

CEPAL

Review

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UNITED NATIONS
ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN

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Notes and explanation of symbols

The following symbols are used in tables in the *Review*:

Three dots (...) indicate that data are not available or are not separately reported.

A dash (—) indicates that the amount is nil or negligible.

A blank space in a table means that the item in question is not applicable.

A minus sign (-) indicates a deficit or decrease, unless otherwise specified.

A point (.) is used to indicate decimals.

A slash (/) indicates a crop year or fiscal year, e.g., 1970/1971.

Use of a hyphen (-) between years, e.g., 1971-1973, indicates reference to the complete number of calendar years involved, including the beginning and end years.

Reference to "tons" mean metric tons, and to "dollars", United States dollars, unless otherwise stated.

Unless otherwise stated, references to annual rates of growth or variation signify compound annual rates.

Individual figures and percentages in tables do not necessarily add up to corresponding totals, because of rounding.

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The conduct of Latin America's creditor banks

*Michael Mortimore**

The international crisis of indebtedness with transnational banks arose from a number of causes, of which the three main ones are the following: the negative repercussions of the world economic situation, the effects of the conduct of borrowers, and the consequences of the behaviour of the main transnational banks. The first two of these have been the subject of exhaustive analysis, but this has not been so in the case of the third cause, mainly because of the lack of concrete detailed information. This article sets forth the new ideas which emerged from the Interregional Project on Transnational Banks undertaken by the United Nations Centre on Transnational Corporations, the executing agency for which was the Joint ECLAC/CTC Unit on Transnational Corporations. This project was directed by the author of the present article.

It has been possible to define the consequences of the behaviour of the transnational banks more clearly on the basis of an analysis of the behaviour of these institutions both during the boom period of lending to the countries and during the period of debt restructuring. For this purpose, an analysis was made of the loan contracts signed by the transnational banks with six countries. The main banks which organized lending to developing countries through syndicated Eurocurrency credits were divided into three categories termed "leaders", "challengers" or "followers", depending on their conduct during the loan organization boom. This clearly showed the negative consequences of the predominant role played by the "leaders" during the formative period of the process of restructuring the debt with the transnational banks. This clearer idea of the behaviour of these banks, as a factor in the generation and spread of the debt crisis, permits a more realistic basis to be established for the sharing of the costs involved in the adjustment.

*Staff member of the Joint ECLAC/CTC Unit on Transnational Corporations.

The author wishes to express his gratitude to a number of persons who provided very useful comments on the English draft of the original report on the Interregional Project and to emphasize that they bear no responsibility for any errors which may remain. In particular, he wishes to express his thanks to Joseph Ramos, Robert Devlin, Fernando Fajnzylber, Alejandro Vera, Eugenio Lahera, Osvaldo Sunkel and Roberto Zabler of ECLAC; Karl Sauvant and Azizul Islam of the United Nations Centre on Transnational Corporations (UNCTC); Manuel Agosin of UNCTAD; Benny Widjono of the United Nations Regional Commissions Liaison Office; and Enrique de la Piedra, Marianne Schulte and an unnamed Canadian bank from outside of the United Nations system. The author would also like to thank the many participants in the ECLAC internal seminar held on the topic.

While it is recognized that debtor country behaviour and negative impacts from the international economic environment have also been basic factors behind the international debt crisis, these factors have been the subject of considerable analysis, especially by multilateral institutions such as the International Monetary Fund and World Bank. This article therefore focuses on transnational bank (TNB) behaviour, because of the scant attention it has received. The author was the co-ordinator of the United Nations Centre on Transnational Corporations (UNCTC) interregional project on TNBs which examined this subject.¹ The aim of this project was to analyse the behaviour of different categories of transnational banks during the boom in sovereign lending to developing countries and during the subsequent debt restructuring process. The project consisted of six country case studies² in which relevant information was collected from the loan contracts made with TNBs. That information provided the basis for a new appreciation of TNB behaviour during the boom in sovereign lending and the debt restructuring process which followed.

¹See Michael Mortimore, "Transnational Bank Behavior and the International Debt Crisis: Report of the UNCTC Interregional Project on Transnational Banks", September 1988, *mimeo*.

²The basic inputs for the case studies were the following: Eric Calcagno, *Los bancos transnacionales y el endeudamiento externo en la Argentina*, Cuadernos de la CEPAL series No. 56 (LC/G.1483-P), Santiago, Chile, November 1987, United Nations publication, Sales No. S.87.II.G.13; Alberto Couriel, "El Uruguay empobrecido: deuda externa y modelo neoliberal", November 1987, *mimeo*; Robert Devlin, *Transnational Banks and the External Finance of Latin America: the Experience of Peru* (E/CEPAL/G.1124), Santiago, Chile, December 1983, United Nations publication, Sales No. E.82.II.G.12; Robert Devlin and Michael Mortimore, *Los bancos transnacionales, el Estado y el endeudamiento externo en Bolivia*, Estudios e Informes de la CEPAL series No. 26 (E/CEPAL/G.1251) Santiago, Chile, June 1983, United Nations publication, Sales No. S.83.II.G.22; Jorge Luis Garay, "El papel de la banca comercial internacional en el endeudamiento externo público de Colombia, 1970-1983", August 1985, *mimeo*; Cristina Que Orbeta, "The Role of Transnational Banks in External Finance: the Philippine Experience", June 1986, *mimeo*.

I

TNB behaviour during the credit boom

It was found that, according to their size and general behaviour in organizing syndicated credits during the boom, the twenty-five principal TNB organizers of such credits could be classified into three groups: five *leaders* (Citicorp, Chase Manhattan, Bank America Corp., J.P. Morgan and Co. and Manufacturers Hanover): all North American banks which dominated the process of syndicating sovereign loans; ten *challengers* (Lloyds, Bank of Montreal, Bank of Tokyo, Bankers Trust, Chemical Bank, Canadian Imperial Bank of Commerce, Toronto Dominion Bank, Commerzbank A.G., Bank of Nova Scotia and Long Term Credit Bank): mainly smaller non-U.S. banks which actively competed with the leaders in the organization of syndicated credits; and ten *followers* (National Westminster, Deutsche Bank, Royal Bank of Canada, West Deutsche L.B., Dresdner Bank, Barclays Bank, Midland Bank Group, Credit Lyonnais, Industrial Bank of Japan and Banque Nationale de Paris): all large non-U.S. banks which, though active in the organizing of syndicated credits, were generally less active than both leaders and challengers. These categories provided an initial objective standard by which to distinguish the lending behaviour of the principal organizers of syndicated credits.

Based on existing literature on the subject, information from secondary sources and the original case studies carried out by the ECLAC/CTC Joint Unit, the hypothesis was advanced that a group of challengers, through price competition, had undercut the dominant position of the leaders in the syndicated loan market. Assuming that the different behaviour of distinct categories of TNBs would have varying impacts in debtor countries during both the credit boom and the debt restructuring period, it was decided to test the hypothesis by way of case studies in some of the more indebted developing countries. The findings demonstrated that while the original hypothesis was correct, TNB behaviour was considerably more complex than anticipated.

It was found that the top twenty-five organizers very much dominated the supply of syndicated credits in these countries. As may be seen from table 1, they organized between one-half and two-thirds of the value of those credits in the larger countries (Argentina, Philippines, Colombia and Peru) and about three-quarters of the total value in the smaller countries (Bolivia and Uruguay). If the amounts mobilized by the dominant organizers are scaled to a similar proportion of the total value for each country (37-47%), there is a sharp differentiation. While fifteen principal organizers were involved in Argentina and between five and 10 in the cases of the Philippines, Colombia and Peru, only two or three were involved for Bolivia and Uruguay. With regard to the category of the organizers, it can be appreciated that while the leaders and challengers organized similar amounts for these countries, their emphasis varied considerably in the sense that the leaders concentrated relatively more on Peru, Bolivia and Uruguay whereas the challengers organized relatively more in the cases of Argentina, the Philippines and Colombia. The followers occupied positions between those of the leaders and the challengers in most cases. This suggests that there were clearly different behaviour tendencies on the part of the different categories of banks.

The six case studies consisted of three which could be termed more price-competitive markets—that is, sovereign borrowers in which increased price competition by banks to place syndicated credits was coupled with increasing volumes of lending during the boom (the cases of Argentina, the Philippines and Colombia, as shown in figure 1)—and three which might be labelled riskier markets: that is, those in which such price competition did not exist or at least was not coupled with rising volumes of lending during the boom (the cases of Peru, Bolivia and Uruguay, shown in figure 2). The principal behavioural tendencies of the different categories of TNB organizers, by type of market, are summarized below.

