I Introduction

The rapid increase in the external debt of nonindustrial countries since 1973–74 and the corresponding rapid growth in cross-border claims of commercial banks have led to a vulnerable structure of international debt. The risks inherent in the system had been pointed out by observers for several years. These risks materialized in 1982, when the persistence of high positive real interest rates, the deepening recession in industrial countries, and political tensions in several regional areas combined to induce a series of adverse developments:

—a liquidity crisis in Eastern Europe, with debt rescheduling for Poland and for Romania and increased liquidity uncertainties in other countries in the area;

—a debt crisis in Latin America, owing to the postponement of debt service obligations by Mexico and Argentina and heightened debt-servicing difficulties in other countries in the area; and

—a confidence crisis in the interbank market, marked by a contraction in the London interbank market in the second quarter of 1982 and the re-emergence of tiering among banks.

The associated liquidity shortages and debt difficulties of major borrowing countries were addressed through the coordinated efforts of creditor governments, central banks, commercial banks, the Bank for International Settlements (BIS), and the International Monetary Fund.[1]

The reduction in the rate of increase in international bank lending, which began in 1982, has continued to prevail. Net international bank credit grew at an annual rate of 11 percent in the first half of 1982 and 9 percent in the second half of 1982, against 16 percent and 25 percent, respectively, in the corresponding periods of 1981.[2] Preliminary figures for 1983 show that net international bank credit increased by 8.3 percent, compared with 10.1 percent in 1982 and 20.4 percent in 1981. Net bank lending to non-OPEC developing countries amounted to about $12 billion in 1983, against about $20 billion in 1982. The rate of growth in bank lending to non-OPEC developing countries was about 5 percent in 1983, against about 9 percent in 1982 and 20 percent in 1981.[3] It is expected that this slowdown in international bank lending will reinforce the pressure on borrowing countries to adjust their economies more severely, with potential effects on the rate of growth of the world economy. In addition, while the international monetary system has shown its resilience by coping with simultaneous crises in several of the 20 largest non-BIS borrowing countries, there remains a need to address some of the problems that have emerged during the past two years.

The Fund seeks to promote monetary, financial, and economic stability in the world, and has to play an active role in preventing or mitigating adverse developments in international bank lending activities. In recent years, the Fund has developed and strengthened its relations with commercial banks. There have been periodic meetings with officials of commercial banks, the annual publication of a study on international capital markets, ad hoc discussions with banks on problem countries with the concurrence of the country concerned, and active participation in debt rescheduling negotiations. This relationship widened and intensified in 1982, when the Fund, in close association with the BIS, played a leading role in the coordinated handling of actual or potential debt crises in Argentina, Brazil, Hungary, Mexico, and Yugoslavia.

This paper attempts to summarize recent develop-

[1] See E. Brau, R. C. Williams, and others, *Recent Multilateral Debt Restructurings with Official and Bank Creditors*, Occasional Paper No. 25, International Monetary Fund (Washington, December 1983). Hereinafter referred to as Brau and Williams, *Recent Multilateral Debt Restructurings*.

[2] These figures are based on data provided in Table 2 of the quarterly reports ("International Banking Developments") published by the BIS. Net international bank credit is defined as total gross external assets of banks in the BIS reporting area netted out for redepositing among banks within the BIS reporting area. Unless indicated otherwise, all flow figures are on an exchange rate adjusted basis. Quarterly figures at the end of the year are used in the Annual Reports of the BIS and in the text of this paper, unless indicated otherwise. As described in footnote 26 below, semiannual figures give a somewhat more encouraging picture for credit expansion to non-BIS countries.

[3] See also *World Economic Outlook: A Survey by the Staff of the International Monetary Fund*, Occasional Papers No. 21, May 1983, and No. 27, April 1984 (Washington: International Monetary Fund).

ments in the relationships between the Fund, member countries, and commercial banks, with specific reference to five European countries. It addresses four interrelated issues relevant to possible Fund action in the future:

(1) Assessment of the attitude of commercial banks toward individual countries.

(2) Assisting member countries in the management of their external debt.

(3) Development of a constructive relationship between the Fund, commercial banks, and member countries.

(4) Improvement in the handling of actual or potential debt crises.

Some specific suggestions and recommendations are given in the concluding section of the paper; these should be considered as a contribution to an evolutionary process and not as a proposal for a change in the overall policy stance that has demonstrated in 1982 and 1983 an ability to cope with major difficulties.