International financial developments

Among the main developments:

- *The current account deficit of the major industrial countries was largely eliminated by end-1981: in contrast, the UK surplus nearly halved. The developing countries' deficit widened further in 1981; and their recourse to bank borrowing increased.*
- *For 1982 as a whole the oil exporters' current account is likely to be approximately in balance. Various high-absorbing countries are already in large deficit.*
- *The underlying rate of growth of international bank lending probably accelerated in the fourth quarter. With their current account positions weakening, oil exporting countries were again net borrowers. However, the growth of lending in 1981 as a whole was slower than in the two previous years, and figures for newly announced credits in the first four months of 1982 indicate a slackening in the pace of new borrowing which, together with more expensive terms, perhaps reflects bankers' greater awareness of risk.*

The review covers recent developments in world payments balances and their financing, the deployment of the surpluses of the oil exporters, international banking, and the foreign exchange markets.

Balance of payments developments

The decline in the surplus of the oil exporters continues to be the central feature of the pattern of world payments balances. As happened after the first oil shock, the decline has been unexpectedly rapid, although the circumstances have been different. In the mid–1970s the primary influence was the surge in the volume of imports into the oil producing countries; this time, their imports have grown more slowly (albeit from a higher base) but their exports have fallen substantially in volume terms as oil consumption in the major industrial countries has declined. In the two years since the oil exporters' surplus reached its peak, revenues have shrunk by about 15% in dollar terms—though they have been little changed if measured in SDRs—with the volume of their exports falling by nearly one third.

So far, the main counterpart to the fall in the oil exporters' surplus has been in the major industrial countries, whose combined deficit was largely eliminated by the second half of last year (see below). The group of smaller OECD countries registered a small improvement during 1981, but this was concentrated in a few countries, mainly Norway, the Netherlands and Switzerland. The other smaller OECD countries have remained in deep deficit, as have the developing countries. With a few exceptions, countries in both of these groups have restrained their import growth; but they have faced mounting interest payments; and the terms of trade, particularly of the developing countries, have suffered from persistently weak commodity prices.

Current account summary(a)

$ billions; *seasonally adjusted*

	1980	1981			1982
	Year	Year	H1	H2(b)	Year(b)
Major overseas countries(c)	- 43	- 17	-13	- 4	5
Other OECD(d)	- 38	- 31	-17	-14	-15
Total OECD(d)	- 81	- 48	-30	-18	-10
Oil exporting countries	112	67	46	21	15
Other developing countries	- 66	- 77	-40	-37	-70

(a) The columns do not sum to zero because of incomplete country coverage, timing differences, and other statistical deficiencies.

(b) Bank estimates/forecasts.

(c) United States, Canada, France, Italy, Japan, and West Germany.

(d) Excluding United Kingdom.

It seems likely that the balance of payments shifts seen over the past year will continue in 1982, and possibly into 1983. The combined surplus of the oil exporters may have disappeared in the first half of this year, with a number of high-absorbing countries already in large deficit. Although their terms of trade may continue to deteriorate, conditions in oil markets suggest that the volume of their exports should not now fall much further. If the oil exporters respond by curtailing import volume growth, some recovery in their current account positions might occur later this year. Nevertheless, for 1982 as a whole, the oil exporters' surplus will have been substantially reduced.

As in 1981, the counterpart may be seen mainly among some of the major countries, and by 1983 these countries as a group could be moving into substantial surplus. In addition, the current account deficits of the smaller OECD countries may begin to improve as the major economies—their principal export markets—begin their slow recovery (see page 184).

The developing countries can expect only a moderate improvement this year, in spite of continuing severe import restraint. With the world economy recovering only slowly from deep recession, commodity prices, and thus the developing countries' terms of trade, will probably remain weak.

Major overseas countries

Previous *Bulletins* have noted how the decline during 1981 in the combined current account deficit of the major overseas countries was accompanied by significant shifts between countries—particularly the improvements recorded by Japan and West Germany, and the underlying deterioration in the position of the United States. These movements primarily reflected changes in relative competitive positions resulting from the appreciation of the dollar since mid-1980 combined with the low domestic inflation rates in Japan and West Germany. More recently, these current account trends have been checked; at the turn of the year, growth in the volume of exports in both Japan and West Germany slowed, while recession in the United States, together with further cuts in oil imports, produced an improvement in its trade balance. These volume shifts were accompanied by a renewed appreciation of the dollar, so that in the first quarter of 1982 the US terms of trade improved. As a result, Japan's current account surplus has shrunk, while that of West Germany has slipped back into small deficit, and the United States is expected to have registered a substantial surplus.

Major overseas countries: current balances

$ billions; *seasonally adjusted*

	1980	1981				1982
	Year	Year	Q2	Q3	Q4	Q1(a)
United States	3.7	6.6	1.2	2.1	-0.1	3.8
Canada	- 1.6	- 5.4	-1.6	-2.1	-0.5	-0.1
France	- 7.8	- 7.5	-0.4	-2.2	-2.7	-2.2
Italy	- 9.8	- 8.0	-2.0	-0.6	-0.9	-3.1
Japan	-10.8	4.7	1.9	2.5	1.1	0.9
West Germany	-16.3	- 7.8	-2.6	-2.2	1.5	-1.8
Six major overseas countries	-42.6	-17.4	-3.5	-2.5	-1.6	-2.5

(a) Includes Bank estimates.

Over the rest of the year, however, the effects of competitiveness are likely to assert themselves, bringing some renewed strengthening of the current balances of Japan and West Germany, while that of the United States may deteriorate appreciably unless the economy remains very depressed.

Whereas the changing distribution of current accounts has altered the pattern of capital flows, any impact that this might have had on exchange rates against the dollar has been outweighed by high and fluctuating US interest rates. Countries other than the United States have been increasingly reluctant to deplete further their gross dollar reserves, and with the US authorities not intervening, most of the pressure until last August and again in the first quarter of 1982 was reflected in an appreciation of the dollar.