Table 1

**INTERREGIONAL PROJECT: RANKING OF PRINCIPAL ORGANIZERS OF
SYNDICATED CREDITS IN CASES STUDIED, 1974-1982**

(Rank values and millions of 1980 US dollars)

	Argentina	Philippines	Colombia	Peru	Bolivia	Uruguay	Total capital mobilized ^a
Leaders	1 269.4	1 069.0	492.8	940.7	726.0	450.5	4 948.4
Citicorp	1	1	-	4	2	1	1 493.9
Bank America	11	-	2	1	1	2	1 232.0
Manufactures Hanover	6	4	-	5	-	-	950.3
Chase Manhattan	-	2	-	3	-	-	812.3
J.P. Morgan and Co.	4	-	-	-	-	-	460.0
Challengers	1 685.2	1 452.1	914.5	625.1	103.4	122.3	4 902.5
Bank of Tokyo	3	6	3	7	-	-	827.3
Bank of Nova Scotia	8	10	5	-	-	-	781.1
Lloyds	2	5	-	-	-	-	652.9
Chemical	12	-	1	-	-	-	600.7
Bank of Montreal	9	3	-	-	-	-	530.5
Bankers Trust	-	8	-	-	-	-	440.2
Toronto Dominion	-	-	-	-	-	-	362.1
Canadian Imperial Bank of Commerce	7	-	-	-	-	-	295.7
Long Term Credit Bank	-	-	-	-	-	-	294.4
Commerzbank A.G.	-	-	-	-	-	-	117.6
Followers	1 315.8	618.4	561.0	374.1	207.8	-	3 077.1
Industrial B. of Japan	10	-	-	-	-	-	431.7
Credit Lyonnais	5	-	-	6	-	-	417.9
Dresdner	-	-	-	-	3	-	397.5
Barclays	-	-	-	-	-	-	378.2
West Deutsche LB	15	-	-	-	-	-	335.7
Royal Bank of Canada	-	-	-	-	-	-	302.3
Midland Group	-	-	-	-	-	-	262.6
National Westminster	-	-	-	-	-	-	207.7
Deutsche Bank	-	-	-	-	-	-	188.7
Banque Nat. de Paris	-	-	-	-	-	-	154.9
Number of principal organizers	15	10	5	7	3	2	17
Percentage capital mobilized by them ^b	39	43	37	37	48	47	40
Percentage capital mobilized by top 25	49	56	65	52	74	78	56

Source: ECLAC/CTC Joint Unit.

^aIncludes loans mobilized by these banks in all case studies.

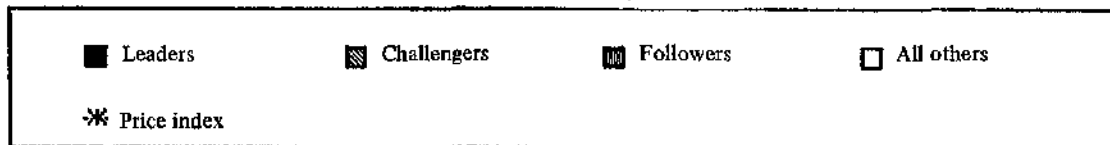
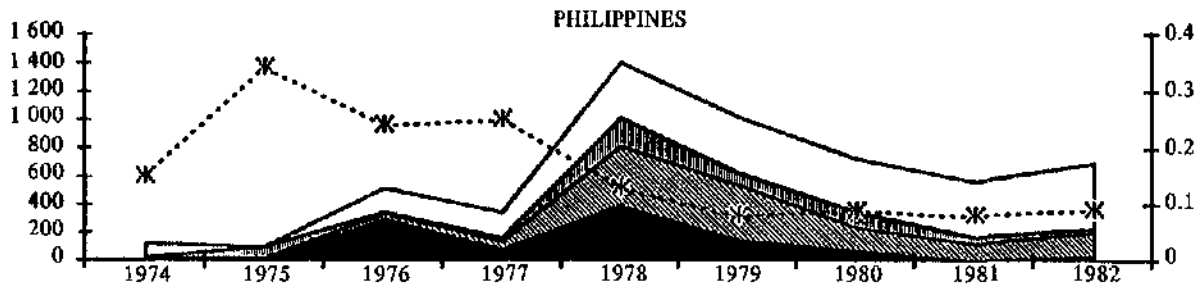
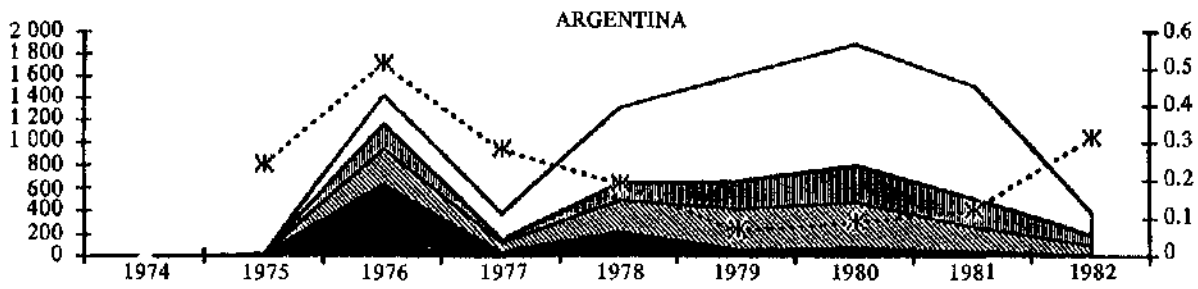
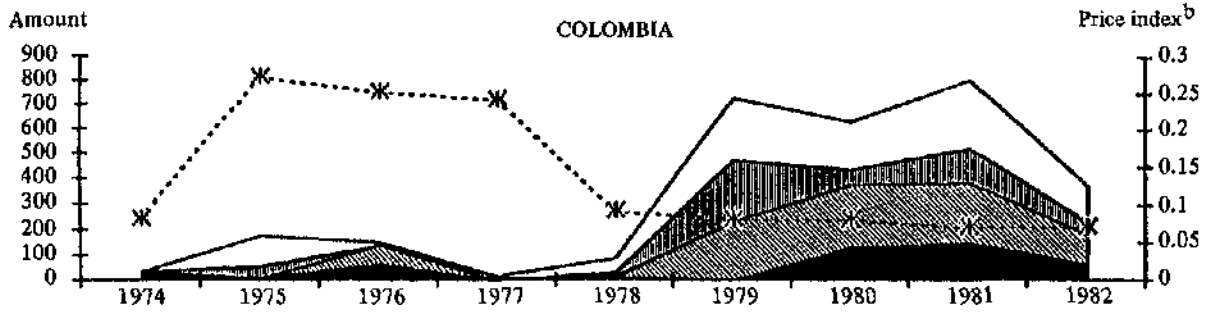
^bIncludes only ranked banks.

The information from the case studies suggests that all categories of organizers, as well as other banks, were more active in the more price-competitive markets than in the riskier borrowers. In the first-named markets, such as Argentina, the Philippines and Colombia, the leaders, the challengers and the followers were all active in the organization of syndicated cred-

its for the public sector or guaranteed by that sector, but the challengers were much more active than the leaders, who tended to vacate those markets as price competition stiffened and potential earnings shrank. The challengers continued to organize syndicated loans for public sector borrowers, compensating for lower earnings (fees, commissions and interest) by mobil-

Figure 1
**CAPITAL MOBILIZED^a, BY CATEGORY OF BANK IN MORE
 PRICE-COMPETITIVE CASES (1974-1982)**

(Millions of 1980 US\$)

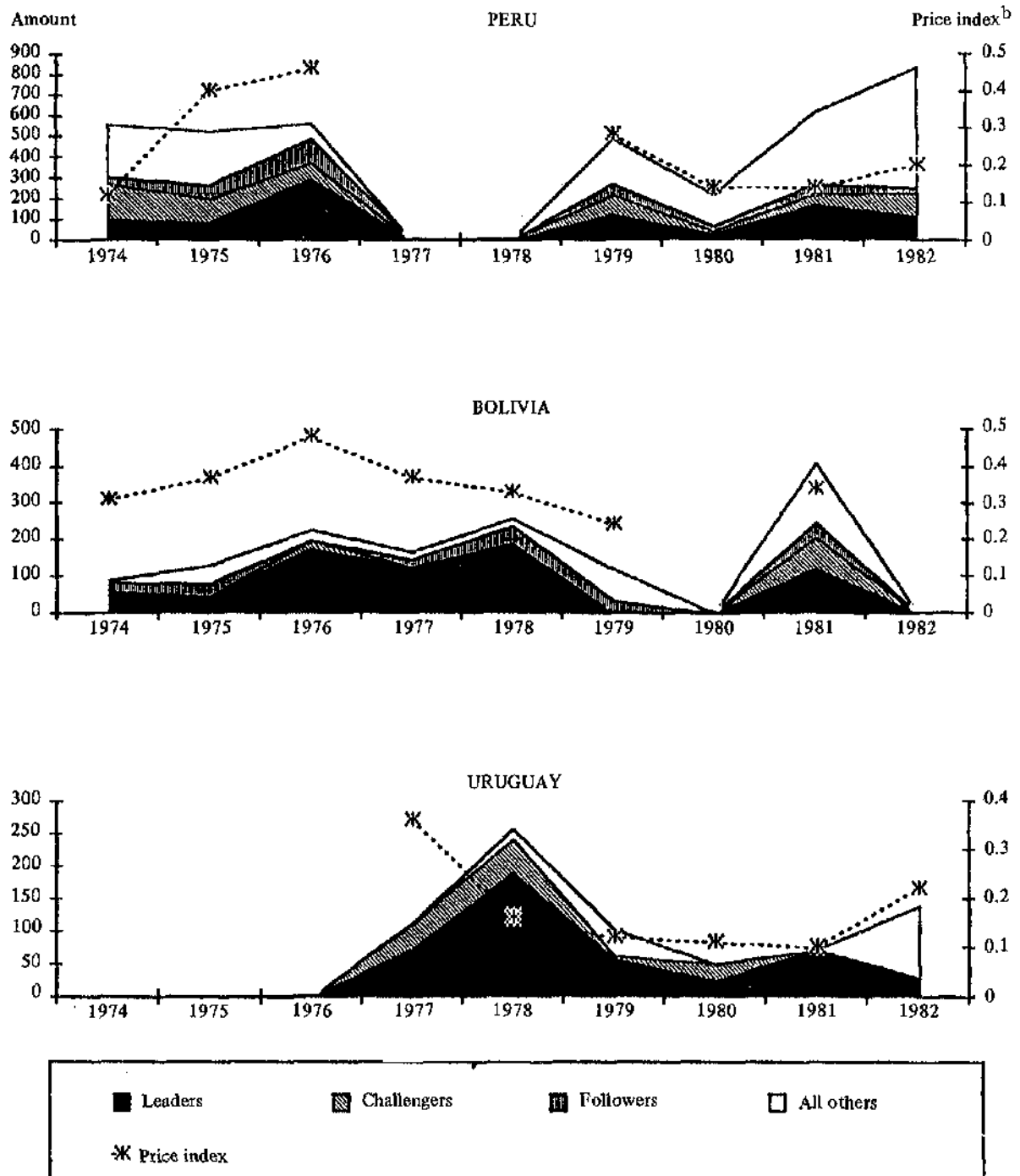


Source: ECLAC/CTC Joint Unit.

