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# **LDC Foreign Private Borrowing: Recent Trends and Issues**

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**A Research Paper**

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September 1982*

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# LDC Foreign Private Borrowing: Recent Trends and Issues

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A Research Paper

This paper was prepared by [redacted] Economics  
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**LDC Foreign Private  
Borrowing: Recent Trends  
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**Overview**

*Information available  
as of 30 July 1982  
was used in this report.*

Less developed countries borrowed heavily again in 1981 as they continued to be hit hard by low export commodity prices, high interest rates, and the cumulative effects of global recession. Aggregate medium- and long-term debt to foreign private banks rose by \$46 billion, roughly the same increase as in 1980. Almost half of the new debt came from US banks. We do not expect major changes in this pattern of borrowing over the next year or two, because the forces underlying LDC borrowing needs are unlikely to abate and banks seem willing to continue to provide credit, albeit at substantially higher cost.

The mounting financial problems of the LDCs have heightened bankers' concerns, but their response thus far has been to increase lending fees to diffuse the potential loss from bad loans:

- More borrowing took place in the highly publicized Eurocurrency markets rather than the less expensive bilateral transactions that characterized lending in 1980.
- Banks insisted on greater returns to cover their perception—probably heightened by the tenuous East European financial situation—of increased risk of lending to LDCs.
- More loans were written based on the US prime rate instead of the London interbank offer rate (LIBOR). Borrowers, especially in Latin America, apparently prefer to use the prime rate because they can attract participation by regional US banks.

Banks have suffered relatively small losses on their international lending while reaping substantial profits, and they are willing to lend to an increasing number of LDCs. Mexico, Brazil, Argentina, and Venezuela accounted for about half of new lending in 1981, and we expect them to absorb an even greater share in 1982. Besides such traditional clients, banks also are boosting lending to cash-short OPEC countries and to such politically or economically questionable borrowers as Bangladesh, Uganda, and Angola. Although loans to the latter group are small, we believe they indicate a willingness by banks to deal with riskier countries to diversify their foreign loan portfolios and maintain high profits.

Rising debt burdens combined with a continuing slump in export earnings have led to an increase in the number of LDCs unable to service their debts. At the end of 1981, 28 LDCs were in arrears on their payments, with half receiving some form of debt relief during the year. The list of

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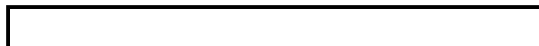

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those in arrears now includes such normally sound LDCs as Costa Rica in addition to such perennial problem countries as Sudan, Ghana, Zaire, and Bolivia. So far, the amount of debt rescheduled is small—less than 10 percent of total debt outstanding—and has had little evident impact on the international financial system.

Bankers are worried, however, that one or more large borrowers, particularly in Latin America, where US banks have two-thirds of their LDC exposure, will be unable to service their debt:

- Mexico's international finances have become increasingly precarious in recent weeks. Foreign lenders hope to avoid rescheduling because of the massive amount of its debt and have been encouraging Mexico to seek help from the IMF.
- We believe Argentina will need some form of debt relief and may have to reschedule payments this year, largely as a result of the drop in foreign exchange reserves and export earnings that took place during the Falklands crisis.
- In contrast, Brazil has stabilized its debt position. Although its \$80 billion debt is large, bankers are evidently encouraged by its diversified economy, close monitoring of private-sector borrowing, and proven record of effectively implementing austerity measures.

The unanswerable long-term question is how much longer LDCs can sustain the cycle of new foreign private borrowing to finance large current account deficits exacerbated by high interest payments on existing debt. Most observers believe that even if the industrial economies turn around soon and interest rates moderate, the 1980s will be a decade of unusually slow economic progress for most LDCs. It will thus be extremely difficult for living standards to rise as rapidly as they did during the halcyon growth spurts of the 1960s and 1970s. Both the social instability that could arise from austerity programs and inappropriate expansionary policies pose risks to international lenders. Thus, in our judgment, bankers will be watching carefully how countries such as Mexico, Argentina, Chile, the Philippines, Morocco, and Peru restructure their economies to cope with the reality of having to make do with less.



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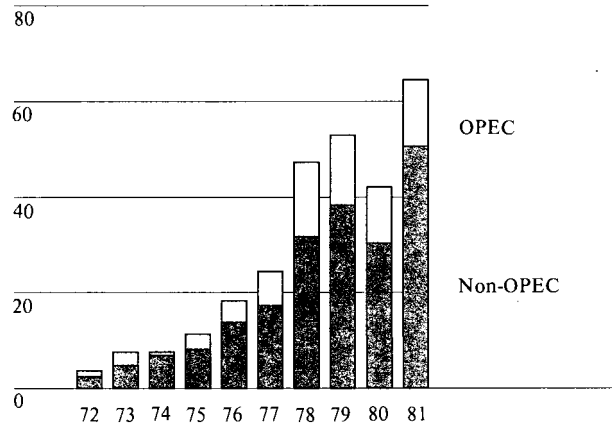
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**Figure 1**  
**LDC Volume of Private Borrowing<sup>a</sup>**

Billion US \$



<sup>a</sup> Including medium- and long-term Eurocurrency credits and foreign and international bonds. The data were compiled from a variety of sources, including Euromoney, the World Bank, commercial bank data, newspapers, and periodicals.

