2.5	3.1
Other	8.9	3.7	2.8	10.4	4.0	2.4	10.3	3.4	2.6	10.9	3.9	2.6
Asia	24.8	14.0	12.5	35.4	19.3	16.3	39.0	21.1	18.0	44.8	25.6	17.6
China	1.0	0.8	1.2	2.5	1.3	3.8	2.2	0.7	4.0	2.6	0.9	4.0
India	0.7	0.3	0.5	0.9	0.4	0.7	0.9	0.4	0.7	1.0	0.5	0.9
Korea	7.5	4.3	3.6	12.0	6.7	4.0	14.3	8.3	4.6	16.7	10.4	4.3
Malaysia	1.9	0.9	0.6	2.2	0.8	0.7	2.2	0.7	1.1	2.7	1.0	1.4
Philippines	5.0	2.5	3.1	7.4	3.9	2.9	8.2	4.4	2.8	9.3	5.4	2.4
Thailand	2.8	2.1	0.8	3.7	2.4	0.8	3.8	2.4	1.2	4.0	2.4	1.3
Other	5.9	3.1	2.7	6.7	3.8	3.4	7.4	4.2	3.6	8.4	5.0	3.2
Europe	21.8	8.9	6.5	34.6	12.2	9.1	31.8	11.2	7.4	35.1	12.1	7.9
Greece	5.5	2.3	1.3	6.2	2.5	1.8	7.5	3.0	2.3	8.4	3.2	3.0
Portugal	3.2	1.3	1.1	4.1	1.3	1.0	4.7	1.7	1.1	5.6	2.1	1.2
Romania	2.9	1.3	1.2	4.4	2.2	0.8	5.6	2.4	1.2	5.8	2.5	1.1
Turkey	3.8	2.7	0.9	3.9	1.4	0.7	4.2	1.3	0.5	4.4	1.3	0.6
Yugoslavia	6.2	1.2	2.0	8.2	1.9	2.0	9.3	2.7	2.2	10.4	2.9	2.0
Other	0.2	0.1	—	7.8	2.9	2.8	0.5	0.1	0.1	0.5	0.2	0.2
Middle East	13.2	11.0	2.7	12.5	9.4	3.1	11.4	8.5	2.9	13.6	10.4	2.8
Egypt	1.8	1.1	1.2	2.2	1.3	1.3	2.7	1.6	1.1	3.3	2.0	1.5
Israel	3.9	2.8	0.6	4.6	3.1	1.0	4.4	3.0	0.7	4.8	3.4	0.5
Other	7.5	7.1	0.9	5.7	5.0	0.8	4.3	3.9	1.1	5.5	5.0	0.8

Western Hemisphere	81.2	29.7	21.0	108.4	42.8	22.0	117.1	47.6	26.0	136.8	59.9	24.5
Argentina	7.0	3.6	2.5	13.4	7.0	2.9	17.3	9.2	3.3	19.9	10.4	4.0
Brazil	32.9	9.3	7.4	38.6	11.3	6.7	40.9	13.0	7.6	45.7	16.2	6.4
Chile	2.9	1.2	1.4	4.9	2.0	1.5	5.6	2.1	1.7	7.3	2.9	1.6
Colombia	2.2	1.3	1.3	3.6	2.2	1.4	3.7	2.0	1.7	4.6	2.5	1.7
Ecuador	2.6	1.3	0.8	3.1	1.4	0.9	3.4	1.6	1.1	3.9	1.8	1.0
Mexico	23.3	7.4	4.7	30.9	10.7	6.1	34.7	13.3	7.2	42.5	18.8	6.7
Peru	3.6	1.7	0.5	3.8	1.9	0.7	3.7	2.0	1.1	4.1	2.4	1.3
Other	6.7	3.9	2.4	10.1	6.3	1.8	7.8	4.4	2.3	8.8	4.9	1.9
Centrally planned economies	47.2	20.6	11.1	54.5	22.9	9.2	54.7	20.3	9.3	56.4	22.0	8.7
Bulgaria	3.5	1.7	0.4	3.4	1.4	0.3	3.5	1.5	0.5	2.9	1.0	0.5
German Democratic Republic	6.8	3.1	1.2	8.6	3.7	1.4	9.7	4.0	1.4	9.9	3.8	1.5
Hungary	6.9	3.7	0.4	7.9	3.8	0.4	7.8	3.3	0.7	8.0	3.4	0.7
Poland	12.4	4.2	4.4	15.8	6.2	3.9	15.8	4.9	3.9	16.2	5.4	3.9
U.S.S.R.	13.1	5.4	4.1	13.0	5.0	2.8	12.4	4.0	2.3	13.4	5.6	1.7
Other	4.5	2.5	0.6	5.8	2.8	0.4	5.5	2.6	0.5	6.0	2.7	0.5
Total	298.1	132.4	85.9	373.5	163.7	92.9	386.5	167.5	100.4	426.3	194.2	99.7

Source: BIS, adjusted to the latest country classifications of the Fund.

