

The euro-currency business of banks in London: maturity analysis as at end-July 1970

Banks transacting euro-currency business in the United Kingdom are asked to provide periodically a maturity analysis of their assets and liabilities in foreign currencies. Such information was obtained for April 1968 and July 1969; a further enquiry was conducted at the end of July 1970. The results of this latest survey are summarised in the table at the end of this note.¹

Changes in the pattern of lending

In the year to end-July 1970 the size of the euro-currency market in London rose by £3,500 million to about £19,400 million, as measured by total assets and including euro-currency lending between banks in the inter-bank market. This was a slower rate of growth than in the previous fifteen months and was accompanied by a substantial change in the maturity and lending pattern within the market.

At the time of the July 1969 survey, banks in the United States were heavy borrowers of euro-dollars from their overseas branches in order to meet domestic demands for funds. The banks' borrowing included large amounts of overnight money which had the double advantage that it was not itself subject to the reserve requirements of the Federal Reserve Board, and that it could be deducted from the borrower's other liabilities before calculating the reserve requirements on these liabilities. It was this particular feature of the borrowing by the banks in the United States which very largely accounted for the growth in the net sight asset position of banks in London (including the London branches of American banks) from £520 million in April 1968 to £1,820 million in July 1969. All of the additional funds lent to the United States had been borrowed by London banks at fairly short term, and their total position for maturities up to three months in July 1969 (net liabilities of £280 million) was little different from what it was in April 1968 (net liabilities of £370 million).

During the year to end-July 1970, an easing of domestic money conditions enabled banks in the United States to reduce substantially the amount of euro-dollar funds they had borrowed from their overseas branches.² These repayments were largely of borrowings at sight and they had a significant influence on the net sight position of the London branches of American banks. In fact these branches' sight assets with banks abroad (including their head offices) fell by £850 million, whereas their sight liabilities to banks abroad, other than in the United States, rose by £400 million. Thus the American banks in London accounted for the whole of the decline in the net sight asset position of all London banks from £1,820 million at the end of July 1969 to £590 million at the end of July 1970 – a position close to that obtaining in April 1968. Even if the total of borrowing by banks in the United States had not fallen during the twelve months to July 1970, it is likely that the proportion of their

¹ The results of the previous surveys were discussed as part of a general article on the euro-currency market in the March 1970 *Bulletin* (see, in particular, pages 37–8 and Table C on pages 46–7).

² The reduction was especially sharp at the end of the period following the partial relaxation of Regulation Q on 24th June 1970, when the Federal Reserve Board lifted the restriction on the rates of interest which banks in the United States could pay on 30–89-day time deposits and certificates of deposit in denominations of \$100,000 and over.

borrowing in the form of overnight funds would have been reduced because of an amendment to Federal Reserve Regulation D, as from 31st July 1969, which was intended to ensure that such borrowing from overseas branches did not lead to a reduction in required reserves.

The change in the sight position of London banks had a marked repercussion on the total of maturities up to three months, which showed a net liability of £1,270 million at end-July 1970 compared with a net liability of £280 million a year earlier. There was also an increase in the net liability position up to one year, which roughly doubled over the twelve months to over £1,400 million at end-July 1970. This increase of £700 million in net liabilities at shorter term was accompanied by an increase of £470 million (from £620 million to £1,090 million) in net claims of one year and over on overseas customers other than banks. In addition, net claims of one year and over on U.K. customers other than banks rose by £100 million (from £200 million to £300 million), reflecting the growing use of euro-dollars by U.K. companies to finance their direct and portfolio investment overseas and also to meet their capital needs within the United Kingdom.¹

In other words, the latest analysis shows that, although the market has continued to grow, the pattern of lending has changed considerably. The short-term lending by American banks in London to their head offices has been reduced and the funds released, together with new deposits taken, have in the main been absorbed in lending to companies both in the United Kingdom and abroad. Companies in many countries have been experiencing liquidity pressures and, faced with difficult conditions in the longer-term capital markets, have increasingly resorted to the euro-currency market for funds for as long a maturity as they can get.

Analysis by groups of banks

For this purpose London banks are divided into three groups: British banks, including British overseas and Commonwealth banks; American banks; and other foreign banks, including multi-national banks.

Of the three groups of banks, the *British banks* showed the fastest rate of increase in euro-currency business in the year to July 1970, gross assets rising by some 40% (to about £6,900 million) compared with 9% (to about £9,700 million) for the American banks, and 35% (to £2,750 million) for the other foreign banks in London.