United Kingdom

The visible trade balance has continued to deteriorate: in the first quarter of 1982 the visible surplus totalled £$\frac{1}{4}$ billion (seasonally adjusted), after £$\frac{1}{2}$ billion in the previous quarter and £1$\frac{3}{4}$ billion in the first quarter of 1981. Nearly all of the decline in the visible balance since the first quarter of 1981 has been on the non-oil account.

UK balance of payments

£ billions; *not seasonally adjusted*

	1981				1982
	Q1	Q2	Q3	Q4	Q1
Current account	**2.6**	..	..	**1.7**	**0.7**
Outward portfolio investment	−1.4	−1.0	−0.7	−1.1	−1.1
Net direct investment (non-oil)	−1.5	−0.4	−1.2	−1.3	−0.4
Banks' net external lending in foreign currencies	−0.6	−0.8	0.1	2.6	1.4
Banks' sterling lending overseas	−1.2	−0.4	−0.8	−0.5	−1.2
Sterling balances(a)	0.4	1.1	1.2	0.1	1.6
Other flows	0.4	−0.7	—	−0.4	−0.6
Total identified capital flows	**−3.9**	**−2.2**	**−1.4**	**−0.6**	**−0.3**
Official financing	−0.3	0.2	0.7	0.1	—
Balancing item	1.4	..	..	−1.2	−0.4

.. not available.

(a) Exchange reserves and other external banking and money market liabilities in sterling.

First estimates suggest that the surplus on invisibles was reduced by over £$\frac{1}{2}$ billion in the first quarter of 1982. In the interest, profits and dividends account, the net interest earned by UK banks from borrowing and lending in foreign currencies, and the net direct investment earnings of companies outside the oil sector, each fell by nearly £$\frac{1}{4}$ billion. In the transfers account, the deficit with the European Community grew by over £$\frac{1}{4}$ billion despite an increase in budget rebates.

Thus, the current account surplus contracted from £1$\frac{1}{2}$ billion to £$\frac{1}{2}$ billion (seasonally adjusted) in the first quarter.

There was a small identified capital outflow (unadjusted) in the first quarter of 1982, following an outflow of over £8 billion overall in 1981. Among identified capital flows, outward portfolio investment continued at slightly over £1 billion per quarter, which suggests that the adjustment of portfolios in response to exchange control abolition is not yet complete. Direct investment outflows were lower than in the second half of last year, when there were several large acquisitions of US companies. The banks' net external borrowing in foreign currencies was again heavy, though less than in the fourth quarter of 1981, as the UK private sector continued to borrow in foreign currency, perhaps partly to finance delayed tax payments. The scale of capital outflows (including unidentified transactions) roughly matched the current account surplus. Net official intervention was negligible.

Developing countries

The developing countries' current account deficit widened by around $10 billion in 1981. This was financed in large measure by an increase in net private and concessionary capital inflows. Bank borrowing, which was fairly low early in the year—partly it seems for seasonal reasons—revived thereafter, and for the year as a whole was more than $2 billion higher than in 1980. Official and other concessionary capital inflows continued to rise. On the other hand, there appear to have been increased outflows of private capital to banks in the BIS reporting area.

Developing countries balance of payments[(a)]

$ billions; *not seasonally adjusted*

	1980	1981				
	Year	Year	Q1	Q2	Q3(b)	Q4(b)
Current balance	-66	-77	-19	-18	-19	-20
Capital balance, excluding official financing	61	69	14	14	19	22
of which:						
Direct investment(b)	*8*	*9*	*2*	*2*	*2*	*2*
Capital market finance(c)	*42*	*44*	*5*	*10*	*12*	*18*
Other(d)	*11*	*16*	*7*	*2*	*5*	*2*
Official financing balance	- 5	- 7	- 5	- 4	—	2
of which:						
Borrowing from IMF	*3*	*5*	—	*2*	*1*	*2*
SDR allocations	*1*	*1*	*1*	—	—	—
Reserves (increase -)(c)	*1*	*1*	*4*	*2*	*- 1*	*- 4*

(a) Excluding oil exporting countries. Figures may not add exactly because of rounding.
(b) Bank forecasts.
(c) Adjusted to exclude valuation changes.
(d) Includes official flows, trade credits, errors and omissions.

The developing countries' official financing was also higher in 1981. Borrowing from the IMF almost doubled despite the large number of IMF arrangements that were suspended. Reserves fell early in the year but recovered in the final quarter as bank borrowing increased. Over the year as a whole, reserves were drawn down by about $1 billion.

Deployment of oil money

In the fourth quarter of 1981, net new drawing of external borrowing by the oil exporting countries (partly offset by changes in credit given on exports of oil) contributed some $5 billion to the total cash surplus available for investment;

Oil exporters' current account balance and cash surplus available for investment

$ billions

	1980	1981			1982
	Year	Year	Q3	Q4	Q1(a)
Exports	309	281	67	65	61
Imports	136	158	41	42	42
Merchandise trade	173	123	26	23	19
Net invisibles	- 61	- 56	-14	-14	-14
of which, official transfers	*- 4*	*- 4*	*- 1*	*- 1*	*- 1*
Current balance	**112**	**67**	**12**	**9**	**5**
Net movements in external borrowing etc(b)	9	- 1	1	5	..
Surplus available for investment	**121**	**66**	**13**	**14**	..

.. not available.
(a) Provisional.
(b) For definitions, see footnote (a) to following table.