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**LDC Foreign Private  
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**Total Private Borrowing**

Net borrowing by less developed countries<sup>1</sup> from foreign private banks—which consists of drawdowns of both new and existing credit lines of all maturities—continued to rise in 1981 and first-half 1982. According to data from the Bank for International Settlements, bank claims on LDCs rose by \$46 billion in 1981, to \$321 billion, after an increase of \$49 billion in 1980. US bank claims on LDCs increased by \$20 billion in 1981 to \$118 billion (table 1), with all major borrowers, and particularly Mexico, increasing their debt. Net bond borrowing increased by \$3 billion in 1981, up from an increase of \$2 billion in 1980.

We estimate that gross medium- and long-term private borrowing was about \$75 billion in 1981, compared with about \$65 billion in 1980.<sup>2</sup> The Eurocurrency market and bond markets accounted for about \$65 billion, up sharply from the 1980 figure of \$42 billion (figure 1 and table 2). Most of the increase was accounted for by the non-OPEC LDCs, but the OPEC LDCs also obtained more funds than in 1980. The remaining \$10 billion in gross borrowing is attributable to unpublicized Eurocurrency and bilateral bank credits. In addition to medium- and long-term commitments, we estimate that the level of short-term credits increased by about \$10-15 billion; these credits include bank loans of less than one-year of maturity and bilateral trade credits from both banks and private firms.

<sup>1</sup> For this paper, the LDCs comprise some 115 independent nations in Africa, Asia, Latin America, and the Middle East, along with colonies and territories. Israel, Turkey, South Africa, Communist countries, and the European countries are not included.

<sup>2</sup> For this paper, gross LDC borrowing, except when stated otherwise, represents bank commitments to LDCs of more than one-year of maturity and bonds. These commitments tend to be highly variable on a year-to-year basis and are not closely correlated with drawdowns over the short run. Reasons for this include a lack of information on short-term credits and drawdowns of existing credits and a tendency of LDCs to line up new credit lines in anticipation of future financing problems.

**Table 1**  
**Selected LDCs:**  
**US Bank Exposure,<sup>a</sup> Ranked by Size**

*Billion US \$*

Country	1980 <sup>b</sup>	1981 <sup>b</sup>	1982 1st Qtr.
<b>Total LDCs</b>	<b>98.6</b>	<b>118.3</b>	<b>117.1</b>
Mexico	15.9	21.5	21.8
Brazil	16.2	19.0	18.9
Venezuela	9.1	9.6	9.3
Argentina	7.9	9.3	9.3
South Korea	7.1	9.4	8.5
Philippines	5.1	6.0	5.8
Chile	3.7	5.8	5.6
Taiwan	4.2	5.1	5.1
Indonesia	1.8	2.5	2.7
Ecuador	2.1	2.2	2.3
Colombia	2.6	2.6	2.2
Other LDCs	22.9	25.3	25.6

<sup>a</sup> The source of these data is the *Federal Reserve Bulletin*. The data include claims of US offices and foreign branches of US-owned banks and of US subsidiaries of foreign-owned banks. The data do not include US agencies and branches of foreign banks and foreign subsidiaries of US banks.

<sup>b</sup> Yearend data.

**Borrowing on the Euromarkets**

**Loan Volume in 1981.** The Eurocurrency market was the most popular source of funds; total LDC credits rose from \$40.6 billion in 1980 to \$61.4 billion last year.

several factors contributed to this increase:

- The world recession led to depressed demand for LDC exports and greater LDC borrowing.
- Higher interest rates on existing loans generated additional borrowing to meet debt service obligations.

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**Table 2**  
**LDCs: 1981-82 Euromarket Borrowing <sup>a</sup>**

Million US \$

Country	1981			1982 (1st Half)		
	Credits	Bonds	Total	Credits	Bonds	Total
<b>Total LDCs</b>	<b>61,425</b>	<b>3,204</b>	<b>64,629</b>	<b>28,053</b>	<b>2,130</b>	<b>30,183</b>
<b>OPEC LDCs</b>	<b>13,692</b>	<b>313</b>	<b>14,005</b>	<b>7,452</b>	<b>233</b>	<b>7,685</b>
Algeria	500	0	500	293	0	293
Ecuador	591	0	591	435	0	435
Gabon	0	0	0	18	33	51
Indonesia	1,145	72	1,217	489	200	689
Kuwait	372	0	372	260	0	260
Libya	250	0	250	0	0	0
Nigeria	3,027	0	3,027	533	0	533
Saudi Arabia	1,460	0	1,460	825	0	825
United Arab Emirates	152	0	152	178	0	178
Venezuela	6,196	241	6,437	4,423	0	4,423
<b>Non-OPEC LDCs</b>	<b>47,733</b>	<b>2,891</b>	<b>50,624</b>	<b>20,601</b>	<b>1,897</b>	<b>22,498</b>
Angola	80	0	80	7	0	7
Argentina	3,634	165	3,799	1,104	0	1,104
Bahamas	165	0	165	0	0	0
Bahrain	112	0	112	53	0	53
Bangladesh	47	0	47	50	0	50
Barbados	98	0	98	0	0	0
Bermuda	70	0	70	4	60	64
Bolivia	424	0	424	0	0	0
Brazil	7,089	61	7,150	2,878	43	2,921
Burma	14	0	14	0	0	0
Cameroon	37	0	37	0	0	0
Channel Islands	11	0	11	0	0	0
Chile	2,334	30	2,364	433	0	433
Colombia	1,001	0	1,001	405	0	405
Congo	50	0	50	50	0	50
Cyprus	120	0	120	0	0	0
Egypt	355	0	355	221	30	251
Ethiopia	20	0	20	0	0	0
Fiji	0	0	0	25	0	25
Ghana	68	0	68	0	0	0
Guatemala	154	0	154	0	0	0
Guyana	5	0	5	0	0	0
Haiti	42	0	42	0	0	0
Honduras	24	0	24	0	0	0
Hong Kong	3,692	50	3,742	733	0	733
India	1,007	137	1,144	267	30	297
Ivory Coast	663	0	663	427	0	427
Jamaica	182	0	182	20	0	20