The net position of the British banks at sight was much the same on this occasion as at the end of July 1969. An apparent short position of £150 million was to a large extent balanced by their holdings of dollar certificates of deposit.² However, looking at the whole range of their maturities, the British banks increased their borrowing at shorter term to lend longer, with the result that their net assets at one year and over grew from £320 million to £780 million during the twelve months. This increase in longer-term lending was very largely to customers other than banks.

Although the *American banks in London* still had easily the largest share of the market last July, with 50% of total gross assets, their proportionate share had declined

¹ Longer-term credit facilities involving the rolling-over of short-term loans are classified by the reporting banks according to the period for which funds are definitely committed; in many instances this would be the period for which funds had actually been lent rather than the full term of the facility.

² Certificates of deposit are treated in the analysis as assets maturing at the due dates, whereas the banks holding them would, of course, generally be able to regard them as fully marketable sight assets.

from 55% twelve months earlier, largely because of the reduction in their lending to head offices. This reduction, combined with an increase in deposits received from banks abroad, led to a fall of £1,100 million (from £1,600 million to £500 million) in their net claims on banks abroad during the year; the fall was concentrated in the sight category, with net sight claims on banks abroad declining from £2,300 million to £1,040 million. There was an accompanying fall of £550 million (from £1,000 million to £450 million) in their net borrowing on the London inter-bank market and a similar fall (from £550 million to below £50 million) in their net borrowing from overseas customers other than banks. Although their total position with these overseas customers was in approximate balance in July 1970, they had borrowed at shorter term to lend longer, to the extent of having net assets of one year and over of £400 million.

Of the American banks' gross claims of £5,620 million on banks abroad at end-July 1970, some £3,900 million was lent to head offices in the United States; half the lending to head offices was at sight and virtually all matured within six months.

The *other foreign banks in London* as a whole were well covered at sight and up to three months, taking into consideration their holdings of £240 million of dollar certificates of deposit. Within this section the largest homogeneous group is the Japanese banks. Their position changed little during the year; virtually the whole of their lending is to their head offices, and is concentrated in the maturities up to three months.

Stand-by credits

Many London banks are prepared to make available foreign currency lines of credit to their customers (including other banks); at the same time, some banks have arranged lines of credit in their favour from other banks, chiefly from banks abroad. These stand-by credits are in the nature of contingent liabilities and assets and are not included in the figures discussed above and shown in the table.

Of the credits given, amounting to £1,475 million at the end of July 1970, £1,175 million were to overseas companies and included not only stand-by credits as such, but also the balance of normal commercial credits granted but not fully drawn. Over two-thirds of the total of credits were given by the American banks in London. Stand-by credits received, on the other hand, were presumably for use by the banks as a short-term expedient. The total reported was only £450 million, but this is by no means a true reflection of the backing that is available, because many foreign banks in London would have arrangements with their head offices which are not formalised to the extent that they would report them. Stand-by credits received by British banks were matched by credits they had given, chiefly to overseas companies.

Since the date of this analysis there have been further repayments of euro-dollar borrowings by banks in the United States, and the total of their outstanding borrowings is now

below the aggregate reserve-free base of May 1969 of about \$10,000.¹ If easier conditions in the United States persist, the reflux of short-term euro-dollars is likely to continue; and with commercial and industrial companies probably continuing for the time being to look to this market for their medium-term capital needs, there may be a tendency for the market to become less liquid.

¹ Since mid-October 1969, individual banks in the United States have been required to hold reserves of 10% against their borrowing from their overseas branches in excess of the average amount outstanding during the four weeks to 28th May 1969; if the amount of a bank's borrowing falls below the May level its reserve-free base is correspondingly reduced.

Maturity analysis of liabilities and claims in non-sterling currencies of banks in the United Kingdom: July 1970 (*July 1969 and April 1968 in italics*)