¹ The reporting area for these data is generally broader than that for the data in Table 32 in that it includes all foreign branches of U.S. banks and the affiliates in offshore reporting centers of banks in other countries; but the number of banks reporting is somewhat smaller.

Table 36. Distribution of Spreads on Variable-Interest-Rate Eurocurrency Bank Credits, 1973–80¹

(In per cent)

	1973	1974	1975	1976	1977	1978	1979	1980
Industrial countries								
Up to 0.500	25	13	—	—	—	26	48	58
0.501 to 0.750	63	65	—	—	12	53	37	34
0.751 to 1.000	5	14	1	3	56	12	9	2
1.001 to 1.250	3	3	27	41	18	5	2	4
1.251 to 1.500	1	4	47	38	9	2	—	—
1.501 to 1.750	—	—	20	10	1	—	1	—
Over 1.750	1	—	4	7	2	—	—	—
Unknown	2	—	2	1	2	2	3	2
Developing countries								
Up to 0.500	1	—	—	—	—	1	11	16
0.501 to 0.750	32	33	—	—	—	15	42	39
0.751 to 1.000	29	16	—	—	19	31	27	22
1.001 to 1.250	9	17	2	8	13	22	13	10
1.251 to 1.500	12	23	36	25	16	17	4	8
1.501 to 1.750	7	8	37	32	32	7	2	2
Over 1.750	8	2	25	35	20	7	1	4
Unknown	3	1	—	—	—	1	—	—
All categories of borrowers²								
Up to 0.500	15	8	—	—	—	11	23	33
0.501 to 0.750	51	52	—	—	4	33	41	38
0.751 to 1.000	14	15	1	2	31	22	20	13
1.001 to 1.250	5	9	15	18	20	14	10	7
1.251 to 1.500	5	12	38	33	12	10	4	5
1.501 to 1.750	3	3	29	23	20	4	1	1
Over 1.750	4	1	17	24	12	4	1	2
Unknown	3	1	1	1	1	2	1	1
Memorandum item								
Average six-month Eurodollar deposit rate (per cent)	9.32	11.20	7.61	6.13	6.42	9.36	11.99	14.15

Source: World Bank.

¹ The country classifications are those used by the World Bank.² In addition to industrial and developing countries, the total includes centrally planned economies and international organizations.

Table 37. Maturity Distribution of Eurocurrency Bank Credit Commitments, 1973–80¹
(In per cent)

	1973	1974	1975	1976	1977	1978	1979	1980
Industrial countries								
Over 1 year up to 5 years	14	13	40	27	12	8	8	13
Over 5 years up to 7 years	17	32	44	59	63	20	11	23
Over 7 years up to 10 years	53	41	8	5	19	62	44	48
Over 10 years	10	10	—	—	—	6	17	11
Unknown	5	4	9	10	6	5	19	5
Developing countries								
Over 1 year up to 5 years	7	17	69	57	23	8	10	10
Over 5 years up to 7 years	8	18	23	30	64	27	8	20
Over 7 years up to 10 years	45	49	4	5	9	56	60	64
Over 10 years	33	13	2	—	—	6	18	4
Unknown	7	3	2	9	4	3	5	2
All categories of borrowers²								
Over 1 year up to 5 years	10	15	64	49	19	8	13	12
Over 5 years up to 7 years	15	26	27	39	65	25	11	22
Over 7 years up to 10 years	49	44	4	4	12	58	52	55
Over 10 years	20	11	1	—	—	6	16	7
Unknown	6	4	4	8	5	4	9	4

Source: World Bank.

¹ The country classifications are those used by the World Bank.

² In addition to industrial and developing countries, the total includes centrally planned economies and international organizations.