Identified deployment of oil exporters' surpluses[(a)(b)]

$ billions

	1980	1981			1982
	Year	Year	Q3	Q4	Q1(c)
United Kingdom:					
Sterling bank deposits	1.4	0.5	- 0.1	—	0.5
Eurocurrency bank deposits	14.8	7.9	3.4	- 0.4	- 0.9
British government stocks	1.9	1.0	0.1	0.3	0.1
Treasury bills	- 0.1	—	—	- 0.2	- 0.1
Other sterling placements	0.1	0.2	—	—	- 0.1
Other foreign currency placements	- 0.5	- 0.6	- 0.1	—	—
	17.6	9.0	3.3	- 0.3	- 0.5
United States:					
Bank deposits	- 1.1	- 2.1	- 2.0	0.5	1.4
Treasury bonds and notes	8.2	10.9	3.2	2.2	2.6
Treasury bills	1.4	- 0.6	- 0.6	- 0.1	0.8
Other portfolio investment	4.7	4.6	1.8	0.1	0.1
Other	0.9	3.3	0.7	2.9	..
	14.1	16.1	3.1	5.6	4.9
Bank deposits in other industrialised countries	26.2	- 2.6	- 2.1	- 2.4	..
Other investment in other industrialised countries(d)	17.0	21.7	5.0	3.4	..
IMF and IBRD(e)	4.9	2.5	0.5	0.7	0.6
Loans to developing countries	6.7	7.2	1.4	1.8	..
Total identified deployed net cash surplus	**86.5**	**53.9**	**11.2**	**8.8**	..
Residual of unidentified items(f)	34.5	12.1	1.8	5.2	..
Total net cash surplus derived from current account (as shown in the previous table)	**121**	**66**	**13**	**14**	..

.. not available.
(a) This table excludes liabilities arising from net borrowings and inward direct investment and also, on the assets side, changes in credit given for oil exports. These items are shown as net movements in external borrowing etc, in the previous table.
(b) See the additional notes to Table 16.1 in the statistical annex in the March *Bulletin* for list of oil exporting countries.
(c) Provisional.
(d) Mainly loans and holdings of equities.
(e) Includes holdings of gold.
(f) The residual may reflect errors in either the current or capital account.

this brought the total cash surplus for 1981 to $66 billion, just over half the figure for 1980. Identified investments in the fourth quarter totalled $9 billion, with the impact of the lower surplus again reflected in a fall in bank deposits. The $3 billion increase in 'other' investments in the United States mainly reflects the acquisition, by the Kuwait Petroleum Corporation, of Santa Fe International; there was, nevertheless, an underlying swing from disinvestment to investment during the second half of 1981. The flow of 'other' investment into other industrialised countries declined during the year.

In the first quarter of 1982, there were identified new placements in the United States of nearly $5 billion—mainly in government securities and bank deposits.

International banking and eurocurrency markets[(1)]

International developments (fourth quarter of 1981)

In the fourth quarter of 1981, outstanding lending to non-residents by banks in the main financial centres[(2)] grew by $115 billion. This sharp rise brought the overall increase in 1981 to $266 billion (+22%)—somewhat less than in 1979 and 1980. The usual inflation of banks' balance

(1) All transactions data in this passage exclude the estimated effects of exchange rate fluctuations and hence may not correspond with the differences between amounts outstanding.
(2) Including BIS estimates for offshore centre banks which do not contribute to the BIS quarterly statistics.

sheets caused by end-year operations, and the establishment of International Banking Facilities in the United States (which boosted the inter-bank positions of the reporting banks), were both significant factors behind the strong growth in the fourth quarter. However, there does seem to have been an acceleration in the underlying growth of bank credit (excluding inter-bank transactions) which the BIS estimates to have been $55 billion in the fourth quarter. The net measure of outstanding lending also grew by about 22% in 1981.

Much of the growth in external lending in the fourth quarter was by banks in the European area; those in France and Italy accounted for over $20 billion, probably partly because of end-year effects, after three quarters of minimal growth. Nevertheless, banks in the European area were net takers of funds ($8 billion). Part of this shift in their net position represented borrowing by UK banks to finance foreign currency lending to UK residents during the quarter. The net external liability positions of Canada and Japan also increased, by $2 billion and $1 billion respectively.

Outstanding external lending by banks in the United States rose by an exceptional $41 billion. Part of this arose from transfer of business from other centres, particularly those in the Carribean, into the new International Banking Facilities which came into operation in December. Even after making allowance for this change in location of business and for a sizable rise in deposits, US banks were again large gross and net suppliers to the international banking market, as they had been in the first half of 1981. US non-banks were again large gross suppliers of funds during the fourth quarter, their deposits with banks abroad rising by some $8 billion.

As in the third quarter, the oil exporting countries were net takers of new funds during the final quarter of 1981; they absorbed a net $5.5 billion, running down their deposits with the reporting banks by $2.6 billion. Other developing countries increased their borrowing during the fourth quarter, but as this was accompanied by a rise in their deposits (partly a rebuilding of official reserves), the resulting increase in their net borrowing ($9 billion) was much the same as in the third quarter. As usual, most of this rise ($8 billion) represented an increase in the net indebtedness of the Latin American countries. Eastern European countries were again net depositors, of $3 billion, with gross new deposits of almost $4 billion, partly the proceeds of increased sales of gold and other commodities by the USSR; an increase in commercial payments arrears for some other Eastern bloc countries may also have contributed to the net improvement in their position *vis-à-vis* the international banks.

External business of banks in the BIS reporting area and offshore centres(a)

$ billions; changes exclude estimated exchange rate effects

	Out-standing end-Dec. 1980	1981 Q4	1981 Year	Out-standing end-Dec. 1981
Deposits from non-residents				
Total	**1,498**	**+108**	**+299**	**1,747**
Placed with banks in:				
Reporting European area	928	+ 64	+128	1,009
of which, United Kingdom	*415*	*+ 24*	*+ 79*	*440*
United States	139	+ 22	+ 38	177
Canada and Japan	126	+ 3	+ 40	162
Offshore centres: US banks	143	+ 3	+ 33	176
Non-reporting banks	164	+ 16	+ 60	224
Source				
Outside reporting area				
Developed countries	50	+ 1	+ 3	51
Eastern Europe	16	+ 4	—	15
Oil exporting countries	160	− 3	+ 3	157
Non-oil developing countries	92	+ 8	+ 10	98
of which, Latin America	*36*	*+ 3*	*+ 6*	*40*
Sub-total	318	+ 10	− 17	321
Inside reporting area				
Banks(b)	902			1,054
Non-banks	85	..	..	114
Unallocated(c)	193	..	..	258
Lending to non-residents				
Total	**1,497**	**+115**	**+329**	**1,778**
Lent by banks in:				
Reporting European area	903	+ 56	+136	992
of which, United Kingdom	*375*	*+ 19*	*+ 80*	*424*
United States	177	+ 41	+ 76	255
Canada and Japan	101	+ 1	+ 24	122
Offshore centres: US banks	141	+ 4	+ 32	172
Non-reporting banks	175	+ 14	+ 61	236
Direction				
Outside reporting area				
Developed countries	86	+ 5	+ 17	99
Eastern Europe	60	+ 1	+ 5	61
Oil exporting countries	70	+ 3	+ 4	72
Non-oil developing countries	194	+ 17	+ 42	230
of which, Latin America	*129*	*+ 12*	*+ 33*	*158*
Sub-total	410	+ 25	+ 66	462
Inside reporting area				
Banks(d)	750			906
Non-banks	129	..	..	151
Unallocated(c)	208	..	..	259

