

## The euro-currency business of banks in London: maturity analysis as at end-February 1971

From time to time, all banks in the United Kingdom which transact foreign currency business provide the Bank of England with returns of their assets and liabilities in non-sterling currencies according to maturity. Such returns have previously been called for as at 28th April 1968, and at the end of July in 1969 and 1970.<sup>1</sup> This article analyses the latest figures, relating to end-February 1971, which are shown in the table on pages 222-3.

In calling for another enquiry after an interval of only seven months, the Bank were influenced by the further large accruals of funds to the London market resulting from the repayment by banks in the United States of loans they had received from their U.K. branches. These funds, together with a growing volume of deposits taken from other banks abroad, were increasingly being channelled to companies, both in the United Kingdom and overseas. The Bank wished to be assured that the London market continued to match the maturity of its foreign currency liabilities and assets reasonably closely, and to maintain an ample degree of liquidity.

The statistics for July 1970 showed that the London banks' net sight assets in foreign currencies had been substantially reduced because of the very sharp fall in overnight lending by American banks in London to their head offices. American statistics for later dates suggested that this trend was probably accelerating, encouraged by the Federal Reserve Board's suspension in June 1970 of some of the provisions of its Regulation Q.<sup>2</sup> Between July 1970 and February 1971 total borrowing by banks in the United States from their foreign branches fell by \$3,800 million, to \$6,700 million; of this total, \$1,000 million had been converted from very short-term lending by these branches to their head offices into three months' lending to the U.S. Export-Import Bank, by means of an issue of non-negotiable Eximbank notes to the branches in January.

The returns which the Bank requested for February 1971 had largely the same coverage as those for July 1970. The banks were, however, asked to report their holdings of dollar certificates of deposit and foreign currency bills as sight assets and not, as previously, by date of maturity. This acknowledges the fact that, for the holder, these forms of paper constitute fully marketable securities which can be realised immediately should the need arise. It remains true, of course, that if an individual bank were to get into liquidity difficulties, the marketability of its holdings of such paper would depend on confidence in the market as a whole.

<sup>1</sup> The results of the first two enquiries were published in a general article describing the euro-currency market in London in the *Bulletin* for March 1970 (pages 31-49); a further article summarising the main changes in the year to July 1970 appeared in the *Bulletin* for December 1970 (pages 448-53).

<sup>2</sup> On 24th June 1970 the Federal Reserve Board lifted the restriction on the rates of interest that banks in the United States could pay on 30-89-day domestic time deposits and certificates of deposit in denominations of \$100,000 or over. This resulted in a shift by American banks from euro-dollar borrowing to the taking of domestic deposits.

### Changes in the pattern of business

The pattern of business in the London market at February 1971 can be summarised as follows, with comparable figures for July 1970. Between July 1970 and February 1971 the

### Foreign currency liabilities and claims of banks in the United Kingdom

£ millions

	Amounts outstanding		Change over period
	July 1970	February 1971	
<b>Liabilities to</b>			
Other banks in the United Kingdom	5,420	5,740	+ 320
Other U.K. residents	543	612	+ 69
Banks overseas	9,777	11,441	+1,664
Other overseas residents	3,666	3,572	- 94
	<b>19,406</b>	<b>21,365</b>	<b>+1,959</b>
<b>Claims on</b>			
Other banks in the United Kingdom	5,508	5,906	+ 398
Other U.K. residents	811	1,190	+ 379
Banks overseas	9,202	8,801	- 401
Other overseas residents	3,855	5,469	+1,614
	<b>19,376</b>	<b>21,366</b>	<b>+1,990</b>

size of the market in London, as measured by total assets, rose by about another £2,000 million, to £21,366 million. Over £1,600 million more was lent to overseas customers other than banks and about £380 million more to United Kingdom residents. (This latter type of lending was, however, restricted in January 1971, and U.K. residents may not now ordinarily borrow for periods of less than five years if the loan is required for use in the United Kingdom.) The extra resources for this additional lending came from banks abroad. Deposits by overseas banks rose by over £1,600 million and a further £400 million was released by the repayment of earlier lending to these banks. Within this fall of £400 million in lending to banks abroad, there was a fall of over £700 million in such lending by the American banks in London.