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Table 2 (continued)

Million US \$

Country	1981			1982 (1st Half)		
	Credits	Bonds	Total	Credits	Bonds	Total
Jordan	79	0	79	73	0	73
Kenya	115	0	115	37	0	37
Lebanon	70	0	70	0	0	0
Liberia	27	0	27	0	0	0
Macau	57	0	57	0	0	0
Malaysia	1,651	0	1,651	590	355	945
Marshall Islands	21	0	21	0	0	0
Mauritania	98	0	98	12	0	12
Mauritius	0	0	0	40	0	40
Mexico	12,997	2,178	15,175	6,889	1,265	8,154
Morocco	923	0	923	402	0	402
Mozambique	3	0	3	0	0	0
Nauru	15	0	15	0	0	0
Netherlands Antilles	13	0	13	0	0	0
Niger	25	0	25	9	0	9
Oman	93	0	93	0	0	0
Pakistan	356	0	356	225	0	225
Panama	629	0	629	307	0	307
Papua New Guinea	225	0	225	159	0	159
Paraguay	89	0	89	57	0	57
Peru	809	25	834	500	0	500
Philippines	1,434	69	1,503	964	30	994
Senegal	8	0	8	0	0	0
Seychelles	6	0	6	0	0	0
Singapore	126	0	126	139	0	139
Solomon Islands	20	0	20	0	0	0
South Korea	3,935	133	4,068	2,164	41	2,205
Sri Lanka	174	0	174	100	0	100
Sudan	30	0	30	0	0	0
Taiwan	469	0	469	550	0	550
Thailand	839	43	882	250	43	293
Trinidad and Tobago	46	0	46	74	0	74
Tunisia	83	0	83	0	0	0
Uganda	10	0	10	0	0	0
Uruguay	181	0	181	80	0	80
Yemen Arab Republic	11	0	11	0	0	0
Zambia	212	0	212	245	0	245
Zimbabwe	357	0	357	58	0	58

<sup>a</sup> Because of rounding, components may not add to the totals shown.



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- LDCs chose to obtain new loans rather than draw down their existing credit lines as they did in 1980, when the number and volume of new credits actually declined.
- There were fewer nonpublicized medium-term loans in 1981 than in 1980, when LDCs frequently resorted to this type of loan rather than publicize less favorable terms.
- The softening of world oil prices led to greater financing needs for many oil-exporting LDCs, most notably Mexico and Nigeria.

publicity about their rising credit risk. [redacted] some LDCs, such as Nigeria and Venezuela, preferred to keep the publicized spreads lower and pay higher fees. These front-end fees can be as much as 3 to 4 percentage points. [redacted]

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A new factor raising LDC borrowing costs is the growing use of Eurocurrency credits based on the US prime rate rather than on LIBOR. Publicized loan data show that about \$1.7 billion in new LDC credits were priced over US prime in 1981 as opposed to only \$0.1 billion in 1980; many other credits carried an option of US prime or LIBOR. Most of the borrowers using US prime were Latin American countries. According to financial publications, borrowers prefer the US prime because they can publicize a lower spread to their countrymen and can also attract participation by regional US banks. Bankers are willing to grant the lower spread because the US prime has recently been 1 to 2 percentage points higher than LIBOR. [redacted]

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[redacted] banks have conducted more detailed credit risk analyses for LDCs over the past 18 months. Deteriorating economic conditions in many LDCs—such as Bolivia, Morocco, and the Philippines—prompted banks to limit the growth of or even reduce their exposure to those countries. Other LDCs, however—including India, Malaysia, and Thailand—were aided by relatively strong economies and a lack of prior bank exposure. [redacted]

The cost to LDCs of borrowing increased substantially in both nominal and real terms during 1981. The London interbank offer rate (LIBOR), which is the base rate for most Eurocurrency loans, rose from a 1980 average of 14.0 percent to 16.8 percent in 1981 (figure 2). Real interest rates also rose because of reduced inflation in the developed countries, particularly the United States. Moreover, average loan terms stiffened somewhat. According to our calculations, the average maturity on LDC loans remained at about seven years, but the average spread rose from 0.90 percentage point above LIBOR in 1980 to 0.95 percentage point in 1981<sup>3</sup> (tables 3 and 4). Each percentage point change in the spread reflects about \$2.0 billion in interest charges to LDCs. The average spread for non-OPEC LDCs rose during 1981 for the second straight year, while the OPEC LDC spread continued a downward trend started in 1976. [redacted]

Besides the surge in Eurocurrency lending, LDC bond issues rose sharply in 1981 following a two-year decline in volume. LDC bonds totaled \$3.2 billion last year, more than double the 1980 figure; the number of LDCs issuing bonds, however, fell from 17 in 1980 to 12 in 1981. According to institutional and banking publications, most LDCs were unwilling to enter the bond market because of high interest rates, and potential purchasers found LDC paper relatively unattractive. Mexico was by far the largest LDC bond issuer with two-thirds of the 1981 total. Argentina, Brazil, India, South Korea, and Venezuela floated most of the remainder. [redacted]

