

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

This article is the latest in the series giving the results of the Bank's periodic enquiries concerning the maturities of London banks' assets and liabilities in foreign currencies. It discusses the figures for the end of October 1971, which are set out in detail in the tables on pages 60-2. These figures show that there was a considerable improvement in the sight, or near sight, position of the banks, compared with the previous analysis, which related to the end of February 1971.¹ They also show that the banks had lent in October some £3,400 million for periods of one year or longer, and that they were largely using much shorter-term money for this purpose.

The previous analysis had noted some deterioration in the liquidity of the London market, following substantial repayments by banks in the United States of advances from their London branches, most of which were at sight or at very short term. Some of these funds had been reinvested in the United States, in special Export-Import Bank three months' paper, and some had been employed, together with other short-term funds, in longer-term lending to companies, both in the United Kingdom and abroad.

During the following months the outflow from the United States continued. Not only was the basic U.S. balance of payments deficit growing, but the disparity in interest rates between the United States, trying to promote economic recovery, and European countries, trying to curb inflation, encouraged an additional outflow of dollars to Europe. Because of the easy money conditions in the United States and the lack of domestic demand for funds, banks in the United States further reduced their euro-dollar borrowings from their foreign branches. These outflows and lower U.S. interest rates made euro-dollar loans relatively cheap to European firms, especially during the early months of the period, the dollars being sold for their own currencies. Sales of dollars were also made by those anticipating a devaluation of the dollar in terms of various European currencies and the yen. Such speculative pressures against the dollar were strong in early May, before the deutschemark and guilder floated and the Swiss franc and Austrian schilling were formally revalued. They became intense in July and early August and both the European and Japanese central banks took in huge amounts of dollars. At such times euro-dollar rates were forced up. Some attempt had been made by the U.S. authorities to stem the flow of funds back to Europe by issuing U.S. Treasury notes, as well as Eximbank notes, to the foreign branches of U.S. banks. By August about \$3 billion of such notes had been taken up. But after the suspension of dollar convertibility in August, they were allowed to run off as they matured during September and October and this helped to produce a highly liquid situation in the

¹ An article giving the results of the February 1971 enquiry and commenting on the main changes since the previous enquiry in July 1970 appeared in the *Bulletin* for June 1971 (pages 218-23).

euro-dollar market. At the end of October rates had fallen back almost to what they were in the early months of the year.

Since January 1971, foreign currency borrowing by U.K. residents for use at home has not normally been approved for periods of less than five years. In August and September measures were also taken to reduce inflows resulting from the foreign currency operations of U.K. banks. In August they were debarred from converting foreign currency deposits into sterling if this caused their spot currency liabilities to exceed their spot currency assets. Where they already had net spot liability positions, they were required to reverse them as the underlying deposits matured. In September, the limits on the amount of spot foreign exchange which the banks were allowed to hold against forward liabilities were doubled.

The following table shows the changes that have occurred in the main categories of borrowing and lending during the period under review.

Foreign currency liabilities and claims of banks in the United Kingdom

£ millions

	Amounts outstanding 1971		Change over period
	February	October	
Liabilities to			
Other banks in the United Kingdom	5,740	6,761	+1,021
Other U.K. residents	612	540	- 72
Banks overseas	11,441	13,679	+2,238
Other overseas residents	3,572	3,656	+ 84
	21,365	24,636	+3,271
Claims on			
Other banks in the United Kingdom	5,906	6,893	+ 987
Other U.K. residents	1,190	1,429	+ 239
Banks overseas	8,801	10,246	+1,445
Other overseas residents	5,469	6,175	+ 706
	21,366	24,743	+3,377

Between February and October 1971 the size of the market in London, as measured by liabilities, rose by nearly £3,300 million, to over £24,600 million. About £1,000 million of this increase was due to deposits between U.K. banks. Nearly all the rest was in deposits by overseas banks, including central banks. Corporate liquidity in Europe had generally been tight and euro-dollar rates had not been high enough during the period to attract such surplus corporate funds as were available.