^aAccording to this concept, the total value of the loans is assigned to the organizing bank (manager) or distributed equally among co-managers.

^b(Commission/Maturity + Spread)/Maturity.

Figure 2
**CAPITAL MOBILIZED^a, BY CATEGORY OF BANK
 IN RISKIER CASES (1974-1982)**
 (Millions of 1980 US\$)

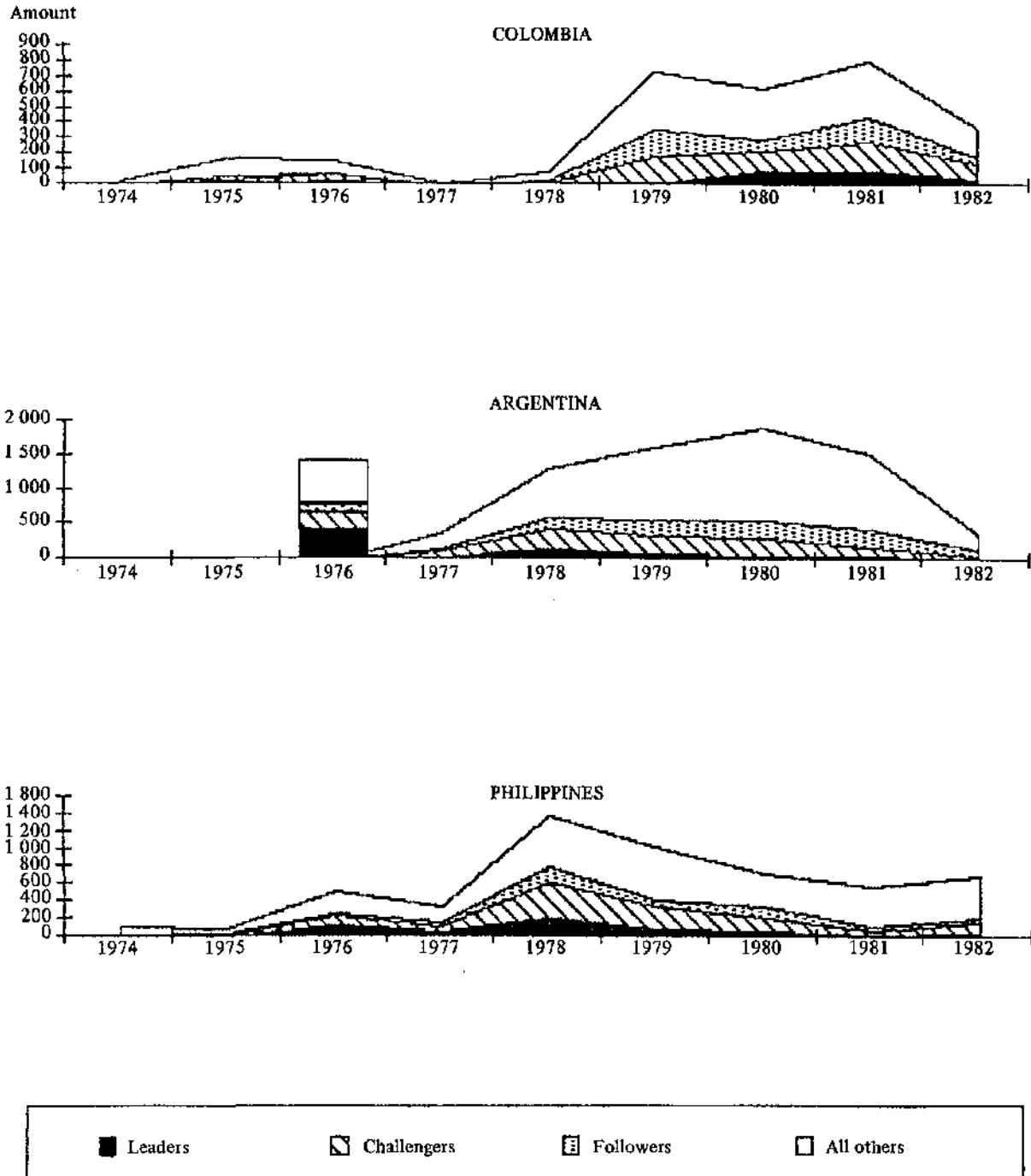


Source: ECLAC/CTC Joint Unit.

^aAccording to this concept, the total value of the loan is assigned to the organizing bank (manager) or distributed equally among co-managers.

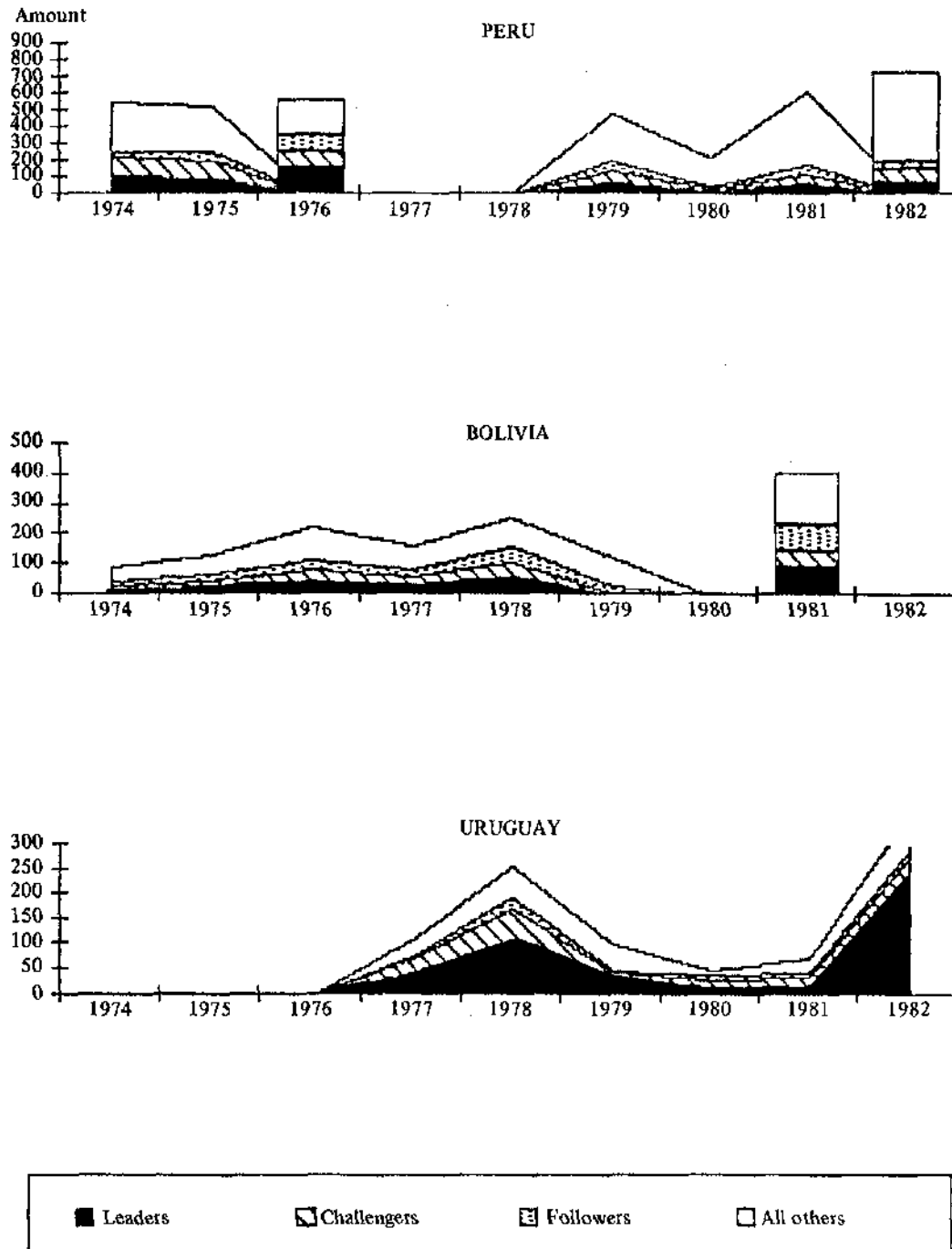
^b(Commission/Maturity + Spread)/Maturity.

Figure 3
PARTICIPATION IN SYNDICATED CREDITS, BY CATEGORY OF BANK,
IN THE MORE PRICE-COMPETITIVE CASES (1974-1986)
(Millions of 1980 US\$)



Source: ECLAC/CTC Joint Unit.