Source: Bank for International Settlements.

.. not available.

(a) The coverage of this table is as in Table 13 in the statistical annex plus BIS estimates for non-reporting banks in certain offshore centres (those listed in footnote (b) to Table 13 plus Bahrain and the Netherlands Antilles). A longer run of figures was provided in an article in the March *Bulletin*.

(b) Includes liabilities to offshore centres (some of which may be to non-banks) and to banks' trustee accounts (which may originate from non-banks).

(c) Mainly the positions of non-reporting banks in offshore centres.

(d) Includes claims on offshore centres (some of which may be on non-banks).

Eurosterling market(a)

£ billions

	1980 31 Dec.	1981 31 Mar.	30 June	30 Sept.(b)	31 Dec.
Deposits by:					
UK banks	2.6	3.0	3.2	3.3	3.3
UK non-banks	1.1	1.0	1.0	1.0	1.0
Other Western Europe	5.1	4.9	4.5	5.4	5.5
Oil exporting countries	1.0	1.0	1.0	1.0	0.8
Other	1.5	1.5	1.4	1.5	1.7
Total	**11.3**	**11.4**	**11.1**	**12.2**	**12.3**
Of which, CMIs	*0.9*	*0.8*	*0.7*	*0.7*	*0.6*
Lending to:					
UK banks	2.3	2.6	3.0	3.2	3.4
UK non-banks	0.7	0.7	0.6	0.7	0.7
Other Western Europe	3.7	3.7	3.9	5.3	5.0
Other	0.6	0.7	1.1	1.4	1.2
Total	**7.3**	**7.7**	**8.6**	**10.6**	**10.3**

Source: Bank for International Settlements.

(a) The table shows sterling liabilities and claims of banks in the BIS reporting area (except the United States and—by definition—the United Kingdom). Apart from this geographical limitation, data on business with residents of countries in which the reporting banks are situated are not available for all countries. The table therefore understates the size of the market.

(b) From 30 September 1981 the coverage improved, resulting in an increase of around £0.8 billion in both liabilities and assets *vis-à-vis* 'Other Western Europe' at that date.

Eurosterling
In the fourth quarter of 1981 there was little change in either the overall size of the market or in the main components, though lending to UK banks continued to increase.

UK banks' positions *vis-à-vis* countries outside the BIS reporting area (end-December 1981)
UK banks' positions *vis-à-vis* countries outside the BIS reporting area, as notified to the BIS for the purpose of its latest half-year survey, are shown in Table 14.3 of the statistical annex.

The shortening in the overall maturity structure of external bank lending that has occurred since the end of 1979 continued in the second half of 1981. By the end of the year, claims with a maturity of less than six months amounted to 39% of outstanding claims compared with 33% two years earlier. This shortening of maturity was most apparent in the case of Mexico, the largest borrower outside the offshore banking centres. In contrast, two other large Latin American borrowers, Brazil and Argentina, lengthened the overall maturity of their outstanding debt during 1981. The lengthening of maturities recorded by Eastern Europe in the first half of 1981 was reversed in the second half, mainly because of the USSR. The proportion of claims on Middle East and North African countries with maturities of less than six months remained at about 60%.

London market (first quarter of 1982)
Foreign currency
In the first quarter of 1982, the London eurocurrency market, as measured by the gross foreign currency liabilities of UK banks, grew by $35 billion—an increase of 5.9%, compared with an average quarterly growth of 4.8% during 1981. Of this rise, 80% was accounted for by Japanese banks, mainly in the London inter-bank market.

UK banks' foreign currency liabilities and assets by customer(a)
$ billions

	1981				1982
	30 June	30 Sept.	31 Dec.		31 Mar.
Foreign currency liabilities of UK banks to:					
Other UK banks	129.0	139.4	141.3	142.9	158.1
Other UK residents	16.6	19.8	18.4	19.9	19.3
Overseas central monetary institutions	54.3	53.0	53.1	53.5	51.0
Other banks overseas	238.6	249.8	266.6	268.8	282.3
Other non-residents	75.9	86.2	94.8	93.3	94.0
Other liabilities(b)	3.6	3.9	3.4	11.2	10.7
Total liabilities	**518.0**	**552.1**	**577.6**	**589.6**	**615.4**
Foreign currency assets of UK banks with:					
Other UK banks	127.1	137.5	135.2	140.4	156.4
Other UK residents	21.2	22.8	27.0	23.6	24.3
Banks overseas	264.1	277.4	291.3	292.2	301.7
Other non-residents	96.2	105.3	113.0	112.4	114.2
Other assets(b)	8.8	9.6	11.4	21.2	18.3
Total assets	**517.4**	**552.6**	**577.9**	**589.8**	**614.9**

(a) The reporting population is broader than the UK monetary sector (see additional notes to Table 14.1). The split between 'UK banks' and 'other UK residents' in the Table is consistent with this broader definition.
(b) Mainly capital and other internal funds on the liabilities side and investments on the assets side. Additional unallocated items are included from end-December 1981 for both assets and liabilities.