On the claims side, loans to U.K. companies rose by a further £240 million, mostly to finance their overseas investment, and loans to overseas residents other than banks rose by a further £700 million. In contrast to the period before February, lending to banks abroad increased very substantially. In fact, apart from the repayment by head offices of U.S. banks of £1,600 million of loans received from their London branches, the increase in lending to other banks abroad was well over £3,000 million. This must reflect to a very large extent the borrowing of euro-dollars to finance foreign exchange operations.

These developments had a noticeable effect on the maturity structure of the euro-currency market in London, as illustrated in the following table, which gives the cumulative position of the market in general and of the main groups of banks in particular. The table starts with the sight position, adds maturities between sight and seven days to give a cumulative position up to seven days, and continues in this way through the range of maturities. The final figure shows the total net position of the market, or group of banks. For the market as a whole, assets were £107 million greater than liabilities in October. This consisted of net liabilities of £2,133 million at less than one year offset by net assets of £2,240 million at one year and over. In other words, the market has, as before, to some extent borrowed short to lend long.

Cumulative net position in foreign currencies of banks in the United Kingdom at end-October 1971
(end-February 1971 in italics)^a

£ millions: net assets +

	All banks		British banks		Commonwealth banks		American banks		Other foreign banks		Consortium banks	
At sight	+1,059	+ 487	+285	+ 57	+92	+37	+ 303	—	+309	+393	+ 70	
At less than 8 days	+ 967	+ 293	+143	- 13	+92	+25	+ 359	- 71	+322	+352	+ 51	
" " 1 month	+ 68	- 467	- 16	-212	+38	+36	- 80	-389	+182	+ 98	- 56	
" " 3 months	-1,741	-1,381	-476	-450	+26	- 7	-1,002	-667	+ 37	-257	-326	
" " 6 months	-2,149	-1,866	-699	-475	+21	-44	- 971	-678	- 25	-493	-475	
" " 1 year	-2,134	-1,864	-741	-660	- 3	-54	- 865	-651	- 51	-499	-474	
All maturities including one year and over	+ 107	+ 1	+ 68	+ 28	+ 3	+ 3	- 4	- 39	+ 15	+ 9	+ 25	

^a The consortium banks were not separately identified in February.

— nil or less than £500,000.

Compared with February, there has, however, been a considerable improvement in the market's very short-term position. Sight assets, including all holdings of London certificates of deposit, exceeded sight liabilities by £1,059 million in October, as against £487 million in February.¹ There was also a cumulative net asset position of £69 million up to one month's maturity, as against a net liability position of £467 million last time. This improvement was probably helped by the repayment of the special U.S. euro-dollar certificates, as mentioned earlier.

At the same time the shift towards longer-term lending was maintained. In gross terms, loans with one year or more to run increased from about £2,760 million in February to about £3,400 million in October, when a newly introduced maturity category showed that loans of three years or more amounted to nearly £1,900 million. As has been said, claims with one year or more to run exceeded deposits of the same maturity by £2,240 million in October. In February the comparable figure was £1,865 million. To finance this lending the banks relied on being able to roll over shorter-term deposits. The figures show that the money used was, if anything, of even shorter term in October than in February. Nearly all of it was less than three months' money and a quite large proportion was for less than one month. The banks, of course, had a more comfortable sight position in October, as already men-

¹ Holdings of London dollar certificates of deposit were of the order of £500 million at both dates. The October enquiry asked for a separate maturity analysis of these holdings, so that they could be included according to maturity or, alternatively, counted as fully marketable assets, as they would be in the eyes of the holder. In the main tables on pages 60-2 they are shown both ways.

tioned, and they could also in many instances look to formal or informal backing from banks abroad.

It is not always easy for the banks to decide the precise term of a loan commitment and, as an aid to consistency, the Bank have suggested that revolving credit facilities should be reported according to the length of time for which funds have actually been lent, if this is shorter than the full term of the commitment, unless the bank has given a firm undertaking to renew the funds on the maturity of the shorter period. Term loans, it is suggested, should generally be reported according to their full term, unless there is some explicit break clause which indicates otherwise; the fact that the rate of interest is variable should not, of itself, affect the figures.