Figure 4
PARTICIPATION IN SYNDICATED CREDITS, BY CATEGORY OF BANK,
IN THE RISKIER CASES (1974-1986)
(Millions of 1980 US\$)



Source: ECLAC/CTC Joint Unit.

izing ever-increasing volumes. The leaders, however, tended to focus their attention on riskier (often unguaranteed) private sector borrowers in these countries, usually granting direct loans carrying a considerably steeper rate of interest. The followers, for their part, were active in differing degrees in both areas, but at levels lower than the challengers in organizing syndicated credits and lower than the leaders in placing direct loans with private sector borrowers. Other banks, particularly, banks entering the syndicated loan market for the first time, were increasingly the most important participants in the syndicated credits put together by the twenty-five principal organizers, in which interest earnings were severely reduced through heightened price competition. A comparison of figures 1 and 3 demonstrates the distinct behaviour of the leaders in organizing and participating in syndicated credits in the more price-competitive markets.

In the riskier markets, such as Peru, Bolivia and Uruguay, the leaders were very much more active than other banks in organizing and participating in syndicated credits to the public sector (or guaranteed by such), as well as—to a limited degree—in lending directly to private sector clients. During the boom the challengers were relatively inactive among these less creditworthy clients, while the followers, once again, demonstrated a bit of both types of behaviour, organizing more credits than the challengers but considerably less than the leaders in these riskier countries. Banks outside of the group of principal organizers were the major participants in those syndicated loans mobilized by leaders and, to a lesser extent, followers. In partial compensation for their much higher level of risk-taking, the leaders received high fees, commissions and interest earnings from these riskier clients. A comparison of figures 2 and 4 demonstrates that the leaders dominated the organization of credits for these markets and were the most prominent participants within the category of the top twenty-five organizers.

While it is clear that most of the principal organizers clearly overlent to major debtors during the boom, this common effect masks at least two distinct behavioural tendencies. The challengers overlent to the more creditworthy clients due to the competitive frenzy which took

hold during the boom in sovereign lending. These banks tended to assume excessive exposure to potential insolvency due to "disaster myopia".³ This means that because of competitive pressures which eroded the returns to lenders over time, many banks had to forego the collection of an uncertainty premium for accepting exposure to a major shock of low but unknown probability and/or to allow their capital positions to decline or their exposure to funding shocks in the interbank market to rise. This phenomenon represents a technical failure in risk estimation or creditworthiness evaluation which was converted into a systemic tendency, and it became particularly characteristic of the behaviour of challengers and new entrant banks. This behaviour stems primarily from what could be labelled a transactional perspective to sovereign lending: that is, to say, an urge to increase market share by way of ever-larger transactions with the more creditworthy of existing clients.

The leaders appear to have overlent for different reasons. Given their pronounced short-term profit orientation, these organizers felt compelled to move outside the confines of the public sector borrowers of their more creditworthy clients to place higher-return loans with significantly more risky clients, such as sovereign borrowers on the margin of the international market or unguaranteed private sector clients in the more price-competitive markets. In this respect, the leaders showed a greater tendency to become "loan pushers",⁴ that is, they aggressively sold higher-priced loan packages to borrowers who were traditionally denied access to international credit markets altogether or who were at least denied such large amounts of funds. Although there had been no alteration in the risk characteristics which relegated them to the margin of international borrowing, these borrowers suddenly found the leaders acting like door-to-door salesmen attempting to persuade

³See J.M. Guttentag and R.J. Herring, "Disaster myopia in international banking", *Essays in International Finance*, No. 164, Princeton University, September 1980.

⁴W. Darity Jr., "Did the commercial banks push loans on the LDCs?", M.P. Caludon (ed.), *World Debt Crisis: International Lending on Trial*, Cambridge, Massachusetts, Ballinger Publishing Co., 1986. See also W. Darity Jr. and B. Horn, *The Loan Pushers*, New York, Ballinger, 1988. Also relevant is D. Dalamaide, *Debt Shock*, Garden City, N.Y., Doubleday and Co., Inc., 1984, p. 43, and A. Sampson, *op. cit.*, pp. 145-146.

Table 2

**PRINCIPAL BEHAVIOURAL TENDENCIES OF TNBs, BY CATEGORY
OF ORGANIZER/LENDER**

Category of organizers/ lenders	Principal behavioural tendencies with regard to:			
	Competitive markets		Riskier borrowers	
	Organized	Placed or participated in	Organized	Placed or participated in
Leaders	1. Syndicated credits (for public sector)	1. Direct loans (to private sector) 2. Syndicated credits	1. Syndicated credits (for public sector)	1. Syndicated credits 2. Direct loans (to private sector)
Challengers	1. Syndicated credits (for public sector)	1. Syndicated credits		
Followers	1. Syndicated credits (for public sector)	1. Syndicated credits 2. Direct loans		1. Syndicated credits
Others		1. Syndicated credits		1. Syndicated credits

borrowers to take on high credits which they had not contemplated borrowing or, at least, not in such large volumes.⁵ Because their income results more from *special* deals with riskier clients willing to pay higher fees, commissions and interest in order to gain access to the loan market, the leaders' behaviour can thus be considered relational in comparison to the transactional perspective of the challengers.

In sum, the principal behavioural tendencies of the major transnational banks during the credit boom can be crisply distinguished in terms of the disaster myopia demonstrated by the challengers in organizing syndicated loans in the

more price-competitive markets and the loan-pushing characteristics of the leaders in organizing syndicated loans for the riskier sovereign clients or for unguaranteed private sector borrowers in the more price-competitive markets. The more transactional view of earnings taken by the challengers can be contrasted with the more relational perspective of the leaders. Furthermore, whereas the resultant risk concentration of the challengers can be qualified as excessive, that of most of the leaders falls more precisely into the category of sheer recklessness. In this sense, not only did TNB overlending contribute to the debt crisis, but different categories of organizers contributed in distinct manners to the creation of that crisis. A summary of the behavioural tendencies of different categories of TNBs during the boom is presented below (see table 2).

⁵A very revealing analysis of the door-to-door sales of syndicated loans to sovereign borrowers, by one of its practitioners, is contained in S.C. Gwynne, "Adventures in the loan trade", *Harpers*, September 1983, p. 24.

Table 3
DEVELOPING COUNTRY DEBT RESTRUCTURING PACKAGES WITH TNBs,
BY DEBTOR GROUP, 1980-1987^a

(Billions of US dollars)

	1980- 1982	1983	1984	1985	1986	1987	Total 1983- 1987	Perce- ntage distrib- ution
I. Restructuring^a	5.3	35.6	8.7	84.1	36.1	112.8	277.3	70
Mexico	-	20.2	-	48.7	-	43.7	112.6	28
Brazil	-	4.5	4.8	-	6.7	-	16.0	4
Major players: Non-OPEC ^b	5.3 ^c	5.5	2.4	30.0	3.8	48.0	89.7	22
Major players: OPEC ^d	-	3.7	-	4.3	24.9 ^e	21.1 ^f	54.0	14
All others	4.5 ^c	1.7	1.5	1.1	0.7	-	5.0	1
II. New money^a	0.1	14.4	11.0	5.7	0.3	6.6	38.0	10
Mexico	-	5.0	3.8	-	-	5.0	13.8	3
Brazil	-	4.4	6.5	-	-	-	10.9	3
Major players: Non-OPEC ^b	0.1	4.4	0.7	5.5	-	1.6	12.2	3
Major players: OPEC ^d	-	0.4	-	0.2	0.3	-	0.9	...
All others	0.1	0.2	-	-	-	-	0.2	...
(Subtotal I + II)	(5.4)	(50.0)	(18.7)	(89.8)	(35.7)	(119.4)	(314.6)	(79)
(Mexico)	(-)	(25.2)	(3.8)	(48.7)	(-)	(48.7)	(126.4)	(32)
(Brazil)	(-)	(8.9)	(11.3)	(-)	(6.7)	(-)	(26.9)	(7)
(Major players: Non-OPEC) ^b	(5.4)	(9.9)	(3.1)	(35.5)	(3.1)	(49.6)	(101.2)	(26)
(Major players: OPEC) ^c	(-)	(4.1)	(-)	(4.5)	(25.2) ^e	(21.1)	(54.9)	(14)
(All others)	(-)	(1.9)	(1.5)	(1.1)	(0.7)	-	(5.2)	(1)
III. Other facilities^a	0.2	22.4	16.9	7.1	28.1	8.3	82.8	21
Mexico	-	-	-	1.0	-	1.0	2.0	1
Brazil	-	15.8	15.1	-	24.1	-	55.0	14
Major players: Non-OPEC ^b	0.2	5.9	1.7	4.9	3.9	7.3	23.7	6
Major players: OPEC ^d	-	0.7	-	1.1	-	-	1.8	...
All others	...	0.1	0.1	0.1	0.1	-	0.4	...
(Total I + II + III) ^f	5.6	72.4	36.6	96.9	64.5	127.7	398.1	100
Mexico	-	25.2	3.8	49.7	-	49.7	128.4	32
Brazil	-	24.6	26.4	-	30.8	-	81.8	21
Major players: Non-OPEC ^b	5.6 ^c	15.8	4.8	40.4 ^g	7.7	56.9 ^h	125.6	32
Major players: OPEC ^d	-	4.8	-	5.6	25.2 ^e	21.1 ^f	56.7	14
All others	...	2.0	1.6	1.2	0.8	-	5.6	1

Source: ECLAC/CTC Joint Unit on basis of information contained in Table II-3 of IBRD, *Developing Country Debt*, Washington, D.C., February, 1987, pp. XXVI-XXXI and updates.

^aOrganized by date of signature of agreement. The following agreements in principle are excluded: Honduras (1983, 1984 and 1987), Peru (1984), Zambia (1984), Costa Rica (1985), Cuba (1985), Congo (1986), Morocco (1986), Mozambique (1987) and Jamaica (1987).