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**Distribution of Lending.** After a year of little change, the non-OPEC LDCs increased their share of total LDC borrowing substantially in 1981, from 72 percent to 78 percent (table 5). The primary reason behind the shift was the rise in Mexico's share from 14.4 percent to 23.5 percent, more than twice that of Brazil, which had the next highest share. [redacted]

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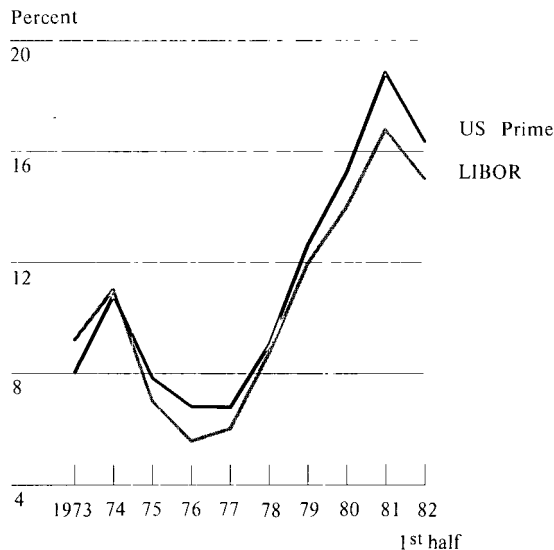
The hidden component of borrowing costs—front-end management or participation fees—grew during 1981 as LDCs attempted to shield themselves from adverse

<sup>3</sup> Throughout this paper, we have computed average spreads weighted by the amount and maturity of loans. [redacted]

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**Figure 2**  
**Interest Rates: Yearly Averages**



[Redacted]

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Seven countries continued to dominate LDC borrowing, accounting for nearly two-thirds of the total:

- Mexico, the largest LDC borrower, boosted its borrowing sharply because of high import costs, depressed oil export revenues, and a large development program.
- Brazil's share declined largely because of greater use of private placements (about which we have little data) rather than publicized syndications.
- Venezuela is the largest OPEC borrower, but its share fell in 1981 as Caracas cut back borrowing to consolidate its debt position.
- Argentina's share remained relatively stable, in view of its improved payments situation last year.
- South Korea overcame the problems associated with negative real GNP growth and change in leadership in 1980 to boost its borrowing share in 1981.

- Hong Kong continued to expand its borrowing by virtue of its strong credit rating.
- The Philippines' share declined although its 1981 volume increased over the 1980 total. Borrowing restrictions imposed by an IMF agreement and increasing lender apprehension led to the slower growth in Philippine credits. [Redacted]

Several lesser LDC borrowers substantially increased their share of total borrowing last year. According to banking industry publications, the explanations vary widely. Nigeria more than doubled its share in order to support large-scale development programs. Chile's share jumped as it took advantage of its improved economic situation in first-half 1981. India continued to be a favorite of lenders, largely because of low previous exposure, and attracted funds for energy-related projects. Some of the more creditworthy LDCs—Colombia, Taiwan, and Thailand—saw their borrowing shares drop in 1981 largely because they did not want to pay the higher interest rates. [Redacted]

Eight LDCs—Angola, Bangladesh, Libya, Macau, Marshall Islands, Seychelles, Solomon Islands, and Uganda—obtained Eurocurrency loans for the first time in 1981. We believe this is evidence of the willingness of banks to diversify their lending to countries with little or no prior exposure, even though these countries may be considered slightly worse credit risks. As a result, a total of 73 LDCs obtained Eurocurrency credits and bonds in 1981, an all-time record (table 6). The previous high was 63 LDCs in both 1978 and 1979. [Redacted]

**Developments in 1982.** Lending patterns this year have not changed substantially from those of 1981.

[Redacted] LDCs raised more than \$30 billion in Eurocurrency credits and bonds in first-half 1982, which is only slightly behind last year's pace. Mexico, Venezuela, Brazil, and South Korea are again the largest borrowers. Some countries, such as Malaysia and Taiwan, have taken advantage of their strong credit ratings to boost their borrowing. Several Latin American countries, however, have experienced difficulty in

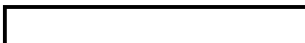
**Table 3**  
**Selected LDC Eurocurrency Loan Terms**  
**Weighted Average Spreads <sup>a</sup>**