Turning to the figures for the groups of banks, an extra group has been shown on this occasion, *viz.*, the international consortium banks. This group consists of some fifteen banks, some of them very recent in origin, which are considered to be sufficiently homogeneous to be worth showing on their own. It does not include, however, two banks whose capital is owned exclusively by British and Commonwealth banks, and one which belongs to the American banks in London. The consortium banks have tended to concentrate on longer-term lending. Of their gross claims of over £1,300 million in October, about £580 million, or 45%, were of a maturity of one year or longer, and these were mostly claims on overseas residents other than banks. Their net claims at one year or over were about £500 million in October, compared with £440 million in February. The group's net sight assets totalled £70 million, counting their holdings of certificates of deposit of about £50 million, and they also reported net stand-by credit facilities of £166 million available from banks abroad.

The British banks and the American banks in London both substantially improved their sight positions, between February and October. Net sight assets of the British banks strengthened from £57 million to £285 million; those of the American banks from nil to £303 million. These groups also considerably increased their longer-term lending. Gross claims of one year and over of the British banks rose by over £200 million to about £1,360 million, the increase being well spread among the various groups of borrowers; similar claims of the American banks rose by over £300 million, to about £1,200 million, and the increase was mainly in claims on overseas residents other than banks. The net assets at one year and over of the British banks rose from £688 million to £809 million and those of the American banks from £612 million to £861 million. The British banks also had net stand-by credit facilities with banks abroad of £116 million. The American banks in London naturally have access to dollar funds from their home sources and are net providers of stand-by credit facilities, to the extent of £93 million to banks abroad and £53 million to other banks in the United Kingdom.

The euro-currency business of the Commonwealth banks has not grown much during the period, their total liabilities and claims having each risen by only about £70 million, to stand at about £1,290 million. Their liquidity, however, has

Maturity analysis of liabilities and claims in non-sterling currencies of banks in the United Kingdom: October 1971

£ millions

	Liabilities								Total 1971	
	Sight	Less than eight days	Eight days to less than one month	One month to less than three months	Three months to less than six months	Six months to less than one year	One year to less than three years	Three years and over	October	February
Liabilities to										
Other U.K. banks:										
British banks	126	115	324	545	421	164	71	67	1,833	1,714
Commonwealth banks	17	20	50	129	131	41	4	—	392	338
American banks	328	317	602	904	575	189	53	12	2,980	2,482
Other foreign banks	105	96	280	336	152	34	6	2	1,011	1,206
Consortium banks	27	40	116	173	138	32	14	5	545	
	603	588	1,372	2,087	1,417	460	148	86	6,761	5,740
Other U.K. residents:										
British banks	68	34	37	37	25	10	10	17	238	272
Commonwealth banks	12	4	1	3	3	2	—	—	25	30
American banks	46	13	58	68	32	6	5	5	233	266
Other foreign banks	7	—	6	15	3	1	4	1	37	44
Consortium banks	2	—	2	1	1	—	1	—	7	
	135	51	104	124	64	19	20	23	540	612
Banks abroad:										
British banks	208	248	556	1,202	676	292	186	57	3,425	2,956
Commonwealth banks	30	19	53	124	121	39	9	10	405	390
American banks	1,022	459	1,277	2,481	1,247	414	94	56	7,050	5,901
Other foreign banks	236	111	438	732	425	118	38	40	2,138	2,194
Consortium banks	40	22	106	271	140	48	12	22	661	
	1,536	859	2,430	4,810	2,609	911	339	185	13,679	11,441
Other overseas residents:										
British banks	97	65	168	257	159	70	37	52	905	899
Commonwealth banks	15	20	91	152	166	20	2	—	466	459
American banks	220	137	381	549	289	82	62	55	1,775	1,734
Other foreign banks	68	19	68	127	77	31	31	13	434	480
Consortium banks	11	1	10	22	14	3	3	12	76	
	411	242	718	1,107	705	206	135	132	3,656	3,572
Total										
British banks	499	462	1,085	2,041	1,281	536	304	193	6,401	5,841
Commonwealth banks	74	63	195	408	421	102	15	10	1,288	1,217
American banks	1,616	926	2,318	4,002	2,143	691	214	128	12,038	10,383
Other foreign banks	416	226	792	1,210	657	184	79	56	3,620	3,924
Consortium banks	80	63	234	467	293	83	30	39	1,289	
	2,685	1,740	4,624	8,128	4,795	1,596	642	426	24,636	21,365