^bConsolidation of debt into new long-term obligations; includes arrears as well as future maturities.

^cIncludes Argentina, Chile, Cuba, Peru, Panama, Bolivia, Uruguay, Philippines, Morocco, Cote d'Ivoire, Turkey and Yugoslavia.

^dTurkey accounted for US\$2.3 billion in 1982.

^eEcuador, Nigeria and Venezuela.

^fVenezuela accounted for US\$21.2 billion in 1986 (already agreed to in principle in 1984).

^gVenezuela.

^hTNB loans arranged in conjunction with debt restructuring.

ⁱRollover or interim short-term financing of current maturities and/or maintenance of short-term credit lines.

^jDebt rescheduling and new money packages are the essence of debt restructuring; the other facilities are considered incentives to keep negotiations progressing or to facilitate the implementation of an agreement. Although these other facilities are not here considered as debt restructuring *per se* they are included to provide a more complete picture of the debt restructuring process.

^kArgentina accounted for US\$13.4 billion in 1985.

^lIn 1987, Argentina, Chile and Philippines entered into restructuring agreements for US\$29 500, US\$12 490 and US\$6 005 million respectively, plus new money and other facilities.

II

TNB behaviour during the crisis period

The debt restructuring process proved to be a surprise for most of the participants involved, in particular the principal TNB organizers and the major debtors, especially the riskier ones. The principal TNB organizers were undoubtedly astonished at how much control and influence they had over the debt restructuring process and how they were able to convert a declining power to negotiate into extraordinary benefits. The debtors, for their part, were most likely unfavourably surprised by the initial cohesion of the creditor bloc and the fact that debtors were obliged, at the beginning of the restructuring process, to assume virtually all the costs associated with the international debt crisis.

Table 3 shows that the TNB debt restructuring process was limited essentially to three principal instruments, namely, the reprogramming of original capital payments, the provision of new money (usually for the purpose of allowing debtors to remain current on their interest payments), and some other facilities, such as the rollover or interim short-term financing of current maturities and/or maintenance of short-term lines of credit. In most cases, these other facilities are more related to ongoing negotiations than to debt restructuring itself, although they are of critical importance to the comprehension of the situation of Brazil. If these other facilities are excluded it is evident that the debt restructuring process encompassed a clear pecking order, with Mexico and the non-OPEC major players⁶ being the focus of TNB attention during the first years whereas the OPEC major players (essentially Venezuela) came to the fore in later years. Almost one-third of the restructuring package resources went to Mexico alone. Reprogrammed capital payments represented the

backbone of the restructuring process and tended to become more prominent. New money became increasingly scarce, except for Mexico. All in all, the process was very lumpy and country-specific.

Table 4 clarifies the country-specificity of the TNB debt restructuring process as well as the negotiated costs involved. It can be seen that the TNB debt restructuring process fell into several clear phases. During phase 1, which may be called the forced adjustment phase, the debtors were charged punitive spreads and commissions for not being able to pay their TNB debt. Although relatively more new money was available during this phase, debt consolidation was limited to one or at most two years for the seven debtors which negotiated agreements during 1983-1984. The second phase brought with it a sharp improvement in the terms of the restructuring agreements as the amounts reprogrammed almost tripled, spreads tumbled, maturities lengthened, commissions disappeared, consolidation periods lengthened (although new money declined sharply), and more countries were incorporated into the process. The third phase witnessed similar improvements; however, now only five countries were included. Thus, although the terms of the restructuring process improved, it became more selective, including only the more pliant debtors with relatively larger exposures (excluding Brazil).

Previous experience with international debt crises did not prepare debtors for the debt restructuring process of the 1980s. Previously, creditors generally had little recourse if a sovereign borrower was unable to honour its commercial commitments due to unfavourable international economic factors. Creditors (usually bondholders) often formed national pressure groups and their government took up their cause in bilateral conversations with the debtor government, but the debtor's sovereign immunity protected it from suit or the execution of decisions of foreign tribunals. A new situation for the debt restructuring process of the 1980s, however,

⁶According to the definition used in the Interregional Project on Transnational Banks, major players were those developing countries which accounted for a minimum of 0.5% of the total value of syndicated loans during 1974-1977 or 1978-1982, according to information from the Organization for Economic Cooperation and Development (OECD), *Financial Market Trends*. Here the article refers only to those which signed restructuring agreements during 1983-1987.

Table 4
DEBT RESTRUCTURING AGREEMENTS FOR MAJOR PLAYERS* DURING 1981-1987

Date of signature ^a	Country	Agreement in principle ^b	Consolidation period ^f		Amounts involved			Maturity			Relative importance ⁱ	
			Beginning date	Length (number months)	Amount re-programmed ^d	New money facilities ^e	Other facilities ^f	Spread ^g	Grace	Total		Commission ^h
IV.81	Bolivia I	VIII.80 ^f	IV.81	24	451	-	-	2.19	2.5	5.3	1.13	49
VIII.81	Turkey I	...	...	...	100 ^k	-	-	1.50	-	3.0	...	2
II.82	Peru I	...	1.80	24	350	-	-	1.50	2.0	4.0	1.00	16
III.82	Turkey II	...	VIII.79 ^f	32	2 269 ^f	-	-	1.75	2.0 ^m	3.0 ^m	...	54
	Pre-crisis subtotal			30	3 170	-	-	1.79	2.1	3.4	...	27
II.83	Brazil I	XII.82	1.83	12	4 800	4 400	15 675 ⁿ	2.00	2.5	8.0	1.50	23
VII.83	Chile I	II.83	1.83	24	2 169	1 300	1 700 ^o	2.13	4.0	8.0	1.25	92
VII.83	Uruguay I	III.83	1.83	24	575 ^p	240	-	2.19	2.0	6.0	1.38	63
VII.83	Peru II	III.83	III.83	12	380	450	2 200 ^q	2.25	3.0	8.0	1.25	29
VII.83	Nigeria I**	...	...	...	1 935	-	-	1.44	0.3	2.9	...	28
VIII.83	Mexico I	III.83	VIII.82	28	20 167	8 800 ^r	-	1.81	4.0	8.0	1.00	65
X.83	Yugoslavia I	...	1.83	12	950	600	800 ^s	1.81	3.0	6.0	...	109
X.83	Ecuador I**	VIII.83	XI.82	14	1 835	431	700	2.19	1.0	6.5	1.25	110
I.84	Chile II	VII.83	...	...	1 160 ^t	780	1 700	2.13	4.0	8.0	1.25	39
I.84	Brazil II	XI.83	1.84	12	5 900	6 500	15 100 ^t	2.00	5.0	9.0	1.00	27
V.84	Yugoslavia II	...	1.84	24	1 250	-	-	1.56	4.0	7.0	...	39
	Phase 1. Subtotal				41 121	23 501	37 875	1.88	3.6	7.7	1.20	41
III.85	Cote d'Ivoire I	...	XII.83	25	501	104	-	1.75	2.5	7.5	-	22
III.85	Mexico II	VIII.84	1.87	48	28 600 ^f	-	-	1.60	-	14.0	-	78
V.85	Philippines I	...	X.83	22	5 885 ^z	925	2 974	1.63	5.0	10.0	-	122
VIII.85	Mexico III	VIII.84	1.85	72	20 100 ^{aa}	-	950 ^{bb}	1.00	1.0	14.0	-	-
VIII.85	Argentina I	XII.84	1.82	48	14 200	3 700	3 100 ^{cc}	1.38	3.0	11.0	-	78
X.85	Panama I	VI.85	1.85	24	652	60	190	1.38	3.5	12.0	-	34
XI.85	Chile III	VII.85	1.85	36	4 859	785 ^{dd}	1 700	1.38 ^{ee}	6.0	12.0	-	64
XII.85	Ecuador II**	XII.84	1.85	60	4 400	200	700	1.38 ^{ff}	3.0	12.0	-	99
XII.85	Yugoslavia III	...	1.85	48	3 600	-	-	1.13	3.5	10.0	-	84
II.86	Morocco I	...	IX.83	24	538	-	610	1.75	3.0	7.0	-	14
II.86	Venezuela I**	V.85	1.83	72	21 172	-	-	1.13	-	12.5	-	130
VIII.86	Uruguay II	II.86	1.85	60	1 700 ^{gg}	-	-	1.50	3.0	12.0	-	76
IX.86	Brazil III	III.86	1.85	12	6 671	-	24 350 ^h	1.13	5.0	12.0	-	12
XII.86	Cote d'Ivoire II	...	1.86	48	691	-	-	1.63	3.0	12.0	-	23
XII.86	Morocco II	...	1.85	48	2 174	-	348	1.19	4.0	15.0	-	48
	Phase 2. Subtotal				115 743	5 774	34 922	1.18	1.5	12.7	-	58
IV.87	Mexico IV	X.86	#	60	43 700	7 700	950 ^{kk}	0.81	7.0	20	-	95
VI.87	Chile IV	II.87	1.88	48	4 695 ^{ll}	-	1 700	1.00	6.0	15.5	-	39
VIII.87	Argentina II	IV.87	1.86	60	30 249 ^{mm}	1 550	3 500 ⁿⁿ	0.81	7.0	19.0	0.38 ^{oo}	97
IX.87	Venezuela II**	III.87	1.82	84	20 422	-	-	0.88	-	13.0	-	86
IX.87	Philippines II	...	1.87	72	9 356	-	2 965	0.88	7.5	17.0	-	82
87	Mexico V	...	1.88	48	9 700 ^{pp}	-	-	...	...	...	-	-
	Phase 3. Subtotal				118 122	9 250	9 115	0.84	5.6	17.9	-	88

Source: ECLAC/CTC Joint Unit, on basis of information contained in IBRD, *World Debt Tables, 1987-1988 Edition, Volume 1. Analysis and Summary Tables*, Washington, D.C., January 1988, Table iv-3, pp. xxxvi-xlii, plus other national and international sources.