*Percentage points above LIBOR*

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982 <sup>b</sup>
<b>Total LDCs</b>	<b>1.26</b>	<b>1.07</b>	<b>1.18</b>	<b>1.68</b>	<b>1.70</b>	<b>1.52</b>	<b>1.16</b>	<b>0.87</b>	<b>0.90</b>	<b>0.95</b>	<b>1.03</b>
<b>Non-OPEC LDCs</b>	1.32	1.18	1.13	1.72	1.78	1.68	1.22	0.86	0.93	1.00	1.12
Argentina	1.75	1.35	1.52	2.00	1.89	1.75	1.11	0.78	0.68	0.85	1.07
Brazil	1.12	0.87	1.12	1.78	1.96	2.02	1.51	0.92	1.44	2.09	2.13
Chile					2.47	2.10	1.38	0.89	1.00	0.92	1.00
Colombia	1.38	0.75		1.75	1.65	1.50	1.08	0.87	0.83	0.71	0.60
Hong Kong	0.88	1.58	1.17	1.68	1.67	1.50	1.00	0.76	1.13	0.48	1.30
India						1.00	1.06	0.57	0.53	0.53	0.51
Ivory Coast		1.50	1.25	1.88	2.02	1.99	1.67	1.55	1.45	1.42	1.43
Malaysia	0.88		1.25	1.54	1.43	1.07	0.81	0.70	0.47	0.31	0.27
Mexico	1.25	0.65	0.80	1.53	1.59	1.61	1.08	0.78	0.63	0.74	1.08
Morocco				1.63	1.61	1.35	0.98	0.96	1.04	1.06	1.06
Panama	1.65	1.38	1.17	1.75	1.73	1.75	1.56	0.88	1.25	1.26	1.26
Peru	1.60	1.69	1.17	1.82	2.25			1.40	1.31	1.07	0.72
Philippines	2.00	2.00	1.40	2.09	1.75	1.70	1.09	0.92	0.81	0.90	0.83
South Korea	1.37	1.16	1.42	1.97	1.82	1.71	0.98	0.67	0.82	0.65	0.57
Sri Lanka								0.94	0.83	0.69	0.59
Taiwan			1.09	1.73	1.75	1.43	0.96	0.70	0.66	0.67	0.65
Thailand			0.69		1.30	1.22	0.99	0.75	0.79	0.56	0.50
<b>OPEC LDCs</b>	1.11	0.94	1.52	1.60	1.51	1.21	1.03	0.93	0.77	0.72	0.61
Algeria	1.50	0.99		1.53	1.61	1.63	1.33	1.13	0.86	0.56	0.56
Ecuador	1.50			1.75	1.65	1.41	1.10	0.94	0.74	0.71	0.66
Gabon	1.88	1.80	1.67	1.94	1.97	1.95	2.25	1.81	1.50		
Indonesia			1.67	1.69	1.89	1.70	1.21	0.71	0.77	0.54	0.39
Kuwait					1.71	1.79	1.04	1.50	1.55	1.53	1.13
Nigeria			1.75				1.03	1.03	0.93	0.88	0.87
Saudi Arabia						1.63	1.58	1.18	1.16	1.24	
Venezuela	1.38	1.00	0.75	1.50	1.15	1.01	0.81	0.69	0.68	0.64	0.62

<sup>a</sup> Spreads are weighted by the amount and maturity of the loans.

<sup>b</sup> Data are for first-half 1982.



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**Table 4**  
**Selected LDC Eurocurrency Loan Terms**  
**Weighted Average Maturities <sup>a</sup>**

Years

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982 <sup>b</sup>
<b>Total LDCs</b>	<b>8</b>	<b>10</b>	<b>9</b>	<b>5</b>	<b>6</b>	<b>6</b>	<b>8</b>	<b>8</b>	<b>7</b>	<b>7</b>	<b>6</b>
<b>Non-OPEC LDCs</b>	8	10	8	5	6	6	9	9	8	8	7
Argentina	6	8	8	5	4	5	9	11	7	7	7
Brazil	10	12	10	5	6	6	10	11	8	8	8
Chile					3	5	8	9	8	7	7
Colombia	8	11	10	7	7	7	10	10	10	9	10
Hong Kong	7	8	10	6	7	7	10	9	7	12	3
India						7	7	5	8	9	10
Ivory Coast		10	10	5	6	5	8	10	11	9	8
Malaysia	7		10	5	7	7	8	8	10	10	8
Mexico	7	12	8	5	5	6	8	8	6	8	5
Morocco				7	5	7	8	10	8	7	5
Panama	7	10	9	5	6	6	8	9	8	7	8
Peru	6	9	9	6	5			5	8	9	6
Philippines	5	7	6	6	6	7	10	9	10	9	10
South Korea	7	11	8	5	6	7	9	10	8	8	7
Sri Lanka								8	7	7	8
Taiwan			8	5	6	6	8	10	8	9	10
Thailand			7	6	7	6	8	10	9	7	10
<b>OPEC LDCs</b>	7	10	9	6	6	7	8	6	5	5	4
Algeria	7	12		7	5	6	8	9	10	8	10
Ecuador	5			5	7	7	7	9	6	6	2
Gabon	6	10	11	5	5	7	7	7	8		
Indonesia	5		12	6	6	7	8	9	10	10	10
Kuwait					6	5	8	7	3	4	
Nigeria			10				7	8	8	8	9
Saudi Arabia						5	4	7	6	6	
Venezuela	7	6	2	11	7	7	9	4	3	2	3

<sup>a</sup> Maturities are weighted by the amount of the loans.<sup>b</sup> Data are for first-half 1982.

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**Table 5** Percent  
**LDCs: Share of Private Borrowing <sup>a</sup>**