These changes have made a considerable impact on the maturity structure of the euro-currency market in London, as can be seen from the following table which gives the market's cumulative position. The table starts with the sight position, adds maturities between sight and seven days to give the cumulative position up to seven days, and continues in this way through the range of maturities.

There was an apparent reduction in the market's net sight assets from £936 million in July 1970 to £487 million in February 1971. The banks' holdings of dollar certificates of deposit are included as sight assets at both dates, but bill holdings only at February 1971. When this difference is allowed for the deterioration in the sight position is in reality nearer to £750 million. Yet the banks still had a considerable margin of cover for their liabilities at sight

**Cumulative net position in foreign currencies of banks in the United Kingdom  
at 28 February 1971**

£ millions: net assets +

	Position with U.K. residents				Position with overseas residents				Overall position	
	Banks	July 1970	Other	July 1970	Banks	July 1970	Other	July 1970	Total	July 1970
<i>Cumulative net position:</i>										
At sight	+437	+325	-155	-175	+463	+1,136	-258	-350	+487	+936
At less than eight days	+502	..	-176	..	+298	..	-331	..	+293	..
At less than three months	+315	+270	-53	-174	-1,767	-188	+124	-1,001	-1,381	-1,093
At less than one year	+203	+121	+145	-37	-2,633	-601	+421	-906	-1,864	-1,423
All maturities including one year and over	+166	+88	+578	+268	-2,640	-575	+1,897	+189	+1	-30

.. not available.

and had net assets of nearly £300 million up to seven days. Beyond this the market's position was less well balanced; for example, net liabilities at less than one year rose from about £1,420 million to about £1,860 million, matched by a broadly similar increase in net assets of one year and over.

**Analysis by groups of banks**

In the table at the end of this note, London banks are divided into four groups: British banks; Commonwealth banks; American banks; and other foreign banks (including multinational consortium banks). However, in the narrative it is convenient to consider the British and Commonwealth banks together.

In the year to July 1970 the *British and Commonwealth banks'* euro-currency business had grown by about 40%, but in the next seven months the expansion was much less spectacular, with claims, including lending in the London inter-bank market, rising by only about 3%. This slower growth is partly due to the fact that much of the new money coming into London was deposited with the consortium banks, many of which are linked to British banks. The British and Commonwealth banks attracted an extra £170 million of deposits from abroad; but as they reduced their lending in the inter-bank market, they were able to lend more to borrowers other than banks, both in the United Kingdom and overseas. Lending to U.K. customers rose by £231 million, to £766 million, and to overseas customers by £262 million, to £1,891 million.

The tendency for these banks to lend more to borrowers other than banks has not meant any general lengthening of their maturity structure. Indeed, their net assets at one year or over were virtually the same in February 1971 (£745 million) as in July 1970 (£760 million). The position has in fact improved at the very short end; net sight assets totalled £94 million in February compared with £30 million last July. These banks also had stand-by credit facilities of some £90 million net with banks abroad.

As already explained, the *American banks* in London experienced substantial changes in the direction of their business between July 1970 and February 1971; their lending to head offices and other branches fell by £1,070 million, to £2,800 million, most of the fall being in the sight category. The resources becoming available to the American banks in London as a result of these repayments were augmented by deposits from banks abroad, which increased by £775 million, to £5,901 million; some £180 million of this increase in deposits was from other branches, mostly in Europe. Almost £1,000 million of these resources went to increase lending to overseas residents other than banks and about £330 million to banks abroad. Most of the remainder was employed in the London inter-bank market, bringing the American banks' lending to other London banks into approximate balance with their borrowing from these banks (in July 1970 they had net liabilities of about £450 million to other London banks). The American banks' lending to residents rose by £73 million, to £279 million.