UK banks' net foreign currency liabilities and claims by country or area(a)
$ billions
Net source of funds to London − /net use of London funds +

	1981				1982
	30 June	30 Sept.	31 Dec.		31 Mar.
BIS reporting area:					
European area	—	+ 3.2	+ 2.7	+ 1.8	+ 2.5
Canada	+ 2.9	+ 3.0	+ 1.5	+ 1.5	+ 1.8
Japan	+14.7	+15.2	+16.7	+16.6	+17.0
United States	−26.2	−32.9	−34.5	−34.6	−41.0
Offshore banking centres	+12.2	+12.2	+ 9.7	+ 9.5	+10.7
Other Western Europe	+ 9.8	+10.1	+11.1	+11.6	+11.8
Australia, New Zealand and South Africa	+ 4.4	+ 5.6	+ 6.5	+ 6.7	+ 7.5
Eastern Europe	+11.6	+11.2	+11.5	+11.3	+10.2
Oil exporting countries	−42.1	−44.2	−43.0	−42.8	−41.1
Non-oil developing countries	+18.5	+21.5	+22.8	+22.5	+23.2
Others(b)	−14.1	−12.6	−17.3	−14.8	−16.2
Total	**− 8.3**	**− 7.7**	**−12.3**	**−11.0**	**−13.6**

(a) Liabilities and claims are shown separately in Table 14.1 in the statistical annex.
(b) Includes international organisations and certain unallocated items.

The United States, which provided net new deposits of over $6 billion, was the only sizable supplier of funds to London within the BIS reporting area. Most of the other countries were users of funds and together they increased their net borrowing by just over $1.5 billion.

Outside the reporting area, the non-oil developing countries were very modest users, with an increase of under $1 billion in their net indebtedness; within this, the increase in net borrowing by Latin American countries was unusually small. Oil exporters were larger takers of funds than the non-oil developing countries. After increasing their net borrowing from London during most of 1981, Eastern European countries were net depositors of nearly $1 billion in the first quarter of 1982, due principally to large placements by the USSR.

The maturity analysis of the foreign currency business of UK monetary sector institutions for mid-February 1982 is shown in Table 14.2 in the statistical annex. Because of changes in the reporting population in the period since November, analysis of shifts in the maturity structure of various bank groups is not possible.

Sterling
UK banks' sterling business with overseas residents also continued to grow rapidly in the first quarter of 1982, with rises of over £1 billion in both liabilities and claims.[1] Business with banks in developed countries and the offshore banking centres has expanded fast since the ending of exchange control in October 1979, in part because the removal of controls on sterling lending abroad enabled the sterling inter-bank market to extend overseas. In the first quarter of 1982, there was also particularly strong growth in business with non-banks; on the claims side, much of this represented use of acceptance facilities arranged following the expansion last year of the list of banks whose acceptances are eligible for discount at the Bank of England.

Medium-term eurocurrency credits
The total of new credits announced in the first quarter of

(1) See Table 16 in the statistical annex.

1982, $21.2 billion, was some $3 billion lower than in the preceding quarter. This suggests that the underlying pace of new borrowing may be slackening, especially as the total for April ($4.8 billion) was the lowest for eight months. These figures, together with evidence that for some countries the margin and fees on borrowing are rising, may reflect some shift in the attitude of banks towards international lending.

Announced new medium-term eurocurrency credits[a]

$ billions

	1980 Year	1981 Year	1982 Q1	1982 April
Major OECD countries	19.4	69.8(d)	5.5	1.3
Minor OECD countries	18.6	13.9	5.3	0.9
Oil exporting countries	7.4	7.0	1.8	0.6
Developing countries	24.6	33.7	8.0	2.0
of which:				
Newly industrialising countries(b)	*10.2*	*13.6*	*2.6*	*1.1*
Net oil-exporting countries(c)	*6.6*	*9.8*	*3.8*	*0.5*
Other borrowers	3.2	1.6	0.6	—
Total	73.3	126.0(d)	21.2	4.8

(a) Original maturities of three years and over.
(b) Chiefly Argentina, Brazil and South Korea.
(c) Chiefly Mexico and Malaysia.
(d) $41 billion of this total is related to takeover activity in North America.

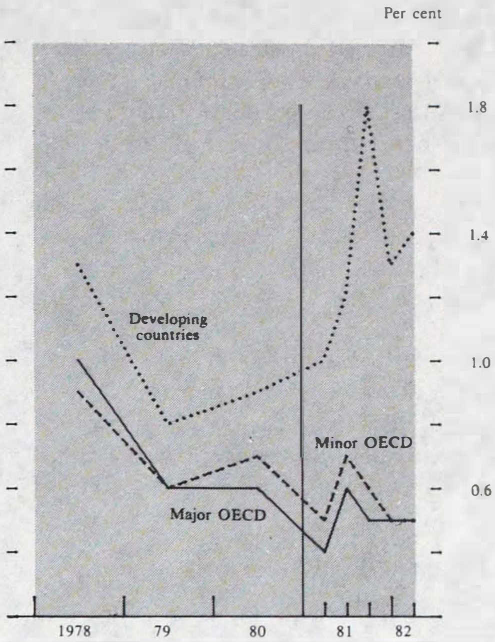
Government measures prevented banks in the United Kingdom from making any new loans to Argentina after the Falklands crisis began, and it appears that banks abroad have also been unwilling to enter into fresh commitments. Also movements in the terms of trade, and the sluggish growth of world activity, have adversely affected the position of a number of other Latin American borrowers, particularly those that export oil; there may consequently be some hardening of terms of lending against them.

By contrast, intense competition in the Far East has kept spreads for Asian countries quite low for some time, while OECD countries continued to secure lending on fine terms. There has been little change in the terms of their borrowing, with average spreads on public sector and government-guaranteed loans remaining at about $\frac{1}{2}$%; and maturities at just under $7\frac{1}{2}$ years. OECD countries accounted for approximately half of newly-announced lending in the first four months of the year.

