

The international banking markets in 1980–81

This article, intended as the first of a regular series, describes recent developments in the international banking markets. It concentrates on 1980–81, but also includes some data for earlier years.⁽¹⁾

- *The growth of cross-border bank lending has been remarkably steady in recent years. The international bond market has grown less fast than international bank lending.*
- *The rise in the deposits of the oil exporters slackened sharply in the first part of 1981, and the United States was the main supplier of funds during much of 1980–81. The non-oil developing countries (particularly those in Latin America) have continued to be large borrowers.*
- *In the medium-term syndicated credit market, maturities have generally shortened and spreads for developing country borrowers have risen, but spreads for borrowers from major industrial countries have remained fine.*
- *London, and centres in the Middle and Far East, have increased their share of international banking business.*
- *The US dollar is still the medium for three quarters of international banking business. Despite some growth after exchange control abolition, eurosterling business remains small.*
- *Non-bank participation in the euromarkets is generally modest, but transactions in certain periods have been sizable in relation to changes in domestic aggregates.*
- *The degree of maturity transformation carried out by UK banks in their eurocurrency business has changed little over recent years.*

The size of the market

The international banking market can be measured in various ways, depending on the range of banks whose business is included, the type of activity, and the treatment of inter-bank positions.

Coverage of banks

Since the Bank for International Settlements (BIS) began to collate statistics of international and eurocurrency banking in the early 1960s, the reporting area has been gradually extended as new centres have developed. At present, the widest area for which the BIS receives and publishes quarterly data comprises the major banking centres (in twelve European countries, the United States, Canada and Japan) and branches of US banks in certain offshore centres; but the BIS also publishes an estimate of the total of other business in offshore centres.⁽²⁾

Type of activity

There are two main criteria for treating banking business as international: it should be either cross-border (external) or

in foreign (ie non-local, or 'euro' currency). From the viewpoint of a number of macroeconomic and prudential issues (eg balance of payments financing and the lending exposure of the banks to individual borrowing countries) it is the banks' *overall* external lending which is relevant rather than just that part denominated in foreign currency; but there are other considerations (eg relating to domestic monetary and exchange rate policy) which lead to a specific interest in the banks' foreign currency business, both cross-border and with residents. Table A provides some measures of these two types of international banking business.

Inter-bank positions

All the measures of international banking in Table A include inter-bank positions. While inter-bank flows are important in linking non-bank depositors and borrowers, the inclusion of inter-bank business in measures of market size can give a misleading impression of the underlying size of the market.⁽³⁾ The BIS therefore provides an estimate of the *net* size of international bank lending (see Table B): transactions among banks in the main financial and offshore

(1) Developments in the latest quarter for which information is available are described in more detail in the review of international financial developments on page 34.

(2) This article draws heavily on BIS data, including BIS adjustments for the effect of exchange rate changes on movements in aggregates. Material from the text of the BIS press release is regularly included in the review of international financial developments in the *Bulletin* and a table is reproduced in the statistical annex (Table 13). The BIS also publishes a half-yearly release on the maturity distribution of international bank lending to countries outside the reporting area, with a broader coverage of banks in offshore centres; the contribution of UK banks to these statistics is shown in Table 14.3 of the statistical annex.

(3) See 'Eurobanks and the inter-bank market' in the September 1981 *Bulletin*, page 351.

Table A
Gross measures of international banking^(a)

\$ billions: amounts outstanding

	Lending by banks in the BIS reporting area to non-residents(b) in:		Lending by banks in offshore centres to non-residents(c)	Total lending to non-residents (1 + 2 + 3)	Lending by banks in the BIS reporting area in foreign currencies to residents(d)	Gross size of the eurocurrency banking market (1 + 3 + 5)	Swiss trustee accounts(e)	Total international bank lending (4 + 5 + 7) or (2 + 6 + 7)
	Foreign currency	Domestic currency						
	1	2	3	4	5	6	7	8
End-Dec. 1977	422	177	168	767	151	741	30	948
End-Dec. 1979	701	282	263	1,246	242	1,205	53	1,540
End-Sept. 1981	886	369	387	1,642	360	1,633	88	2,089

(a) There are minor breaks in some of the series. The figures for different dates are affected by changes in the dollar value of non-dollar currencies.