Table 38. External Claims as Reported by Banks in Major Financial Markets by Country or Region of Lending Bank, 1977–80
(In billions of U.S. dollars)

	December 1977	December 1978	December 1979	December 1980
Banks in European countries reporting to the BIS	466.2	611.4	776.0	902.9
Domestic currency	81.4	109.4	136.3	151.7
France	11.5	18.1	23.2	24.2
Germany, Fed. Rep. of	31.5	40.3	47.6	51.8
Switzerland	14.5	19.3	27.2	29.5
United Kingdom	12.2	14.7	15.5	22.7
Other	11.7	17.0	22.8	23.5
Foreign currency (Eurocurrency market)	384.8	502.0	639.7	751.2
Belgium	22.9	31.8	39.7	52.4
Luxembourg	44.0	58.3	79.4	87.3
France	62.2	80.8	100.4	118.8
Germany, Fed. Rep. of	17.3	20.8	21.7	21.5
Netherlands	27.2	36.6	44.5	50.8
Switzerland	23.0	31.4	31.9	30.1
United Kingdom	159.2	202.8	270.0	333.6
Other	29.0	40.0	52.1	56.7
Banks in Canada	18.1	22.3	25.6	35.5
Banks in Japan	21.7	33.7	45.5	65.7
Banks in the United States	92.6	118.8	136.0	176.9
Branches of U.S. banks in certain offshore centers ¹	91.1	106.5	127.6	142.1
Total gross external claims	689.7	892.7	1,110.7	1,323.1
Less double counting due to re-depositing among reporting banks	259.7	357.7	445.7	513.1
Total claims net of redepositing	430.0	535.0	665.0	810.0
<i>Memorandum item</i>				
Gross external claims of branches of non-U.S. banks in certain offshore centers ¹ and external claims of all foreign bank branches in Bahrain and the Netherlands Antilles	77	107	135	175

Source: BIS.

¹ The Bahamas, the Cayman Islands, Panama, Lebanon, Hong Kong, and Singapore.

Table 39. International Bond Issues and Placements by Currency of Denomination, 1976–80

(Amount in millions of U.S. dollars and share in per cent)

	1976		1977		1978		1979		1980	
	Amount	Share of total	Amount	Share of total	Amount	Share of total	Amount	Share of total	Amount	Share of total
U.S. dollar	20,631	60.1	20,024	55.5	14,052	37.5	15,216	40.3	16,301	41.9
<i>Eurobonds</i>	9,999		12,336		7,693		10,614		13,664	
<i>Of which:</i>										
<i>Floating rate notes</i>	...		1,840		2,063		4,197		4,235	
<i>Foreign bonds</i>	10,632		7,688		6,359		4,602		2,637	
Deutsche mark	4,130	12.0	6,726	18.6	8,208	21.9	6,489	17.2	7,750	19.9
<i>Eurobonds</i>	2,821		5,215		6,531		4,655		4,254	
<i>Foreign bonds</i>	1,309		1,511		1,677		1,834		3,496	
Swiss franc										
<i>Foreign bonds</i>	5,444	15.9	4,959	13.7	7,553	20.1	9,517	25.2	7,441	19.1
Japanese yen	287	0.8	1,394	3.9	4,766	12.7	3,170	8.4	2,032	5.2
<i>Eurobonds</i>	155		111		79		115		416	
<i>Foreign bonds</i>	132		1,283		4,687		3,055		1,616	
Netherlands guilder	1,159	3.4	545	1.5	736	2.0	508	1.3	1,069	2.7
<i>Eurobonds</i>	467		363		384		345		744	
<i>Foreign bonds</i>	692		182		352		163		325	
Pound sterling	—	—	221	0.6	343	0.9	291	0.8	1,267	3.3
<i>Eurobonds</i>	—		221		287		291		1,089	
<i>Foreign bonds</i>	—		—		56		—		178	
French franc	138	0.4	62	0.2	334	0.9	409	1.1	1,097	2.8
<i>Eurobonds</i>	62		—		103		334		1,003	
<i>Foreign bonds</i>	76		62		231		75		94	
Other currencies	2,522	7.4	2,163	6.0	1,490	4.0	2,165	5.7	1,967	5.1
<i>Eurobonds</i>	2,019		1,349		853		1,445		977	
<i>Foreign bonds</i>	503		814		637		720		990	
Total	34,311	100.0	36,094	100.0	37,482	100.0	37,765	100.0	38,924	100.0

Source: World Bank.