Claims^a

Sight ^a		Less than eight days	Eight days to less than one month	One month to less than three months	Three months to less than six months	Six months to less than one year	One year to less than three years	Three years and over	Total 1971		
									October	February	
188	<i>380</i>	155	383	552	339	124	106	64	1,911	1,615	Claims on Other U.K. banks: British banks Commonwealth banks American banks Other foreign banks Consortium banks
45	<i>83</i>	30	71	172	187	30	4	—	539	603	
240	<i>299</i>	324	504	892	665	245	13	4	2,887	2,451	
163	<i>326</i>	102	248	414	250	70	23	3	1,273	1,237	
56	<i>108</i>	19	57	69	47	17	14	4	283		
692	<i>1,196</i>	630	1,263	2,099	1,488	486	160	75	6,893	5,906	
126		11	36	93	96	55	136	216	669	622	Other U.K. residents: British banks Commonwealth banks American banks Other foreign banks Consortium banks
16		6	12	53	68	10	—	11	176	144	
127		6	40	62	59	23	53	44	414	279	
16		3	17	20	16	2	13	19	106	145	
5		—	1	3	3	6	19	27	64		
190		26	106	231	242	96	221	317	1,429	1,190	
272		130	368	656	387	180	122	82	2,197	1,937	Banks abroad: British banks Commonwealth banks American banks Other foreign banks Consortium banks
62		20	37	82	83	17	6	—	307	277	
1,352		530	862	1,413	946	324	105	85	5,617	4,890	
361		133	336	572	292	77	52	39	1,862	1,697	
34		17	40	68	52	26	15	11	263		
2,081		830	1,643	2,791	1,760	624	300	217	10,246	8,801	
106		26	161	320	280	158	281	360	1,692	1,695	Other overseas residents: British banks Commonwealth banks American banks Other foreign banks Consortium banks
5		8	25	102	95	23	8	3	269	196	
141		124	478	737	519	214	329	574	3,116	2,724	
22		6	60	112	86	38	27	43	394	854	
3		9	33	67	60	41	181	310	704		
277		173	757	1,338	1,040	474	826	1,290	6,175	5,469	
592	<i>784</i>	322	948	1,621	1,102	517	645	722	6,469	5,869	Total British banks Commonwealth banks American banks Other foreign banks Consortium banks
128	<i>166</i>	64	145	409	433	80	18	14	1,291	1,220	
1,860	<i>1,919</i>	984	1,884	3,104	2,189	806	500	707	12,034	10,344	
562	<i>725</i>	244	661	1,118	644	187	115	104	3,635	3,933	
98	<i>150</i>	45	131	207	162	90	229	352	1,314		
3,240	<i>3,744</i>	1,659	3,769	10,459	4,530	1,680	1,507	1,899	24,743	21,366	

^a Banks' holdings of London dollar certificates of deposit have been included according to maturity date. The alternative figures in italics in the sight column show the effect of treating all such holdings of certificates of deposit as sight assets.

— nil or less than £500,000.

Maturity analysis of liabilities and claims in non-sterling currencies of banks in the United Kingdom: October 1971 (continued)