- * Excludes Cuba, which does not participate in World Bank Debt Reporting System.
- ** Member of OPEC.
- ^a The date that the new contract was signed (month, year). Note that the signing of the contract often took place much later than the agreement in principle, mainly due to the borrower's problems with the International Monetary Fund programme and the bank steering committee's problems in bringing all previous lenders into the new package.
- ^b Based on newspaper reports.
- ^c The period encompassing reprogrammed payments and arrears starting on date shown and running for the number of months indicated.
- ^d Consolidation of debt into new long-term obligations; includes arrears as well as future maturities.
- ^e Loans arranged in conjunction with debt restructuring. Sometimes considered as the reprogramming of interest payments.
- ^f Maintenance of short-term trade or inter-bank lines of credit or rollover or interim financing of current maturities. These facilities are considered primarily as incentives for the borrower to continue negotiations or to implement an agreement.
- ^g The margin over the base rate of interest (usually LIBOR). Where split rates were encountered a weighted average was calculated.
- ^h Calculated as a percentage of the original value of agreement. Principal commissions included are management, agency and drawdown fees plus expenses where specified.
- ⁱ This indicator shows the amount of reprogrammed debt plus new money facilities (excluding other facilities) in relation to outstanding bank debt at year-end previous to the new agreement.
- ^j Date of first deferment agreement with TNBs.
- ^k Third party reimbursement claims.
- ^l Revision of terms of 1979 agreements, including new syndicated loan contracted in June of 1979.
- ^m Number of years that original maturities were extended.
- ⁿ Short-term credit maintenance. Furthermore, this agreement with TNBs was accompanied by credit for US\$1.2 billion from the Bank for International Settlements (BIS) and US\$1.9 billion from US Government Agencies (the Treasury and the Federal Reserve); these values are not included in the "other facilities" total.
- ^o Short-term credit maintenance. Furthermore, this agreement with TNBs was accompanied by credit for US\$300 million from BIS; it is not included in total for other facilities.
- ^p Includes US\$359 million in short-term non-trade-related credits.
- ^q Includes payments deferred for a value of US\$200 million.
- ^r Two agreements (July and September) clearing away arrears on short-term letters of credit.

- ^s A new money facility for US\$3 800 million was obtained (over 10 years with a 1.5% spread over LIBOR) in a separate agreement dated April 1984. It is included here to simplify the presentation of the relevant information.
- ^t Interbank lines of credit (US\$5 200 million) maintained through end-1986. This agreement was facilitated by a credit for US\$900 million from the BIS and various credits from US Government Agencies which totalled US\$2 900 million.
- ^u Rollover of short-term debt for 1 year.
- ^v Consolidates three separate agreements of January (US\$1 160 million), June (US\$780 million) and November (US\$1 700 million).
- ^w Short-term debt converted to medium-term.
- ^x Includes rollover of short-term debt for US\$15 675 million, maintenance of US\$9 800 million trade-related lines of credit, plus restoration of interbank exposure to US\$6 000 million.
- ^y MYRA agreement which restructured loans rescheduled by 1983 agreement. Includes rescheduling of US\$5 billion new money facility of 1983. This gave rise to repeated short-term rollover of US\$950 million.
- ^z Includes private sector debt for US\$2 643 million.
- ^{aa} MYRA agreement which restructured loans not included in 1983 agreement.
- ^{ab} Deferment of first principal payment for rescheduled 1983 new money facility, as amended by March 1985 MYRA agreement.
- ^{ac} This agreement was complemented by a bridge credit for US\$500 million from the US Federal Reserve and other participating governments; it is not included in total.
- ^{ad} Cofinancing operation of World Bank for US\$300 million not included in total.
- ^{ae} These rates also apply to outstanding portions of 1983 and 1984 agreements.
- ^{af} These rates also apply to outstanding portions of 1983 agreement.
- ^{ag} Includes US\$844 million in previously restructured debt.
- ^{ah} Agreement includes cofinancing from World Bank.
- ^{ai} Includes deferment of 1986 maturities for US\$9 300 million.
- ^{aj} This might be considered the first real "renegotiation agreement" because of its magnitude, the reduction of terms on previously restructured loans, the ex-post change in the spread for the 1983 and 1984 new money facilities, the growth contingency cofinancing (as well as regular cofinancing) of the World Bank, and the contingency investment support facility.
- ^{ak} Restructuring of prepayment which was deferred since October 1985.
- ^{al} Reduction in terms of 1983-1984 new money facilities and 1983-1987 restructuring agreements as well as rescheduling of some original 1988-1991 maturities. Includes retiming element (interest paid once yearly only).
- ^{am} Restructuring of all principal maturities of pre-December 9, 1982 debt (maturing after December 31, 1985) for private sector borrowers is included.
- ^{an} Agreement facilitated by extension of maturity of loan for US\$500 million placed previously by US Federal Reserve and other OECD Governments.
- ^{ao} An incentive offered banks that signed up before a certain date.
- ^{ap} Agreement included reduced spread for 1985 new money facility of US\$925 million.
- ^{aq} Restructuring of private sector debt.

resulted from statutes enacted in the United States and the United Kingdom during the 1976-1978 period which introduced a new *restricted* theory of sovereign immunity, one which allowed sovereign debtors to waive their immunity.⁷ That soon became a standard feature of TNB loan contracts during the boom in sovereign lending. Excluding Colombia, which represents a special case in this field, over 80% of the total value of the contracts for which there was information (reviewed in the course of the Interregional Project on TNBs) were covered by such clauses. In unilateral fashion, the creditors changed the rules of the game and that had a strong impact on the definition of the debt restructuring process, apparently eliminating non-payment as a realistic alternative for debtors facing an unfavourable international economic conjuncture.

Another major innovation in the debt restructuring process for the 1980s was its essentially *private* nature and the control or influence over it which corresponded to the principal TNBs, especially the leaders (which had demonstrated the most imprudent lending behaviour during the boom). Debtors negotiated with multilateral institutions and in some instances with creditor national government agencies regarding their programmes for economic adjustment; however, they were told to speak directly to the bank steering committees as to how to handle upcoming payments on their TNB debt.⁸ As may be seen from table 5, the bank steering committees for the six case studies, as well as those for the principal debtors, Mexico and Brazil, were dominated by the leader banks. A leader was the co-ordinating agent in all cases except that of Colombia (coincidentally the only major Latin American debtors not to restructure its debt). Citicorp was the co-ordinating agent in five cases and Bank America Corp. and Manufacturers Hanover in one case each. Even in the case of

Colombia, the co-ordinating agent was a major U.S. bank (Chemical Bank). In terms of the nationality of the banks on the steering committees, United States banks usually filled one-half of the positions, a proportion which usually exceeded their exposure, even in the riskier cases. Although challengers were fairly well represented on the committees for Mexico and Brazil, they were under-represented in the other more price-competitive cases, where the leaders in fact occupied more positions than the challengers. Surprisingly, the challengers had more even representation with the leaders on the committees for the riskier cases, where their exposure was much smaller than the leaders. In other words, the leaders came to dominate the bank steering committees for the most important debtors and thereby exerted very strong influence over the debt restructuring process as a whole.

A third important novelty of the debt restructuring process of the 1980s was the initial unity or cohesion demonstrated by the creditor bloc of multilateral institutions and national governments. In practice, and given the much higher exposure of United States banks *vis-a-vis* any other single nationality of bank, this meant that the impact of the United States regulatory system had a significant extraterritorial effect on the debt restructuring process (see table 6). For example, the natural concern of United States officials to safeguard that country's financial system and the welfare of its banks had a negative impact on debtors⁹ due to the fact that discretionary decision-making by regulators had allowed United States banks much liberty in respect of risk concentration, capital adequacy obligations and provisioning requirements, all of which meant that the parameters for the debt restructuring process were narrower for debtors and fewer possibilities existed for any form of debt relief. The United States regulators allowed the banks of that country (and especially the leaders who were the most exposed of all to carry

⁷W.T. John, "Sovereign immunity", *Sovereign Borrowers: Guidelines on Legal Negotiations with Commercial Lenders*, Butterworths, Uppsala, Sweden, Dag Hammarskjöld Foundation, 1984.

⁸See the testimony of Mr. Donald Regan, Secretary of the U.S. Treasury, in *Hearings on International Debt*, Committee on Banking, Housing and Urban Affairs, U.S. Senate, 4 February 1983. Also see E.J. Frydl, and D.M. Sobol, "A perspective on the debt crisis, 1982-1987", *Seventy Third Annual Report*, Federal Reserve Bank of New York, May 1988.

⁹According to J. Sachs and H. Huizinga, in their "U.S. commercial banks and the developing-country debt crisis", *Brookings Papers on Economic Activity*, No. 2, 1987, p. 557: "...the debt management strategy pursued by the United States and the official financial community since 1982 has been geared toward the protection of the large commercial banks, at least on a short-run accounting basis".