£ millions

Liabilities to and claims on	Liabilities				Total	
	Sight	Two days to less than three months	Three months to less than one year	One year and over	July 1970	July 1969
Other U.K. banks:						
British banks (including Commonwealth banks)	242	995	769	87	2,093	1,458
American banks	601	1,453	502	33	2,589	2,226
Other foreign banks	94	446	190	8	738	449
	937	2,894	1,461	128	5,420	
<i>July 1969</i>	689	2,395	952	97		4,133
Other U.K. residents:						
British banks (including Commonwealth banks)	112	120	29	3	264	242
American banks	126	104	24	1	255	234
Other foreign banks	8	10	5	1	24	14
	246	234	58	5	543	
<i>July 1969</i>	215	214	57	4		490
Banks abroad:						
British banks (including Commonwealth banks)	306	1,680	929	199	3,114	2,266
American banks	1,174	2,763	1,021	168	5,126	4,605
Other foreign banks	114	988	373	62	1,537	1,216
	1,594	5,431	2,323	429	9,777	
<i>July 1969</i>	1,209	4,861	1,678	339		8,087
Other overseas residents:						
British banks (including Commonwealth banks)	234	743	382	61	1,420	948
American banks	290	998	439	49	1,776	1,826
Other foreign banks	71	249	136	14	470	372
	595	1,990	957	124	3,666	
<i>July 1969</i>	425	1,622	956	143		3,146
Total liabilities and claims						
British banks (including Commonwealth banks)	894	3,538	2,109	350	6,891	4,914
American banks	2,191	5,318	1,986	251	9,746	8,891
Other foreign banks	287	1,693	704	85	2,769	2,051
	3,372	10,549	4,799	686	19,406	
<i>July 1969</i>	2,538	9,092	3,643	583		15,856
<i>April 1968</i>	1,003	4,066	1,811	331		7,211

(a) Loans are classified by the reporting banks according to the period for which the funds are definitely committed; this may not be for the full term of longer-term credit facilities, when these involve the re-negotiation of short-term loans. Certificates of deposit are included according to the dates of maturity, whereas the banks holding the certificates would generally regard them as fully marketable sight assets.

Sight	Claims (a)				Net liabilities (-)/claims (+) (a)										
	Two days to less than three months	Three months to less than one year	One year and over	Total		Sight	Two days to less than three months	Three months to less than one year	One year and over	Total					
				July 1970	July 1969					July 1970	July 1969				
289	1,423	638	95	2,445	2,158	+	47	+	428	-	131	+	8	+ 352	+ 700
511	1,019	585	17	2,132	1,226	-	90	-	434	+	83	-	16	- 457	- 1,000
117	560	235	19	931	753	+	23	+	114	+	45	+	11	+ 193	+ 304
917	3,002	1,458	131	5,508		-	20	+	108	-	3	+	3	+ 88	
606	2,445	987	99		4,137	-	83	+	50	+	35	+	2		+ 4
45	143	132	215	535	337	-	67	+	23	+	103	+	212	+ 211	+ 95
16	74	44	72	206	153	-	110	-	30	+	20	+	71	- 49	- 81
10	18	19	23	70	57	+	2	+	8	+	14	+	22	+ 46	+ 43
71	235	195	310	811		-	175	+	1	+	137	+	305	+ 268	
43	154	138	212		547	-	172	-	60	+	81	+	208		+ 57
306	1,105	678	228	2,317	1,606	-		-	575	-	251	+	29	- 797	- 660
2,212	2,253	988	171	5,624	6,219	+	1,038	-	510	-	33	+	3	+ 498	+ 1,614
212	749	244	56	1,261	1,019	+	98	-	239	-	129	-	6	- 276	- 197
2,730	4,107	1,910	455	9,202		+	1,136	-	1,324	-	413	+	26	- 575	
3,480	3,567	1,528	269		8,844	+	2,271	-	1,294	-	150	-	70		+ 757
100	507	426	596	1,629	862	-	134	-	236	+	44	+	535	+ 209	- 86
120	671	503	440	1,734	1,272	-	170	-	327	+	64	+	391	- 42	- 554
25	161	123	183	492	225	-	46	-	88	-	13	+	169	+ 22	- 147
245	1,339	1,052	1,219	3,855		-	350	-	651	+	95	+	1,095	+ 189	
232	826	536	765		2,359	-	193	-	796	-	420	+	622		- 787
740	3,178	1,874	1,134	6,926	4,963	-	154	-	360	-	235	+	784	+ 35	+ 49
2,859	4,017	2,120	700	9,696	8,870	+	668	-	1,301	+	134	+	449	- 50	- 21
364	1,488	621	281	2,754	2,054	+	77	-	205	-	83	+	196	- 15	+ 3
3,963	8,683	4,615	2,115	19,376		+	591	-	1,866	-	184	+	1,429	- 30	
4,361	6,992	3,189	1,345		15,887	+	1,823	-	2,100	-	454	+	762		+ 31
1,523	3,181	1,567	953		7,224	+	520	-	885	-	244	+	622		+ 13