Mostly because of the changing relationship with their head offices, the maturity structure of American banks shifted considerably in the period under review. In particular, net sight assets of £675 million at the end of July had been reduced to nil by end-February. As the American banks have unquestionable access to dollar finance through their head offices in the United States, the reduction in sight assets is more apparent than real. Leaving aside the sight position, their net liabilities at maturities of up to three months had been reduced from £1,300 million to £667 million, partly because they had, as mentioned above, subscribed \$1,000 million for Export-Import Bank notes by end-February.

The *remaining group* of banks comprises the London branches of foreign banks (other than American) and the multinational consortium banks which, though not themselves American banks, usually have connections with banks in the United States. These consortium banks, some of which are very recent in origin, were mainly responsible for the growth of £1,180 million, to some £3,930 million, in this group's total lending since last July. Net assets at one year and over rose from £184 million to £508 million, reflecting the tendency of the consortium banks to specialise in lending at longer term. At the same time the group's net sight assets strengthened from £240 million to £393 million.

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The statistics which the banks provide for these analyses are of great value to the authorities. Developments in the banks' liquidity structure will remain under review, particularly because banks in the United States have made further repayments to their overseas offices since the end of February, and also because companies in Europe remain under heavy liquidity pressures and will, no doubt, continue to borrow euro-currency funds for as long a period as can be arranged.

**Maturity analysis of liabilities and claims in non-sterling currencies of banks in the United Kingdom: February 1971 (*July 1970 in italics*)**

£ millions

	Liabilities					Total	
	Sight	Less than eight days	Eight days to less than three months	Three months to less than one year	One year and over	February 1971	July 1970
<b>Liabilities to and claims on</b>							
<b>Other U.K. banks:</b>							
British banks	161	102	797	538	116	1,714	} 2,093
Commonwealth banks	27	28	167	112	4	338	
American banks	377	309	1,300	465	31	2,482	2,589
Other banks <sup>b</sup>	92	90	663	338	23	1,206	738
	657	529	2,927	1,453	174	5,740	
<i>July 1970</i>	937	2,894		1,461	128		5,420
<b>Other U.K. residents:</b>							
British banks	104	25	87	30	26	272	} 264
Commonwealth banks	15	3	7	4	1	30	
American banks	134	10	74	40	8	266	255
Other banks <sup>b</sup>	7	4	20	11	2	44	24
	260	42	188	85	37	612	
<i>July 1970</i>	246	234		58	5		543
<b>Banks abroad:</b>							
British banks	309	192	1,378	836	241	2,956	} 3,114
Commonwealth banks	34	16	214	109	17	390	
American banks	1,037	355	3,067	1,274	168	5,901	5,126
Other banks <sup>b</sup>	223	138	1,165	589	79	2,194	1,537
	1,603	701	5,824	2,808	505	11,441	
<i>July 1970</i>	1,594	5,431		2,323	429		9,777
<b>Other overseas residents:</b>							
British banks	114	88	375	240	82	899	} 1,420
Commonwealth banks	18	8	219	211	3	459	
American banks	333	81	764	490	66	1,734	1,776
Other banks <sup>b</sup>	82	20	193	159	26	480	470
	547	197	1,551	1,100	177	3,572	
<i>July 1970</i>	595	1,990		957	124		3,666
<b>Total liabilities and claims</b>							
British banks	688	407	2,637	1,644	465	5,841	} 6,891
Commonwealth banks	94	55	607	436	25	1,217	
American banks	1,881	755	5,205	2,269	273	10,383	9,746
Other banks <sup>b</sup>	404	252	2,041	1,097	130	3,924	2,769
	3,067	1,469	10,490	5,446	893	21,365	
<i>July 1970</i>	3,372	10,549		4,799	686		19,046

<sup>a</sup> 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. Banks' holdings of certificates of deposit and bills have been counted as sight assets.

