

future assistance. Similarly, rescheduling of debt owed to the World Bank or regional development banks would undermine the exceptional credit rating of these development banks, which enables them to borrow on international markets at preferred rates. Since additional costs would have to be shared among all borrowers, those borrowers not in difficulty would have to pay higher rates of interest.

The problem of the growing arrears of debtor countries to the international financial institutions has been an issue of increasing importance in recent years. These arrears now exceed US\$5 billion. **A new approach was established in 1988, whereby the international community led by a friendly creditor country, e.g., Canada for Guyana, formed a "Support Group" to mobilize exceptional resources for a program of economic reform and to enable the country to clear its arrears.** Subsequent improvements in 1990 have strengthened this new approach and should benefit other countries in similar circumstances.

Commercial Debt

Most of the commercial bank debt is owed by middle-income countries. Many banks are now seeking to reduce their sovereign loans to the Third World and have either availed themselves of opportunities to participate in Brady-type operations in Mexico, Costa Rica, the Philippines and Venezuela, or have sold debt on the secondary market. While some larger, middle-income debtors have been able to return to international capital markets, commercial banks are reluctant to provide new financial resources for smaller, low-income countries where current commercial opportunities are negligible.

The total debt of problem debtor countries owed to Canadian commercial banks is now estimated at some C\$13 billion, most of which is owed by Latin American countries, as compared to C\$23 billion in 1983. Throughout the debt crisis, the Office of the Supervisor of Financial Institutions has monitored closely the exposure of Canadian banks and has required that banks provision a certain amount against their loans to a group of problem debtors. At present, this is set at a minimum of 35 per cent of the face value, although the major banks have voluntarily chosen to provision significantly more.

The Canadian banks have acted responsibly in managing their exposure and participated in the negotiation of rescheduling agreements, new money packages and, more recently, debt-reduction schemes under the Brady Plan. As most banks, including Canadian institutions, are now well provisioned against possible losses on their international loans, the risk of a bank failure is greatly reduced as compared to earlier this decade.