(b) The BIS reporting area is defined in footnote (a) to Table 13 in the statistical annex of this *Bulletin*. 'Non-residents' means non-residents of the country in which the lending office is situated.

(c) Comprising branches of US banks in the Bahamas, the Cayman Islands, Panama, Lebanon, Hong Kong and Singapore (for all of which figures are reported to the BIS) together with estimates for non-reporting banks in these centres and all banks in Bahrain and the Netherlands Antilles. The business is assumed to be all in foreign currency.

(d) Excluding lending by banks in the United States, which is believed to be negligible.

(e) See footnote (c) to Table K.

Table B
Net international bank lending and bond issues

\$ billions

	Outstanding lending by banks in the BIS reporting area(a)		Net new international bank lending(c)	Euro and foreign bond and note issues (gross)	Total new bank and bond financing(d)
	Gross(b)	Net of inter- bank rede- positing			
1977	690	430	65	36	92
1978	893	535	90	37	113
1979	1,111	665	125	38	146
1980	1,322	810	165	38	186
End-Sept. 1981	1,423	875	110	27(e)	123(e)

(a) End-period.

(b) Table A column 4 less the 'non-reporting banks' component of column 3.

(c) Difference between end-period stock figures, excluding exchange rate effects.

(d) Adjusted for redemptions, repurchases, and double-counting to the extent that bonds are taken up by the reporting banks.

(e) Bank of England estimate.

centres are netted out, unless such transactions can be conceived of as financing lending to non-banks (eg an inter-bank loan which the borrowing bank switches into domestic currency lending to a non-bank resident).⁽¹⁾

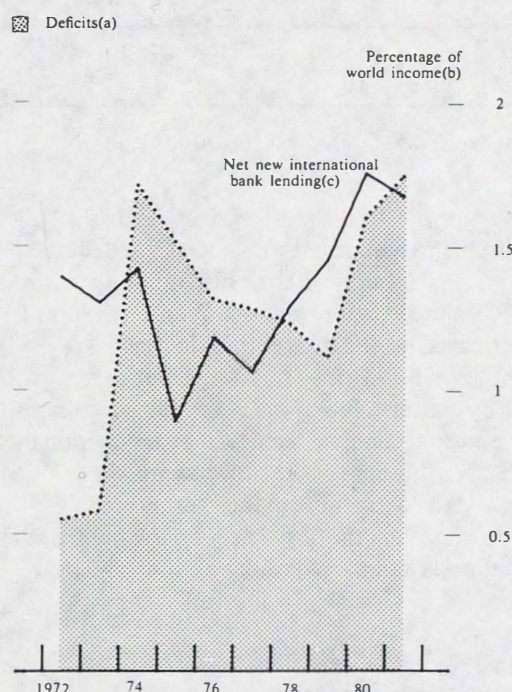
International bonds and notes

In addition to the various forms of banking business, international capital market flows include bond and note issues (mainly for developed countries and international institutions); these are often arranged by banks but are mostly held by non-bank investors. These are also shown in Table B and an analysis by currency and borrower is shown in the review of international financial developments earlier in the *Bulletin*.⁽²⁾

The balance of payments background

The pattern of global current account surpluses and deficits provides an important part of the background to international banking developments, even though there is little close (or necessary) relationship between changes in the size of world current account deficits and the growth of

Chart 1
Bank lending in relation to world income and world deficits



(a) Sum of world current account deficits (including official transfers).

(b) Defined as market economies' GNP.

(c) As in column 3 in Table B.