Table 40. International Bonds, by Type, 1977–80

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

	1977	1978	1979	1980
Total foreign bonds	16,610.2	21,542.1	19,964.5	16,162.1
<i>Percentage share</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>
Straight	15,689.8	18,932.8	16,696.7	14,043.1
<i>Percentage share</i>	<i>94.4</i>	<i>87.9</i>	<i>83.6</i>	<i>87.0</i>
Convertible and warrant	226.2	833.7	2,123.8	1,121.3
<i>Percentage share</i>	<i>1.4</i>	<i>3.9</i>	<i>10.6</i>	<i>6.9</i>
Special placements	347.1	800.5	755.6	569.9
<i>Percentage share</i>	<i>12.0</i>	<i>3.7</i>	<i>13.8</i>	<i>3.5</i>
Floating rate notes	67.1	139.8	136.1	102.3
<i>Percentage share</i>	<i>0.4</i>	<i>0.6</i>	<i>0.7</i>	<i>0.6</i>
Others and unknown	280.0	833.3	252.3	325.5
<i>Percentage share</i>	<i>1.7</i>	<i>3.9</i>	<i>1.3</i>	<i>2.0</i>
Total Eurobonds	19,484.1	15,939.8	17,799.4	22,132.0
<i>Percentage share</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>
Straight	15,715.0	11,086.0	11,817.0	14,195.7
<i>Percentage share</i>	<i>80.6</i>	<i>69.6</i>	<i>62.5</i>	<i>64.1</i>
Convertible and warrant	1,172.5	1,308.0	1,617.0	2,593.6
<i>Percentage share</i>	<i>6.0</i>	<i>8.2</i>	<i>9.1</i>	<i>11.7</i>
Special placements	723.9	844.0	844.0	993.0
<i>Percentage share</i>	<i>3.7</i>	<i>5.3</i>	<i>4.7</i>	<i>4.5</i>
Floating rate notes	1,840.0	2,603.0	4,196.6	4,234.7
<i>Percentage share</i>	<i>9.4</i>	<i>16.3</i>	<i>23.6</i>	<i>19.1</i>
Others and unknown	32.7	98.8	—	115.0
<i>Percentage share</i>	<i>0.2</i>	<i>0.2</i>	<i>—</i>	<i>0.5</i>

Source: World Bank, *Borrowing in International Capital Markets*.

Table 41. Bond Issues and Placements by Developing Country Borrowers, 1980¹

(Amount in millions of U.S. dollars or equivalent)