Table 5

TNB STEERING COMMITTEES FOR EIGHT HEAVILY INDEBTED COUNTRIES

Bank and group	Brazil (from secondary sources)	Mexico	Argentina (1985) ^a	Philippines (1983)	Colombia (1985)	Peru (1983)	Bolivia (1981)	Uruguay (1986)	Total	
									Members	Co-ordinating agents
I. Leaders	5	5	5	5	4	3	3	3	33	7
Citicorp	xx	xx	xx	x	x	xx	x	x	x	5
Manufacturers Hanover	x	x	x	xx	x	x	x	x	8	1
Bank America	x	x ^b	x	x	x		xx	x	7	1
Chase Manhattan	x	x	x	x	x	x			6	
J.P. Morgan	x ^b	x	x	x					4	
II. Challengers	5	5	2	3	3	4	2	3	27	1
Bank of Tokyo	x	x	x	x	x	x		x	7	
Chemical Bank	x	x		x	xx	x			5	1
Bankers Trust	x	x			x	x	x		5	
Lloyds Bank	x ^b	x	x					x	4	
Bank of Montreal	x	x		x					3	
Bank of Nova Scotia						x	x	x	3	
III. Followers	2	1	3	3	5	3	1	1	19	-
Dresdner			x	x	x	x	x	x	6	
Credit Lyonnais	x		x			x			3	
Deutsche	x	x							2	
Barclays				x	x				2	
Royal Bank of Canada			x		x				2	
Indl. Bank of Japan					x				1	
Midland Group					x				1	
National Westminster						x			1	
Bank Nationale de Paris				x					1	
IV. Others on Steering Committees	2 ^b		1	1	2	2	4	1	15	-
Total	14	13	11	12	14	12	10	8	94	8
Distribution by nationality										
United States (US)	7	7	5	6	7	6	7	3	48	8
Japan	1	1	1	2	2	1	-	1	9	-
Canada	1	1	1	1	1	1	1	1	8	-
United Kingdom (UK)	1	1	1	1	2	1	-	1	8	-
F.R. Germany (FRG)	1	1	1	1	1	1	1	1	8	-
France	1	1	1	1	1	1	-	-	6	-
Others	2	1	1	-	-	1	1	1		

Source: ECLAC/CTC Joint Unit.

^aYears in brackets under name of country denote year of restructuring agreement from which committee structure was taken. In the body of the table, "xx" indicates that the bank was a co-ordinating agent, "x" that it was a member of committee.^bThat it was co-chairman.

Table 6

**LATIN AMERICA: EXPOSURE OF PRINCIPAL CREDITOR BANKING SYSTEMS
AS OF END-1985**

(Millions of US dollars)

Creditor \ Debtor	Brazil	Mexico	Argentina	Venezuela	Chile	Colombia	Peru	Others	Latin America
United States	25 600	24 100	8 900	8 900	7 000	3 259	1 800	10 941	90 500
Europe: 8 countries	23 174	20 961	10 985	8 435	5 003	2 279	1 971	7 420	80 228
(United Kingdom)	9 140	8 669	3 677	2 690	2 178	756	649	2 287	30 046
(France)	6 802	4 500	1 580	2 009	600*	600*	561	395	17 047
(Germany Federal Republic)	4 680	3 570	2 540	2 070	970	260	230	470	14 790
(Switzerland)	1 446	1 477	1 080	555	461	126	174	2 597	7 916
(Spain)	507	1 360	714	575	606	111	272	1 325	5 470
(Italy)*	439	1 365	704	496	173	16	70	76	3 339
(Belgium)	160	20	690	40	15	410	15	270	1 620
Others	13 759	15 481	5 738	5 707	2 789	1 492	547	1 236	46 349
(Japan)*	8 200	10 000	4 300	3 650	1 400	1 000	400	780	29 730
(Canada)*	5 559	5 481	1 438	2 057	989	492	147	456	16 619
Total 11 countries	62 533	60 542	25 623	23 042	14 792	7 030	4 318	19 597	217 077

Source: Based on Central Bank data from listed countries, with exception of those marked by asterisks, which are estimates of Banking Analysis Limited (IBCA), London. Data published in Instituto de Relaciones Europeo-Latinoamericanas (IRELA), *Europa y la deuda externa de América Latina*, Dossier, No. 11, June 1987.

their loans to these major debtors at their original face value, by way of an accounting fiction in which the banks provided new money to those debtors to keep them current on interest payments (a key criterion of the United States regulatory system). In this way, the negotiations between United States banks and the United States regulators apparently had a more consequential impact on the debt restructuring process than did the negotiations between the bank steering committees and the debtors themselves.

Taken together, these novelties in the debt restructuring process of the 1980s had the effect of transferring to the debtors virtually all the costs associated with the international debt crisis, at least during its first phase. That phase, which has been described as one of forced adjustment for debtors, corresponded to the difficult 1982-1984 period, that is, the interim between Mexico's declaration of its inability to service its bank debt and the subsequent realization that adjustment was only feasible to the extent that it was accompanied by growth (as crystallized in the Baker initiative for dealing with the debt crisis). This was the phase in which the TNBs, especially the leaders, obtained the most benefits and the debtors shouldered the totality of the burden (including punitive spreads of around 2%) corresponding to the first restructuring agreements. The leaders' view of the debt crisis—which was that it was basically a liquidity problem—was generally accepted as *the* view of the crisis by the rest of the creditor bloc, that is, the multilateral institutions and national (especially United States) agencies.

In some cases the leaders also used their influence in the bank steering committees to obtain special advantages beyond the additional income from the punitive spreads. They were sometimes able to improve the security of their own loans to unguaranteed private sector borrowers by having them incorporated in one way or another into the debt restructuring agreements (thereby acquiring a State guarantee in an *ex post facto* manner) or by pressuring debtors to establish exchange rate guarantees or other special advantages. These restructuring agreements also had the effect of grouping all local debtors into one category and assigning overall debt service responsibility to the State. In this fashion, higher-risk clients which the leaders

had presumably charged higher risk premiums were suddenly given the same legal status as the more creditworthy clients which challengers and others had charged very low risk premiums. In this sense, the leaders seem to have taken advantage of their management of the bank steering committees to gain particular advantages in terms of greater security for their riskier exposure and an improved income stream from fees and punitive interest rates. That increased income did not go primarily to strengthen capital or make loan loss provisions, however.¹⁰ The leaders apparently misused the additional time given them through discretionary decision-making by United States regulators. Other banks, then experiencing good interest income from their reprogrammed exposures, tended to support the leaders' manner of dealing with the debt crisis. The leaders reached the high point of their control over the debt restructuring process during this phase, as their interpretation of the problem and their recommended solution were adopted by the creditor bloc as a whole. At the same time, however, it appeared evident that the huge forced adjustment made by the debtors seemed to serve more to strengthen the quarterly balances sheets of the leaders than to improve the medium-term economic prospects of the debtors themselves,¹¹ so that it prolonged the crisis rather than resolving it.

That point seemed to have been recognized during the second phase of the debt restructuring process (1985-1986), in that the recessionary adjustment strategy came to be viewed as self-defeating and important elements of the creditor bloc—multilateral institutions and some national authorities—came to hold the opinion

¹⁰*Ibid.*, p. 569. See also "Bank profitability 1980-1985: recent trends and structural features", *Financial Market Trends*, No. 38, November 1987.

¹¹The adjustment of Latin America during 1982-1985, for example, has been found to be greater than the war reparations paid by Germany during 1925-1932 or by France during 1871-1875. See R. Devlin, "Economic restructuring in Latin America in the face of the foreign debt and the external transfer problem", *CEPAL Review*, No. 32 (LC/G.1473), Santiago, Chile, August 1987, pp. 75-102. See also ECLAC, *The Evolution of the External Debt Problem in Latin America and the Caribbean*, Estudios e Informes de la CEPAL series, No. 72 (LC/G.1487/Rev.1-P), Santiago, Chile, September 1988, United Nations publication, Sales No. S.88.II.G.10 and ECLAC, *External Debt in Latin America: Adjustment Policies and Renegotiation*, Boulder, Colorado, Lynne Rienner Publishers, Inc., 1985, Chapter 2.

that growth had to accompany adjustment, if the latter were to be positive and structural (rather than conjunctural) in nature. A new initiative emphasizing adjustment with growth was named after the United States Secretary of the Treasury, and was presented as the replacement for the previous perspective.¹² New roles were assigned to all the agents involved in the adjustment and debt restructuring processes. Responsible debtors were to receive more time and improved conditions for servicing their bank debt, as was manifested in the new multiyear rescheduling agreements which became more common thereafter.

The consequent reduced earnings (commissions disappeared and spreads fell appreciably) and longer-term commitments for creditors caused bank unity in the debt restructuring process to dissolve, however. The smaller banks and the regional United States banks with more limited exposure preferred not to get committed to providing new money facilities over medium-term horizon and they became increasingly interested in selling their debt at a discount in the secondary market. Non-United States banks, particularly some European ones with stronger capital bases, lower exposure, and more adequate loan loss provisions (as a consequence of more prudential bank supervision in those countries), increasingly sought other avenues due to the fact that the new money facility mechanisms whereby banks paid interest to themselves (in order to comply with the demands of the United States banks' regulatory environment) proved increasingly futile.¹³ In this context, the major TNBs, especially the leaders which dominated the steering committees, found it more difficult to convince other banks to contribute to new money facilities and were less well-disposed themselves to increasing their own exposure as United States regulators became less tolerant

with regard to discretionary decision-making favourable to the money-centre institutions. As a consequence, the TNBs were not able to mobilize anything like the US\$20 billion in new money facilities expected of them as part of the Baker initiative, and their failure to do so caused dissatisfaction within the creditor bloc due to the fact that, by not fulfilling the role assigned them, the TNBs imperilled the efforts of the other creditors, especially the multilateral institutions.¹⁴

Although the creditor bloc unity was weakening and the situation for debtor countries tended to improve compared with the rigours of the forced adjustment phase, debtors demonstrating deviant behaviour—that is, those which did not maintain a dialogue with banks and multilateral institutions and did not make an effort to keep up-to-date in their interest payments—were dealt with harshly. Weaker, smaller, riskier debtors did not receive access to new money or other facilities on a scale comparable to their larger brethren unless they made exceptional concessions (as was the case of Uruguay). Peru and Bolivia (along with Nicaragua, Sudan and Zaire) were among the few debtors which fell into the value-impaired category of the United States regulatory system, obliging their United States creditors to take the inconvenient step of establishing allocated transfer risk reserves in respect of them. In general, during this second phase of the debt restructuring process the weakened creditor bloc unity and the dissatisfaction with the way the banks carried out the role assigned them resulted in a somewhat improved situation for those debtors which conformed to the rules of the game. The few debtors which did not conform were dealt with harshly by multilateral institutions and national agencies.