Terms, including front-end fees, have become more expensive for the developing countries in aggregate. The average margin over LIBOR (London inter-bank offered rate—the base lending rate for the majority of syndicated medium-term loans) paid by public sector borrowers from developing countries rose again, to just under $1\frac{1}{2}$% in the first quarter. This was mainly due to worsening terms for Latin American borrowers; several developing country borrowers from the Pacific region have, as noted above, continued to borrow at fine rates.

As might have been expected in view of the importance to them of oil price developments, a number of the oil exporting countries have borrowed in this market. The most active OPEC borrower in the medium-term market was Nigeria; Venezuela continued to borrow a substantial amount of short-term funds. In contrast, East European countries have been able to borrow very little so far this year as a result of a change in sentiment towards the Comecon bloc, particularly following developments in Poland and Romania. Demand for funds may also have been reduced as a result of recent gold sales by the USSR.

Medium-term eurocurrency credits: average spread



International bonds and notes

In the first quarter of 1982, completed bond issues rose to $18 billion, with a particularly active market in February and March. In April, new issues totalled $5.8 billion.

Completed international bond issues[a]

$ billions

	1980 Year	1981 Year	1981 Q4	1982 Q1	1982 April
Total(b)	**35.6**	**43.4**	**16.4**	**18.0**	**5.8**
By currency:					
Dollars	14.8	24.3	9.9	10.6	4.1
Deutschemarks	7.8	2.6	1.4	1.3	0.4
Swiss francs	7.4	8.5	2.8	3.3	0.6
Sterling	1.2	1.4	0.2	0.4	0.1
Yen	1.6	3.1	0.8	1.2	0.4
Other	2.8	3.5	1.3	1.1	0.4
By borrower:					
OECD countries	26.5	32.2	12.2	14.8	5.1
International institutions	6.9	8.0	3.3	2.0	0.6
Developing countries	1.6	2.8	0.9	0.8	0.2
Other	0.6	0.4	0.1	0.3	—

(a) Euromarket and foreign issues, both fixed and floating rate, with original maturities of three years and over. Includes private placements, if publicised, but excluding Canadian borrowing in New York.
(b) Totals may not add because of rounding.

The share of the market taken by dollar issues fell back slightly, to 59%, in the first quarter, though it remained at an historically high level. Floating-rate note issues, which were almost entirely denominated in dollars, accounted for 34% of the market, compared with an average of 24%

during 1981. There were six sterling issues, totalling £245 million, with five of these in March when interest rates eased. In the deutschemark sector, figures for the period September 1981 to March 1982 reflected some relaxation by the German Capital Markets Sub-Committee of their controls on new issues; the share of deutschemark issues rose, but it was still only a third of that in 1979 and 1980.

Bond issues by borrowers from OECD countries accounted for 82% of total issues in the first quarter, compared with just under 75% in 1980 and 1981; an unusually large amount was by US borrowers.

The surge in issues of zero coupon bonds in January and February died away in March when the Japanese authorities imposed a temporary ban on sales to private individuals by Japanese securities houses. The bonds had initially been popular in Japan for tax reasons.

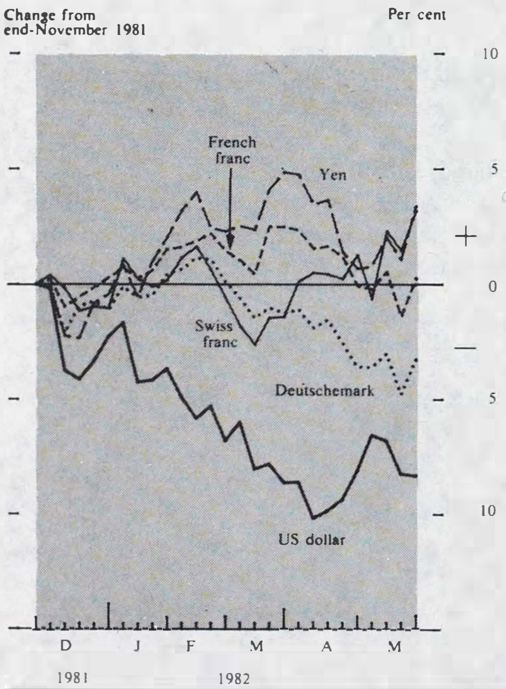
Foreign exchange and gold markets

(Three months to end-May)

Sterling

Sterling opened March at $1.8155, DM4.35$\frac{3}{8}$, and 90.9 in effective terms. During the first part of the month there was continuing concern about a further weakening in oil

Sterling against selected foreign currencies



markets and, in particular, another cut in the price of North Sea oil. Pre-Budget nerves, and a further easing in short-term interest rates, also contributed to the downward pressure on sterling which appeared at times during February. However, the reduction to 13% in the clearing banks' base rates on 11 March seemed to have been discounted. Thereafter, large money market shortages resulting from the normal tax gathering season, and the reflux of revenues delayed by last year's civil service dispute, caused tightness in the domestic market. With lower interest rates in Europe, the pound strengthened, closing at 91.4 on 24 March. However, higher US interest rates helped the US dollar to strengthen towards the end of the month, and sterling eased to $1.7833, DM4.30$\frac{1}{8}$ and 91.0.

Sterling started April reasonably stable, but came under pressure after the Argentine invasion of the Falkland Islands. On the 6th, the pound fell to its lowest against the US dollar in four and a half years ($1.7470), while it slipped to 89.4 in effective terms and DM4.22$\frac{1}{4}$. Subsequently sterling was much influenced by developments in the Falklands crisis, recovering somewhat on the 7th when it closed at 90.0 in effective terms. It was then stable until the middle of the month as hopes grew of a diplomatic settlement, but it came under pressure again on rumours of further developments in the South Atlantic. A period of relative calm followed, ending with news of the recapture of South Georgia, which put sterling under downward pressure again on 26 April. Heavy selling in the Far East caused sterling to fall to 89.0 at the opening in London, but it recovered to 89.5, $1.7773 and DM4.21$\frac{1}{8}$ by the end of the day and was little changed for the rest of the month, closing at 89.6 in effective terms (down only 1.4 on end-March), $1.7970 and DM4.18$\frac{1}{4}$.