<sup>b</sup> Including consortium banks.

Claims (a)					Net liabilities (-)/claims (+) (a)									
Sight	Less than eight days	Eight days to less than three months	Three months to less than one year	One year and over	Total		Sight	Less than eight days	Eight days to less than three months	Three months to less than one year	One year and over	Total		
					February 1971	July 1970						February 1971	July 1970	
315	184	671	350	95	1,615	} 2,445	+ 154	+ 82	- 126	- 188	- 21	- 99	} + 352	
34	35	326	205	3	603		+ 7	+ 7	+ 159	+ 93	- 1	+ 265		
360	257	1,259	561	14	2,451		- 17	- 52	+ 41	+ 96	- 17	- 31		- 457
385	118	484	225	25	1,237		+ 293	+ 28	- 179	- 113	+ 2	+ 31		+ 193
1,094	594	2,740	1,341	137	5,906		+ 437	+ 65	- 187	- 112	- 37	+ 166		
1,262	2,839	1,312	95		5,508		+ 325	- 55	- 149	- 33		+ 88		
45	16	131	137	293	622	} 535	- 59	- 9	+ 44	+ 107	+ 267	+ 350	} + 211	
12	1	54	41	36	144		- 3	- 2	+ 47	+ 37	+ 35	+ 114		
32	2	94	71	80	279		- 102	- 8	+ 20	+ 31	+ 72	+ 13		- 49
16	2	32	34	61	145		+ 9	- 2	+ 12	+ 23	+ 59	+ 101		+ 46
105	21	311	283	470	1,190		- 155	- 21	+ 123	+ 198	+ 433	+ 578		
71	235	195	310		811		- 175	+ 1	+ 137	+ 305		+ 268		
243	108	901	509	176	1,937	} 2,311	- 66	- 84	- 477	- 327	- 65	- 1,019	} - 797	
70	4	102	86	15	277		+ 36	- 12	- 112	- 23	- 2	- 113		
1,381	342	1,998	944	225	4,890		+ 344	- 13	- 1,069	- 330	+ 57	- 1,011		+ 498
372	82	758	403	82	1,697		+ 149	- 56	- 407	- 186	+ 3	- 497		- 276
2,066	536	3,759	1,942	498	8,801		+ 463	- 165	- 2,065	- 866	- 7	- 2,640		
2,730	4,107	1,910	455		9,202		+ 1,136	- 1,324	- 413	+ 26		- 575		
142	29	497	438	589	1,695	} 1,629	+ 28	- 59	+ 122	+ 198	+ 507	+ 796	} + 209	
15	3	93	57	28	196		- 3	- 5	- 126	- 154	+ 25	- 263		
108	83	1,258	709	566	2,724		- 225	+ 2	+ 494	+ 219	+ 500	+ 990		- 42
24	9	158	193	470	854		- 58	- 11	- 35	+ 34	+ 444	+ 374		+ 22
289	124	2,006	1,397	1,653	5,469		- 258	- 73	+ 455	+ 297	+ 1,476	+ 1,897		
245	1,339	1,052	1,219		3,855		- 350	- 651	+ 95	+ 1,095		+ 189		
745	337	2,200	1,434	1,153	5,869	} 6,926	+ 57	- 70	- 437	- 210	+ 688	+ 28	} + 31	
131	43	575	389	82	1,220		+ 37	- 12	- 32	- 47	+ 57	+ 3		
1,881	684	4,609	2,285	885	10,344		- 71	- 596	+ 16	+ 612	- 39	- 50		
797	211	1,432	855	638	3,933		+ 393	- 41	- 609	- 242	+ 508	+ 9		- 15
3,554	1,275	8,816	4,963	2,758	21,366		+ 487	- 194	- 1,674	- 483	+ 1,865	+ 1		
4,308	8,520	4,469	2,079		19,376		+ 936	- 2,029	- 330	+ 1,393		- 30		