The 1987-1988 period witnessed a continued breakdown in creditor bloc unity and open disagreement among the banks, even among the leaders themselves. It might even come to be regarded as the adjustment phase for the TNBs themselves in the debt restructuring process. The new money facility for Mexico caused even the formerly docile English and Japanese banks to join the continental European ones in seeking

¹²See IMF, "International capital markets: developments and prospects", *IMF Occasional Paper*, No. 43, Washington, D.C., February 1986, p. 17; "Debt strategy must be flexible, Managing Director tells banks", *IMF Survey*, 2 June 1986, p. 165; and J. de Larosiere, "Progress on the international debt strategy", *Finance and Development*, vol. 24, No. 1, March 1987, p. 10.

¹³See Instituto de Relaciones Europeo-Latinoamericanas (IRELA), "Europa y la deuda externa de América Latina", Working Paper No. 11, Madrid, June 1987, and M.L. Williamson, "The role of banking regulation in Third World debt strategies", Working Paper, Overseas Development Council, May 1988.

¹⁴World Bank, *World Debt Tables, 1985-1986 Edition*, Washington, D.C., 1986, p. viii, and *World Debt Tables, 1986-1987 Edition*, Washington, D.C., 1987, p. xv-xvi.

new policy alternatives.¹⁵ The Japanese government even came up with a new global proposal for tackling the international debt crisis at the economic summit in Toronto in 1988.¹⁶ The United States manner of dealing with the crisis was increasingly ignored by virtually all participants and each one went his own way under the guise of a menu-approach to the crisis,¹⁷ emphasizing debt sales in the secondary market or conversion to equity, bonds, goods, etc.

The TNBs' agreement in principle in October 1986 to give greatly improved conditions to Mexico, under pressure from the United States government, resulted in attempts by other debtors to obtain similar agreements (spreads of less than 1%, payments reprogrammed over 20 years with seven years' grace, reprogramming of previously reprogrammed credits, new money facility, contingency clauses, cofinancing element with World Bank). Brazil's attempt to obtain a similar deal without formal linkage to an IMF administered adjustment programme was rebuffed by the TNBs, and Brazil declared a moratorium in February of 1987. While the banks quickly came to agreement with other major player debtors such as Chile, Argentina, Venezuela and the Philippines, the impact of the Brazilian moratorium was so great, given the magnitude of the debt involved and the level of exposure of big United States banks, that the leaders had to take action.

Citicorp, the most exposed of the leaders, sprang into action by establishing additional loan loss provisions of the order of US\$3 billion (bringing total provisions to the equivalent for about 25% of its exposure) — an initiative which destroyed the last fragments of leader solidarity as other banks such as Manufacturers Hanover, Chase Manhattan and Bank of America struggled to keep up.¹⁸ Their balance sheets for 1987 showed the biggest losses since the Depression. Morgan set a precedent by designing a

securitized bond scheme¹⁹ aimed at helping Mexico capture a portion of the discount on its debt, as manifest in secondary market prices. United States regulations more and more seemed to favour the latter approach.

One very big problem facing the United States regulators was that although leaders were active as intermediaries in debt conversion schemes, they rarely dealt in their own debt. As smaller United States banks and regionals opted out of participation in new money facilities the leaders' share of the overall exposure of United States banks in troubled debtors was increasing.²⁰ Similarly, as non-United States banks became more active in debt conversion activities, the United States share of total bank exposure was going up, meaning that the debt crisis was again (as in 1982) concentrated in the hands of the banks which had been the most imprudent lenders during the credit boom and subsequently the most inflexible and intransigent of negotiators during the debt restructuring process.

Faced with increased resistance from creditor bloc governments and banks, and taking advantage of the new disunity among leader banks, United States regulators seem to be taking a new approach to the debt crisis in so far as it concerns United States banks. The aim apparently is to get the leaders to do something

¹⁵See "Mexico's swap gamble", *South*, March, 1988, p. 21 and "Sanity at last on Third World debt", *Fortune*, February 1988, p. 8. See also Andrew Quale Jr., "New Approaches to the Management and Disposition by U.S. Banks of their LDC Debt: Debt/Equity Conversion and the Mexican Debt Securitization and Collateralization Scheme", paper presented to seminar on debt-equity swaps held in Caracas, Venezuela, 27-29 April 1988, pp. 37-47. Finally, it might be recalled that Citicorp in 1987 had made Mexico a different kind of offer, one firmly rejected by the Mexicans. Citicorp's chairman described it in the following manner: "Obviously, our most attractive investment is in ourselves. I said to the Mexicans, when I was talking about putting some equity in — if they'd let me increase the capital of Citicorp in Mexico by a hundred million dollars, because you really are investing in something that you know". See "Citicorps Reed outlines path on Third World loans", *The Wall Street Journal*, 28 May 1987.

²⁰See B.A. Bennett and G.C. Zimmerman, "U.S. banks' exposure to developing countries: an examination of recent trends", *Economic Review*, No. 2, Federal Reserve Bank of San Francisco, Spring, 1985, pp. 14 and 19-20. The share of the Baker 15 debtor countries in the overall outstanding international loans of U.S. banks rose from 25.9 to 31.3% between 1982 and 1986. The share of the nine money centre banks in U.S. bank exposure to the troubled debtors increased from 56.4 to 62.7% over the same period.

¹⁵See M.L. Williamson, *op. cit.*, p. 20 and the IRELA document, *op. cit.*, p. 9.

¹⁶"Playing king of the hill at the Toronto summit", *Business Week*, 4 July 1988, p. 35. See also "The Miyazawa plan: any interest from debtors?", *The Economist*, 6 August 1988, p. 64.

¹⁷See World Bank, Debt Management and Financial Advisory Services Department, *The Market-Based Menu Approach*, Washington, D.C., 1988.

¹⁸"Banks slither on the city slick", *The Economist*, 30 May 1987, p. 77.

regarding their loan loss reserves and their still huge country exposures. The U.S. Federal Reserve revised equity conversion regulations by no longer limiting non-financial investments to the purchase of equity in firms being privatized by debtor governments and extending the period such investments can be held.²¹ Accounting issues concerning the "contagion" of the rest of a bank's portfolio by the dealing-off of a portion at a discount have also apparently been resolved.²² Furthermore, an international agreement on capital adequacy standards seems to set a definite time frame (until 1992) for debt conversion activity. As of 1992, only 1.5% of the new 8% reserve capital/asset ratio can correspond to loan loss reserves. Presently, such reserves account for some 4% in the case of most of the leaders.²³ In other words, it appears that something is now being done by United States regulators. Tax benefits for banks which write down their loans to realistic levels, similar to other major creditor countries, would undoubtedly speed up the process. If such actions motivate leader banks to deal off significant portions of their troubled debtor exposure,²⁴ the material basis for the TNB adjustment stage will have been firmly established. If they do not, the international debt crisis may be transformed into a

national crisis, at least from the perspective of the creditor banks involved.

In a similar manner to debtor country behaviour and the negative impacts of the international economic environment, TNB behaviour is also a fundamental causal factor in the creation of the international debt crisis. The responsibility of TNBs in overlending to developing countries during the boom and in not contributing sufficiently to a solution by way of the debt restructuring process was not borne uniformly by all banks, either by category or nationality. Clearly the leaders—all United States money centre institutions—bear much more responsibility in terms of their imprudent lending during the boom and their intransigence in the face of all reasonable solutions to the international debt crisis which implied losses for them. Now leader unity has broken down and more positive leader initiatives, like Morgan's securitized bond scheme for Mexico, will hopefully replace the heretofore short-sighted policies of banks like Citicorp. Apparently, United States regulators have finally realized that there is no way of avoiding losses for these banks commensurate with their part in the creation of the crisis. Nonetheless, policy guidelines are still clearly needed.²⁵

²¹See "Amendment to Regulation K", *Federal Reserve Bulletin*, vol. 74, No. 4, April 1988, p. 232.

²²According to the American Institute of Certified Public Accountants (AICPA), *Practice Bulletin*, October 1987.

²³"Cooke's medicine: kill or cure?", *Euromoney*, July 1988, pp. 34 and 51.

²⁴Newspaper reports are split over the impact of the new policies, as can be appreciated from the following articles: "Big banks shift from 3d World", *The New York Times*, 28 July 1988 and "Banks step up Third World debt disposal - New York institutions lag the pace, however", *The Wall Street Journal*, 26 July 1988.

²⁵As a *Business Week* editorial put it: "The banks, whose lending practices contributed to the crisis, must not be allowed to wriggle off the hook" (July 25, 1988, p. 84).