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982 <sup>b</sup>
<b>Total LDCs</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Non-OPEC LDCs</b>	66.6	63.0	89.2	71.9	74.8	70.6	67.1	72.4	72.0	78.3	74.5
Argentina	6.2	1.1	6.2	0.4	5.4	6.9	3.8	5.9	6.0	5.9	3.7
Brazil	18.8	11.5	21.1	18.8	19.7	16.1	13.3	14.8	14.9	11.1	9.7
Chile				0.5	0.8	1.3	2.6	1.7	2.4	3.7	1.4
Colombia	2.4	2.8	0.1	1.0	0.8	0.2	0.2	1.9	2.1	1.5	1.3
Hong Kong	0.3	2.6	1.7	5.0	2.7	1.7	2.2	2.4	4.3	5.8	2.4
India		0.2				0.2	0.2	0.1	0.3	1.8	1.0
Malaysia	2.6	0.2	1.8	3.7	1.2	0.7	2.7	0.7	2.5	2.6	3.1
Mexico	15.1	17.6	19.8	21.2	15.9	17.4	17.4	21.8	14.4	23.5	27.0
Morocco				2.0	2.5	3.1	1.7	1.1	1.1	1.4	1.3
Peru	3.9	8.2	4.7	3.8	1.9	0.8		1.2	0.9	1.3	1.7
Philippines	2.9	1.9	11.3	1.9	7.1	3.6	5.0	4.2	3.3	2.3	3.3
South Korea	2.6	0.6	4.1	2.8	7.0	5.5	7.4	6.3	5.1	6.3	7.3
Taiwan		0.1	2.9	1.2	1.4	2.4	0.7	1.6	1.4	0.7	1.8
Thailand			0.1		0.5	1.0	1.0	1.5	2.1	1.4	1.0
Other non-OPEC	11.8	16.2	15.4	9.6	7.9	9.7	8.9	7.2	11.2	9.0	8.5
<b>OPEC LDCs</b>	33.4	37.0	10.8	28.1	25.2	29.4	32.9	27.6	28.0	21.7	25.5
Algeria	8.0	17.9	0.8	4.7	4.5	3.2	8.4	4.6	1.0	0.8	1.0
Ecuador	2.4	0.1		0.5	0.5	1.8	1.0	2.1	2.4	0.9	1.4
Indonesia	3.6	2.5	4.8	14.2	6.5	0.4	3.7	1.7	3.1	1.9	2.3
Iran	10.3	9.7	1.5	2.1	5.2	7.8	3.3				
Nigeria			0.3				3.7	3.7	1.9	4.7	1.8
Saudi Arabia		0.1			0.2	0.6	1.1	1.5	2.1	2.3	2.7
Venezuela	7.9	1.8	0.7	1.7	6.1	8.9	8.2	12.3	16.7	10.0	14.7
Other OPEC	1.2	4.9	2.7	4.9	2.2	6.7	3.5	1.7	0.8	1.1	1.6

<sup>a</sup> Private borrowing includes medium- and long-term Eurocurrency credits and foreign and international bonds.

<sup>b</sup> Data are for first-half 1982.

obtaining new credits: Argentina as a result of the Falklands crisis, and Chile, Ecuador, and Peru because of economic difficulties brought on by depressed export revenues.

Loan terms have generally stiffened from 1981 levels. The average spread rose above 1.0 percentage point—largely because of a jump in the non-OPEC average spread—and the average maturity fell to six years.

Spreads for individual LDCs varied. Asian LDCs, for example, generally improved their spreads because of relatively strong economies, while terms for Latin American countries tightened as a result of poor economic performance and rising debt levels. Terms on loans to African LDCs stiffened slightly, although most of these countries did not have access to the capital markets because of weak economies. LIBOR

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**Table 6**  
**Publicized LDC Appearances in the**  
**Euromarkets <sup>a</sup>**

Year	Non-OPEC LDCs	OPEC LDCs	Total LDCs
1972	20	7	27
1973	34	8	42
1974	29	7	36
1975	32	8	40
1976	33	9	42
1977	45	10	55
1978	51	12	63
1979	54	9	63
1980	48	9	57
1981	64	9	73
1982 <sup>b</sup>	38	9	47

<sup>a</sup> LDCs that have obtained a Eurocurrency loan or issued a foreign or international bond.

<sup>b</sup> Data are for first-half 1982.

[Redacted]

dropped to about 15 percent for the first four months of 1982, easing some of the debt-servicing burden for LDCs. [Redacted]

The OPEC LDCs increased their share of total LDC borrowing to more than 25 percent in first-half 1982, which reflects their growing financing requirements in light of the soft oil market. A total of 47 LDCs have borrowed thus far in 1982, none of them new entrants. [Redacted]

**Outlook for 1982-83**

**Volume of Borrowing.** We estimate that LDC borrowing requirements will increase over the next 18 months at a slower rate than in previous years. Most analysts expect the aggregate non-OPEC LDC current account deficit to level off in 1983, which should ease the group's financing burden. The rising deficits of several OPEC countries, however, will cause them to enter the Euromarkets in search of funds. Moreover, high interest rates on existing loans will force many LDCs to borrow additional funds to meet debt repayment obligations. With official sources of lending—including the IMF—not planning to increase

**Table 7**  
**Selected LDCs: Changes in Credit Ratings <sup>a</sup>**

Improving terms (1982 spread at least 0.1 percentage point less than 1981 spread)		
Algeria		
Colombia		
Indonesia		
Peru		
Sri Lanka		
Stable terms (1982 spread less than 0.1 percentage point different from 1981 spread)		
Bangladesh	Malaysia	Taiwan
Brazil	Morocco	Thailand
Chile	Nigeria	Trinidad and Tobago
Ecuador	Panama	Venezuela
India	Philippines	
Ivory Coast	South Korea	
Stiffening terms (1982 spread at least 0.1 percentage point greater than 1981 spread)		
Argentina	Papua New Guinea	
Congo	Paraguay	
Hong Kong	Uruguay	
Jamaica	Zambia	
Mexico		

<sup>a</sup> Changes are determined according to the LDC's weighted average spread for 1982 as opposed to 1981.