£ millions

	Net liabilities (-)/claims (+) ^a										Total 1971	
	Sight ^a	Less than eight days	Eight days to less than one month	One month to less than three months	Three months to less than six months	Six months to less than one year	One year to less than three years	Three years and over	October	February		
											October	February
Net liabilities to/claims on												
Other U.K. banks:												
British banks	+ 62	+ 254	+ 40	+ 59	+ 7	- 82	- 40	+ 35	- 3	+ 78	- 99	
Commonwealth banks	+ 28	+ 66	+ 10	+ 21	+ 43	+ 56	- 11	-	-	+ 147	+ 265	
American banks	- 88	- 29	+ 7	- 98	- 12	+ 90	+ 56	- 40	- 8	- 93	- 31	
Other foreign banks	+ 58	+ 221	+ 6	- 32	+ 78	+ 98	+ 36	+ 17	+ 1	+ 262	+ 31	
Consortium banks	+ 29	+ 81	- 21	- 59	- 104	- 91	- 15	-	- 1	- 262		
	+ 89	+ 593	+ 42	- 109	+ 12	+ 71	+ 26	+ 12	- 11	+ 132	+ 166	
Other U.K. residents:												
British banks	- 42	- 23	- 1	+ 56	+ 71	+ 45	+ 126	+ 199		+ 431	+ 350	
Commonwealth banks	+ 4	+ 2	+ 11	+ 50	+ 65	+ 8	-	+ 11		+ 151	+ 114	
American banks	+ 81	- 7	- 18	- 6	+ 27	+ 17	+ 48	+ 39		+ 181	+ 13	
Other foreign banks	+ 9	+ 3	+ 11	+ 5	+ 13	+ 1	+ 9	+ 18		+ 69	+ 101	
Consortium banks	+ 3	-	- 1	+ 2	+ 2	+ 6	+ 18	+ 27		+ 57		
	+ 55	- 25	+ 2	+ 107	+ 178	+ 77	+ 201	+ 294		+ 889	+ 578	
Banks abroad:												
British banks	+ 64	- 118	- 188	- 546	- 289	- 112	- 64	+ 25		- 1,228	- 1,019	
Commonwealth banks	+ 32	+ 1	- 16	- 42	- 38	- 22	- 3	- 10		- 98	- 113	
American banks	+ 330	+ 71	- 415	- 1,068	- 301	- 90	+ 11	+ 29		- 1,433	- 1,011	
Other foreign banks	+ 125	+ 22	- 102	- 160	- 133	- 41	+ 14	- 1		- 276	- 497	
Consortium banks	- 6	- 5	- 66	- 203	- 88	- 22	+ 3	- 11		- 398		
	+ 545	- 29	- 787	- 2,019	- 849	- 287	- 39	+ 32		- 3,433	- 2,460	
Other overseas residents:												
British banks	+ 9	- 39	- 7	+ 63	+ 121	+ 88	+ 244	+ 308		+ 787	+ 796	
Commonwealth banks	- 10	- 12	- 66	- 50	- 71	+ 3	+ 6	+ 3		- 197	- 263	
American banks	- 79	- 13	+ 97	+ 188	+ 230	+ 132	+ 267	+ 519		+ 1,341	+ 990	
Other foreign banks	- 46	- 13	- 8	- 15	+ 9	+ 7	- 4	+ 30		- 40	+ 374	
Consortium banks	- 8	+ 8	+ 23	+ 45	+ 46	+ 38	+ 178	+ 298		+ 628		
	- 134	- 69	+ 39	+ 231	+ 335	+ 268	+ 691	+ 1,158		+ 2,519	+ 1,897	
Total												
British banks	+ 93	+ 285	- 140	- 137	- 420	- 179	- 19	+ 341	+ 529	+ 68	+ 28	
Commonwealth banks	+ 54	+ 92	+ 1	- 50	+ 1	+ 12	- 22	+ 3	+ 4	+ 3	+ 3	
American banks	+ 244	+ 303	+ 58	- 434	- 898	+ 46	+ 115	+ 286	+ 579	- 4	- 39	
Other foreign banks	+ 146	+ 309	+ 18	- 131	- 92	- 13	+ 3	+ 36	+ 48	+ 15	+ 9	
Consortium banks	+ 18	+ 70	- 18	- 103	- 260	- 131	+ 7	+ 199	+ 313	+ 25		
	+ 555	+ 1,059	- 81	- 855	- 1,669	- 265	+ 84	+ 865	+ 1,473	+ 107	+ 1	

^a Banks' holdings of London dollar certificates of deposit have been included according to maturity date. The alternative figures in italics in the sight column show the effect of treating all such holdings of certificates of deposit as sight assets.

- nil or less than £500,000.

strengthened. They had a net sight asset position of £92 million (as against £37 million last time) and they had a cumulative net asset position of £25 million up to six months. At one year and over their position was more or less balanced.

In the case of the "other foreign banks", comparison is made difficult because the consortium banks were not segregated in the previous analysis. But their business has certainly increased and their liquidity still appears to be comfortable.