Country of Borrower	Amount	Type of Issue or Placement ²	Market Country or Currency
Foreign bonds			
1980			
Argentina	89.1	Public, straight	Japan
Argentina	49.8	Public, straight	Switzerland
Brazil	91.7	Public, straight	Japan
Costa Rica	12.1	Public, floating rate notes	Switzerland
Indonesia	45.8	Private, straight	Switzerland
Israel	91.8	Public, straight	United States
Israel	79.9	Public, straight	United States
Israel	68.5	Public, straight	United States
Israel	85.3	Public, straight	United States
Ivory Coast	14.1	Public, straight	Switzerland
Korea	47.8	Public, straight	Japan
Mexico	37.2	Private, straight	United States
Mexico	2.0	Private, straight	United States
Mexico	17.0	Public, floating rate notes	United States
Morocco	23.2	Public, straight	Switzerland
Philippines	66.8	Public, straight	Japan
South Africa	28.5	Private, straight	Switzerland
South Africa	60.2	Private, straight	Switzerland
South Africa	31.1	Private, straight	Switzerland
South Africa	5.8	Private, straight	Switzerland
South Africa	30.1	Private, straight	Switzerland
Thailand	45.9	Public, straight	Japan
Yugoslavia	12.2	Public, floating rate notes	Switzerland
1981 (January–March)			
South Africa	56.1	Private, straight	Switzerland
South Africa	15.4	Private, straight	Switzerland
South Africa	21.5	Private, straight	Switzerland
Venezuela	95.8	Public, straight	Japan
Eurobonds			
1980			
Argentina	25.0	Public, floating rate notes	U.S. dollars
Brazil	83.7	Public, straight	Deutsche mark
Brazil	84.9	Public, straight	Deutsche mark
Brazil	55.9	Public, straight	Deutsche mark
Chile	57.2	Public, straight	Deutsche mark
Chile	25.0	Public, floating rate notes	U.S. dollars
Colombia	25.0	Public, floating rate notes	U.S. dollars
Colombia	30.0	Public, floating rate notes	U.S. dollars
Costa Rica	50.0	Public, floating rate notes	U.S. dollars
Costa Rica	27.2	Public, straight	Deutsche mark
Costa Rica	20.0	Public, floating rate notes	U.S. dollars
Egypt	30.0	Public, floating rate notes	U.S. dollars
India	30.0	Public, floating rate notes	U.S. dollars
Israel	50.0	Public, floating rate notes	U.S. dollars
Israel	20.0	Public, convertible	U.S. dollars
Israel	20.0	Public, floating rate notes	U.S. dollars
Israel	20.0	Public, floating rate notes	U.S. dollars
Israel	20.0	Public, floating rate notes	U.S. dollars
Mexico	40.0	Public, floating rate notes	U.S. dollars
Mexico	34.8	Public, straight	French francs
Mexico	125.0	Public, straight	U.S. dollars
Mexico	25.0	Public, floating rate notes	U.S. dollars
Mexico	75.0	Public, straight	U.S. dollars
Panama	25.0	Public, floating rate notes	U.S. dollars
Portugal	30.0	Public, floating rate notes	U.S. dollars
South Africa	67.9	Public, straight	Deutsche mark
South Africa	42.9	Private, straight	Deutsche mark
South Africa	50.0	Public, floating rate notes	U.S. dollars
South Africa	54.3	Public, straight	Deutsche mark
Venezuela	50.0	Public, floating rate notes	U.S. dollars
Venezuela	81.5	Public, straight	Deutsche mark
Yugoslavia	25.0	Public, floating rate notes	U.S. dollars
1981 (January–March)			
Hong Kong	20.0	Public, floating rate notes	U.S. dollars
Israel	7.0	Public, floating rate notes	U.S. dollars
Mexico	100.0	Public, floating rate notes	U.S. dollars

Source: World Bank.

¹ Fund member developing countries, according to the country classification used by the Fund.² Classified as public offerings, private placements, straight bonds, or floating rate notes.

Table 42. Developing Country Eurobond Issues and Placements by Currency, 1976–80¹

(In millions of U.S. dollars or equivalent)

	1976	1977	1978	1979	1980
U.S. dollars	422	955	1,135	1,317	835
Public issues	412	945	630	1,103	835
Private placements	10	10	505	214	—
Deutsche mark	273	1,199	1,436	421	555
Public issues	248	1,005	1,243	410	512
Private placements	25	194	194	11	43
Kuwaiti dinars	287	81	396	127	—
Public issues	247	60	360	127	—
Private placements	41	21	36	—	—
Japanese yen	—	—	—	—	—
Public issues	—	—	—	—	—
Private placements	—	—	—	—	—
Saudi Arabian riyals	—	103	95	—	—
Public issues	—	52	—	—	—
Private placements	—	51	95	—	—
French francs	—	—	—	—	35
Public issues	—	—	—	—	35
Private placements	—	—	—	—	—
U.A.E. dirhams	143	11	—	—	—
Public issues	25	—	—	—	—
Private placements	117	11	—	—	—
Bahraini dinars	—	104	21	—	—
Public issues	—	20	21	—	—
Private placements	—	184	21	—	—
Netherlands guilders	—	30	67	—	—
Public issues	—	—	—	—	—
Private placements	—	30	67	—	—
Other/unallocated ²	—	133	32	—	—
Public issues	—	133	32	—	—
Private placements	—	—	—	—	—
Total ³	1,125	2,617	3,183	1,865	1,425
U.S. dollar share (per cent)	38	36	36	71	59
Public issues as proportion of total (per cent)	83	85	72	88	97

Source: World Bank, *Borrowing in International Capital Markets*.¹ The country classification is that used by the Fund.² Includes Hong Kong dollars, Venezuelan bolívares, European Units of Account, and unallocated issues.³ Components may not add to totals due to rounding.**Table 43. Maturity Distribution of New International Bond Issues and Placements by Developing Countries, 1976–80¹**

(Percentage of total; U.S. dollar equivalent)