Events in the South Atlantic continued to have a dominant effect on sterling's performance in May. The economic indicators published, which included sharply improved trade and retail price figures, might have been generally regarded as favourable. However, to judge from their impact, they had either largely been discounted in advance or their effects were dwarfed by developments in the Falklands crisis. As hopes waned for a negotiated settlement, the market grew more nervous, and sterling fell by the close on 20 May to 88.6 in effective terms, US$1.7785 and DM4.1270. News of the successful landing on East Falkland and the subsequent consolidation of the bridgehead were generally helpful to sterling. With the firming of conditions in the oil market resulting in an increase in the price of North Sea oil, sterling moved upwards towards the end of the month, closing at 90.1 in effective terms, $1.7930 and DM4.19$\frac{1}{2}$.

Official reserves

The UK reserves showed an underlying fall of $903 million in the three months to end-May. The annual revaluation at the end of March resulted in a net reduction of

Changes in UK official reserves

$ millions

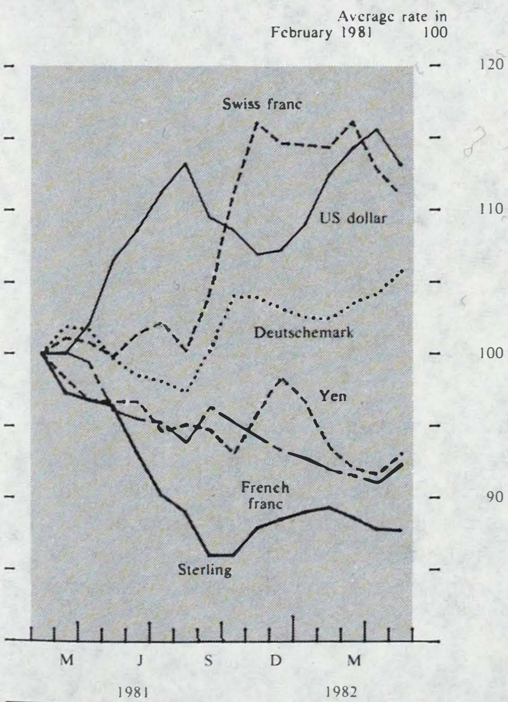
	1982 March	April	May
IMF oil facility repayment	—	−106	—
Other HMG capital repayments	—	−202	—
EMCF swap valuation fall	—	− 77	—
Annual revaluation of reserves	−4,218	—	—
Exchange cover scheme:			
Borrowing	+ 51	+ 90	+ 31
Repayments	− 91	−121	− 7
Other (underlying changes in reserves)	− 146	−394	−363
Total change in reserves (including revaluation)	**−4,404**	**−810**	**−339**
Level of reserves (end of period)	**18,969**	**18,159**	**17,820**

$4,218 million (comprising a valuation fall of $2,754 million on gold holdings and one of $1,464 million on SDRs, ECUs and non-dollar currencies), while the EMCF swap in April also resulted in a valuation decrease ($77 million). The reserves were also affected by various official debt transactions and at end-May stood at $17,820 million.

US dollar

A further fall in leading indicators, lower factory orders and a decline in the money supply caused US interest rates and the dollar to ease during the first week in March. Some prime rates were cut to 16%. Having opened the month at DM2.3983 and 113.5 in effective terms, the dollar slipped to DM2.3386 and 112.0 on 8 March. Subsequently, some economic indicators suggested that the worst of the US recession might have passed, while increasing concern about the projected Federal budget deficit, together with worries about an upsurge in the principal monetary aggregate (M1), made for higher interest rates, and some earlier reductions in prime rates were reversed. With cuts in official interest rates in a number of European countries, the dollar appreciated strongly and ended the month at

Indices of effective exchange rates



DM2.4120 and 116.1 in effective terms. Against the background of international tension over the Falkland Islands, this stronger trend continued until 8 April when the dollar peaked in effective terms (116.7 at the close) and against a number of currencies, including the deutschemark (DM2.4226) and the French franc (Fr. Fcs 6.3125).

Subsequently, however, the dollar weakened, partly reflecting the greater likelihood of lower US interest rates, in view of the continuing weak state of the US economy and the fall in the consumer price index for March, which highlighted the gap between nominal interest rates and the rate of inflation. Towards the end of April, there were growing expectations of an agreement between the Administration and Congress on the Budget issue and greater optimism about the future course of M1 in the short term. These factors, speculation about a possible realignment of the EMS putting upward pressure on the deutschemark, and an easing in US interest rates, quickened the decline of the dollar, and it ended the month at DM2.3278 and 113.0 in effective terms.

The dollar continued to ease in early May, along with US interest rates, as concern about excess growth of the monetary aggregates abated and a large increase in unemployment was recorded. By 11 May, it had slipped to 111.7 in effective terms and DM2.2820. Strong retail sales figures and the failure of a small securities house caused interest rates to firm, and the dollar rose to 113.5 in effective terms and DM2.3205 on 20 May. A belief that there had been a slight easing in the stance of the Federal Reserve caused interest rates and the dollar to decline shortly afterwards. However, this was not sustained, and the dollar ended May strongly, closing at 114.6 in effective terms and DM2.3405.