[Redacted]

substantially their financial flows, we foresee that LDCs will have to continue their heavy reliance on private banks. [Redacted]

At this stage, we expect the increase in net LDC borrowing from private banks to be the same in both 1982 and 1983 as in 1981—about \$45 billion. Gross medium- and long-term borrowing will probably be \$75-80 billion each year, slightly higher than last year, with most of the total again accounted for by the Euromarkets. Financial publications state that the bond markets should improve for LDCs as interest rates begin to fall, although the disappearance of the OPEC surplus will take away some potential sources of support for LDC bond issues. [Redacted]

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**Problem Areas.** Despite Mexico's serious financial problems, we do not think that borrowing by individual LDCs in the remainder of 1982 will produce any major surprises. Nonetheless, we see several developments that could have an adverse impact on LDC borrowing:

- As lenders conduct more stringent credit risk analyses, countries such as Mexico and Venezuela will probably meet increased market resistance. As a result they will be forced to adjust their economic policies or else pay substantially higher rates.
- With a decline in the number of least risky LDCs—those that are creditworthy and have small outstanding loan balances—and an increase in the number of riskier LDCs, the average spread for the non-OPEC LDCs will probably remain above 1.0 percentage point.
- An emerging bank policy of “regionalization” whereby all countries in a region are adversely affected by the problems of one or a few (such as by Poland in Eastern Europe and Argentina in South America) could slow the flow of new lending to LDCs regardless of their individual credit risk.

Financial difficulties will probably continue to afflict LDCs with external payments arrears, and more of them will probably seek debt relief. At the end of 1981, 28 LDCs were in arrears and half of them obtained debt relief last year (table 8). None of the 28, however, has a debt large enough to cause major problems for the international financial community.

[redacted] the major concern to private banks is the possibility of a debt rescheduling by Mexico or Argentina. Mexico's economic troubles, which have recently become more evident, could lead to a rescheduling.

Primarily because of the drop in both export revenues and foreign exchange reserves during the Falklands crisis, we believe Argentina will need some sort of debt relief and may have to reschedule before the end of 1982, which will make lenders even more cautious

**Table 8**  
**LDCs With Payments Arrears, 1981**

Million US \$

	Debt to Banks
Bolivia <sup>a</sup>	872
Central African Republic <sup>a</sup>	23
Chad	17
Congo	442
Costa Rica	754
Dominican Republic	463
El Salvador	215
The Gambia	27
Ghana	245
Guinea <sup>a</sup>	110
Guinea-Bissau	11
Guyana <sup>a</sup>	120
Haiti	41
Jamaica <sup>a</sup>	494
Liberia <sup>a</sup>	246
Madagascar <sup>a</sup>	317
Mali	69
Mauritania	92
Nicaragua <sup>a</sup>	501
Senegal <sup>a</sup>	374
Sierra Leone <sup>a</sup>	60
Somalia	19
Sudan <sup>a</sup>	880
Tanzania	258
Togo <sup>a</sup>	232
Uganda <sup>a</sup>	50
Zaire <sup>a</sup>	1,119
Zambia	462

<sup>a</sup> Denotes LDCs that received debt relief in 1981.

[redacted] about new loans to South America. The other large LDC debtor, Brazil, has stabilized its debt position; creditors are more optimistic and see little or no prospect of debt rescheduling for the next year or two.

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Appendix

Key LDC Borrowers

**Mexico.** Mexico, the largest LDC borrower, raised some \$15.2 billion on the Euromarkets in 1981 and \$8.2 billion in first-half 1982. As a result of its deteriorating payments situation and massive borrowing needs, Mexico has been forced to accept less favorable terms in the past year. The average spread rose from 0.63 percentage point above LIBOR in 1980 to 0.74 in 1981 and 1.08 thus far in 1982. Most of the increase is attributable to the declining creditworthiness of the private sector—particularly Grupo Alfa—but recently [redacted] government borrowers have met growing lender resistance. Bankers are especially wary of Mexico's current parlous economic troubles, but they are hopeful that the government will take the necessary steps to slow down and better control the economy. If not, we believe that Mexico will have to restructure or even reschedule a portion of its debt before the end of this year. [redacted]

[redacted] The average spread could nearly double to 1.5 percentage points above LIBOR this year, which could cost Mexico as much as an additional \$200 million to meet its 1982 gross borrowing requirement of more than \$20 billion.

**Brazil.** Brazil continues to borrow heavily although its credit standing has improved in the past year [redacted] Terms remain steady, with Brazil paying between 2.0 and 2.5 percentage points above LIBOR for eight-year loans. Self-imposed austerity measures last year have taken hold and have satisfied Brazil's creditors. [redacted]

[redacted]

**Argentina.** [redacted] the Falklands crisis has drastically altered bankers' assessments of Argentina, but they have resisted the urge to shut off lending entirely because they are unwilling to push Argentina into a formal default and are optimistic about the country's economic potential. Most banks have not extended new medium-term credits to Argentina, but they have rolled over existing short-term credits. US bank exposure to Argentina has not changed in the past six months. Spreads on Argentine loans have increased since 1980, and we expect they will continue to do so. We believe it is unlikely, however, that Argentina will obtain any new medium-term syndicated loans during the remainder of 1982.

[redacted]

**Venezuela.** The largest OPEC borrower, Venezuela, obtained \$6.4 billion in 1981 and \$4.4 billion in first-half 1982. Now, however, Venezuela has run into some difficulties filling its borrowing needs. Although depressed oil export revenues and a massive buildup of short-term debt have boosted Venezuela's financing requirements to nearly \$10 billion, [redacted] some bankers have shied away from new lending because of Caracas's support for Argentina in the Falklands conflict. [redacted]

[redacted]

**South Korea.** South Korea's borrowing has rebounded after the change in leadership and decline in GNP in 1980, with a total of \$4.1 billion in 1981 and \$2.2 billion thus far in 1982. Credit terms have improved: the average spread was 0.65 percentage point above LIBOR in 1981, down from 0.82 the previous year. We believe that the 1982 spread will be about the

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same as that of 1981.

growing debt burden.