	Foreign Bonds					Eurobonds				
	1976	1977	1978	1979	1980	1976	1977	1978	1979	1980
Over 1 year up to 5 years	16.3	26.2	23.4	11.7	19.2	38.0	22.7	18.3	23.7	20.3
Over 5 years up to 7 years	—	18.6	3.4	13.9	2.0	22.7	47.5	26.5	25.8	34.4
Over 7 years up to 10 years	7.1	24.2	39.8	42.2	49.6	23.1	23.9	30.3	34.2	45.3
Over 10 years up to 15 years	20.2	12.4	22.4	11.4	1.6	4.6	3.6	19.6	8.1	—
Over 15 years up to 20 years	30.8	—	—	5.9	—	—	—	—	0.4	—
Over 20 years up to 25 years	—	—	—	—	—	—	—	—	—	—
Over 25 years	—	0.1	—	—	—	—	—	—	—	—
Unknown	25.6	18.4	11.1	14.9	27.6	6.5	2.4	5.3	7.7	—
Total ²	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: World Bank, *Borrowing in International Capital Markets*.¹ Classification of countries is that used in the World Bank publication.² Components may not add to totals due to rounding.

Table 44. Maturity Distribution of Market Borrowing, 1976–80¹

(In per cent)

	1976	1977	1978	1979	1980
Publicized bank credit commitments					
All categories of borrowers					
Over 1 year up to 5 years	49	19	8	13	12
Over 5 years up to 7 years	39	65	25	11	22
Over 7 years up to 10 years	4	12	58	52	55
Over 10 years up to 15 years	—	—	6	16	7
Developing country borrowers ²					
Over 1 year up to 5 years	56	23	8	10	10
Over 5 years up to 7 years	31	64	27	8	20
Over 7 years up to 10 years	5	9	56	60	64
Over 10 years up to 15 years	—	—	6	17	4
Longest maturity (years) ³	10	10	15	18	...
Average maturity (years/months) ³	5/9	6/8	8/4	8/5	...
International bond issues by developing countries²					
Eurobonds					
Over 1 year up to 5 years	38	23	18	24	20
Over 5 years up to 7 years	28	48	27	26	34
Over 7 years up to 10 years	23	24	30	34	45
Over 10 years up to 15 years	5	4	20	8	—
Foreign bonds					
Over 1 year up to 5 years	16	26	23	12	19
Over 5 years up to 7 years	—	19	3	14	2
Over 7 years up to 10 years	7	24	40	42	50
Over 10 years up to 15 years	20	12	22	11	2
Over 10 years up to 20 years	21 ⁴	—	—	6	—

Source: World Bank.

¹ Percentages do not add to 100 because of unknown, unallocated maturities.² World Bank country classification.³ OECD, *Financial Market Trends*.⁴ Reflects public issues in the U.S. market by a Philippine Government entity which carried the guarantee of the U.S. Export-Import Bank.**Table 45. Initial Offering Yields of Publicly Offered Bonds and Eurobonds, 1977–80¹**

(Weighted averages of straight debt issues)

	1977	1978	1979	1980
Foreign bonds				
U.S. market				
Industrial countries	8.39	8.91	10.14	12.45
Developing countries	8.58	9.82	...	...
International organizations	7.89	9.09	10.13	12.10
German market				
Industrial countries	...	5.16	7.12	8.42
Developing countries	...	7.70	8.01	—
International organizations	6.23	6.06	7.56	8.66
Swiss market				
Industrial countries	5.19	3.96	3.97	5.79
Developing countries	5.37	5.12	5.10	6.36
International organizations	4.89	3.99	4.48	5.97
Japanese market				
Industrial countries	7.38	6.41	7.43	8.76
Developing countries	6.97	6.90	7.78	8.95
International organizations	6.87	6.47	8.12	8.79
Eurobonds				
U.S. dollar				
Industrial countries	8.03	8.74	9.81	11.70
Developing countries	8.85	9.77	9.79	11.82
International organizations	7.92	8.86	10.10	11.13
Deutsche mark				
Industrial countries	6.38	5.50	6.94	8.30
Developing countries	7.28	6.75	7.66	9.18
International organizations	6.11	5.93	7.46	8.67

Source: World Bank, *Borrowing in International Capital Markets*.¹ Classification of countries is that used in the World Bank publication.

Occasional Papers of the International Monetary Fund

1. International Capital Markets: Recent Developments and Short-Term Prospects, by a Staff Team Headed by R. C. Williams, Exchange and Trade Relations Department. 1980.
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