Other currencies

EMS currencies depreciated against the dollar in March, and although there had been a realignment within the EMS over the weekend of 20–21 February, renewed tensions were soon apparent. On 3 March, the Dutch guilder replaced the Danish krone at the top of the system. The Belgian discount and Lombard rates were reduced to 13% and $13\frac{1}{2}\%$ respectively, and subsequently the Belgian franc weakened, falling from the middle to the bottom of the $2\frac{1}{4}\%$ band, where it remained until the end of May. Occasionally, it was replaced by the French franc, which was affected by deteriorating balance of payments, some poor electoral results for the Government and also market concern at the Government's economic policies. Meanwhile the deutschemark, which had begun the month at the bottom of the EMS, moved above the Dutch guilder to the top, assisted by improved German current account figures and the declining inflation rate. On 18 March, with the EMS stretched between the deutschemark, Danish krone and Dutch guilder at the top, and the Belgian and French francs at the bottom, the Bundesbank reduced its Special Lombard rate to $9\frac{1}{2}\%$, and the Dutch discount and advances rates were lowered to 8% and 9% respectively. On the same day, the Banque de France raised the rate at which it offers to buy Treasury bills (for resale after seven days) to 18% and the money market overnight rate was also increased. On 23 March, there was a further increase in the Treasury bill rate, to 20%. Reassuring statements by the French Finance Minister, and tightening of exchange controls, eased some of the pressure on the French franc, and on 31 March the Treasury bill rate was reduced to 19%.

In April, EMS currencies appreciated against the dollar. Nevertheless, tensions continued throughout most of the month. On 7 April, Belgian discount rate and Lombard rate were raised to 14% and 15% respectively. As the French franc strengthened towards the middle of the month, the French money market overnight rate was reduced to $16\frac{1}{2}\%$.

However, speculation of an imminent realignment led to further upward pressure on the deutschemark, and the EMS ended April once more under pressure.

The EMS was again fully stretched for much of May, with the currencies continuing generally in two groups, the deutschemark, Dutch guilder and Danish krone at, or near, the top, and the Belgian franc, French franc and Irish pound at, or towards, the bottom. With the system under pressure, the Dutch central bank cut its advances rate on 6 May to $8\frac{1}{2}\%$. On the same day, the Bundesbank announced with effect from 7 May the formal closure of the Special Lombard rate, which had stood at $9\frac{1}{2}\%$. Lombard rate was reinstated at 9%. Nevertheless, there was continuing speculation of a realignment and the deutschemark divergence indicator widened to –79 on 11 May. As the month advanced, the strengthening of the dollar appeared to bring some relief to the system, but the EMS still ended May fully stretched between the deutschemark at the top and the Belgian franc at the bottom.

The lira was weak for the whole of March and April, occasionally sinking below the currencies in the narrow band in March, and falling quite steeply at the end of April to more than three per cent below the deutschemark in the grid, despite a tightening of exchange controls. It remained consistently below the currencies in the narrow band during May, on one occasion falling to nearly three and a half per cent below the deutschemark, but strengthened towards the end of the month to only a little over two and a half per cent below the deutschemark.

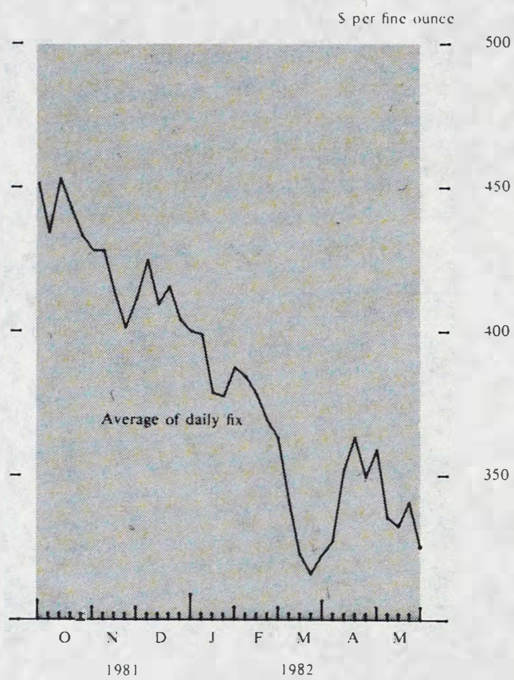
The yen weakened against the dollar in March from ¥238.87 to ¥247.62, but recovered to ¥236.10 by end-April as the interest rate differential against the dollar narrowed. The yen peaked against the weaker dollar on 7 May (¥232.42). Subsequently, with interest rate differentials widening against the dollar, the yen weakened again, and closed at ¥243. The outflow of capital—particularly large in the first quarter—will probably have been reduced by the decision of the authorities to restrict the purchase of 'zero coupon' bonds and their request to life insurance companies to moderate the pace of their diversification into foreign currency assets.

The Swiss franc was the only major currency to weaken against the dollar in all three months; it started March at Sw. Fcs 1.9025, ended the month at Sw. Fcs 1.9312, and fell to Sw. Fcs 1.9550 by 30 April. Monetary conditions were eased substantially as monetary growth had been well below target: discount rate was cut to $5\frac{1}{2}\%$ on 18 March, and commercial banks' deposit rates were cut repeatedly. After strengthening briefly to Sw. Fcs 1.8860 on 7 May, the franc slipped steadily against the dollar throughout the rest of May, despite a reversal of some of the earlier cuts in deposit rates, closing at Sw. Fcs 1.9965. The franc depreciated against the deutschemark over the period, particularly in late April; having started March at Sw. Fcs 0.79 it ended April at Sw. Fcs 0.84 and May at Sw. Fcs 0.85.

Despite fluctuating against the dollar, the Norwegian krone remained relatively stable in effective terms throughout the three month period. The Swedish krona eased back against the dollar and in effective terms during the period to mid-April, but recovered fully in dollar terms and largely in effective terms by the end of the month. However, in May it eased back slightly both against the dollar and in effective terms.

London gold price

Fridays



The Canadian dollar strengthened against the US dollar in the first few days of March as the dollar eased. Though it gave up some ground subsequently, both in dollar and effective terms, it still retained some of its gains at end-April, but in May it fell back further and ended the three-month period lower both against the dollar and in effective terms.

Gold

Gold fell further in March, ending the month at $320, having fallen to a two-year low of $312 on 15 March under continued pressure from producer selling. However, the trend was reversed by an increase in international tension as a result of events in the Falkland Islands and the Middle East and, possibly, some reduction in producer selling.

The price fell swiftly early in May on news of British military successes. Gold then traded generally very stably, though weakening through the month, as prospects of a successful reoccupation of the Falklands appeared to improve. By the end of the month the price had slipped to $325.25.