The large Korean borrowers, both public and private, continue to account for most of the new credits.

Philippine loan terms tightened in 1981 but eased in the first part of 1982. We expect the Philippines to borrow on the order of \$4-5 billion this year.

**Nigeria.** Nigeria's emergence as a major borrower, \$3.0 billion in 1981, has been slowed thus far in 1982 even though its borrowing needs are greater.

Nigeria's credit standing has deteriorated along with its economy—mainly because of declining oil export revenues, high import bills, and administrative chaos in Lagos. Spreads on loans to Nigeria have remained below 1.0 percentage point, but only because the government pays hefty front-end fees—as high as 3.5 percentage points. Most of the lending is for projects, but some is diverted to balance-of-payments financing.

**Hong Kong and Indonesia.** Hong Kong and Indonesia—two of the better LDC credit risks—continue to have little trouble obtaining new funds. Hong Kong borrowed \$3.7 billion in 1981 with an average spread of 0.48 percentage point above LIBOR and a 12-year average maturity. Most of the loans are for projects, and some extend even beyond the 1997 expiration date of the New Territories' lease from China. We expect Hong Kong to continue to be a major borrower on the Euromarkets, totaling some \$4-5 billion in 1982. Indonesia took advantage of its low bank exposure relative to other Asian LDCs to obtain an average spread of 0.54 in 1981 and 0.39 in the first part of 1982 despite a decrease in oil export revenues. The loans were targeted primarily for projects and trade financing. Indonesia's exposure to US banks has risen by about 50 percent during the past 18 months.

**Malaysia and Taiwan.** These two LDCs continue to rank among the better credit risks because of strong economies and relatively low exposure to foreign banks. Malaysia has the lowest average spread among all LDCs—0.31 percentage point above LIBOR in 1981—and has taken advantage of that to borrow heavily at favorable rates to build up reserves and promote development projects. Even with the expected increase in Malaysian borrowing this year to about \$2 billion we expect spreads to remain around 0.3 percentage point.

Taiwan is being viewed more cautiously because of increased Western ties with China and the resultant emergence of China as a borrower. Lenders are wary of political pressure by China but are still anxious to participate in the lucrative trade finance activity in Taiwan. US bank exposure to Taiwan remained at about \$5 billion through first-quarter 1982.

**Chile.** Chile borrowed nearly \$2.4 billion in 1981, most of it in the first half of the year. US banks, in particular, have been very active lenders to Chile. Lower commodity prices, especially copper, combined with the severe recession and financial difficulties have soured lenders' attitudes toward Chile in the past six to eight months, which will make it more difficult for Chile to meet its 1982 borrowing requirement of about \$6 billion.

**The Philippines.** The Philippines encountered growing banker resistance in 1981 because of high exposure to many banks, depressed commodity exports, the instability of several major companies, and a

**Thailand and India.** Both Thailand and India have used their lack of previous lending to their advantage, borrowing at spreads of around 0.5 percentage point above LIBOR. In both cases project lending is the main priority. political uncertainties in Thailand and the rising level of external debt in India (now at about \$20 billion)

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suggest that these LDCs' good credit standing may be only temporary. Thailand obtained \$0.9 billion in 1981, while India borrowed \$1.1 billion; we expect both countries to increase their totals slightly this year.

**Peru.** Peru borrowed more than \$800 million in 1981, but [redacted] a worsening in the balance of payments in the past year—brought on by depressed commodity export revenues—has damaged the country's credit standing. Despite a recent IMF agreement, Peru may have some trouble borrowing the \$2-3 billion it needs this year. US bank exposure to Peru has increased at a slower pace over the past year.

**Colombia.** [redacted] Colombia remains the most creditworthy South American country even though large current account deficits have increased its borrowing requirements. Total borrowing by Colombia—mostly project related—was \$1.0 billion in 1981, and we believe it will reach \$1.5 billion this year. The growth of US bank exposure to Colombia has slowed over the past year; we expect banks to remain cautious during the rest of 1982.

**Ecuador.** [redacted] Ecuador has felt the squeeze of lower oil revenues, but it still is obtaining funds at favorable rates, around 0.7 percentage point over LIBOR in 1981-82. US banks have continued to lend to Ecuador, with total exposure at \$2.3 billion in first-quarter 1982. We believe that Ecuador's current political uncertainties and rising external debt will make lenders more cautious, and Quito may experience a tougher time lining up new credits in second-half 1982.

**Panama.** [redacted] Panama is the strongest Central American republic, largely because of its growing importance as an offshore banking center, its steady canal revenues, and the US military presence. Panama borrowed more than \$0.6 billion last year, and we expect that the country should top that total in 1982. US banks have been lured by increased use of US-prime-based credits.

**Morocco and Saudi Arabia.** [redacted] [redacted] economic difficulties in Morocco—brought on by high oil imports, depressed phosphate prices, poor agricultural performance, and an ongoing conflict in the Western Sahara—have brought on a decline in the country's creditworthiness and a stiffening of terms. After borrowing more than \$0.9 billion last year, Morocco may be hard pressed to match that figure in 1982. Saudi Arabia borrowed nearly \$1.5 billion in 1981, and we think it will obtain an amount close to that this year. [redacted] Saudi Arabian firms have used their country's good credit rating to borrow heavily for infrastructure and industrial development projects.

[redacted]

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