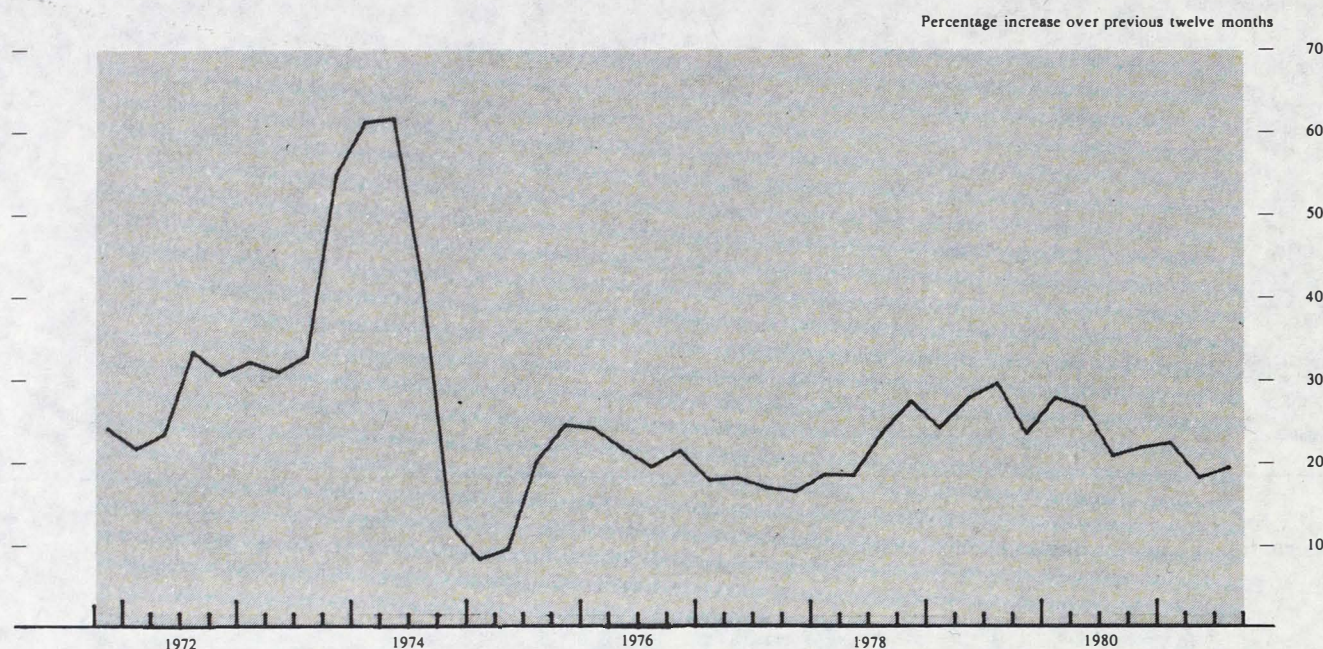
international bank lending.⁽³⁾ Chart 1 shows gross world deficits and net new international bank lending as percentages of world income. The main recent influence on current account deficits has been the rapid shift of the oil exporting countries into large surplus in 1979 (in some instances moving out of substantial deficit). The oil exporters' gross surpluses (ie before taking account of any deficits within the group) were \$72 billion in 1979, \$111 billion in 1980 and \$85 billion in 1981, although the surpluses now seem to be falling quite sharply. In the same three years, gross total world current account deficits

(1) A full definition of this net concept is given in footnote 3 on page 100 of the *BIS Annual Report* for 1981.

(2) International capital also flows through other channels (eg the equity, property, and domestic bond markets and as direct investment by companies), but these are not covered in this article.

(3) See 'Financing world payments balances' in the June 1981 *Bulletin*, in particular pages 191-3.

Chart 2
Gross bank lending^(a) to non-residents



(a) Total cross-border lending by banks in the BIS reporting area.

are estimated at around \$90 billion, \$160 billion and \$160 billion.

The financing problems associated with such large deficits have been complicated by shifts in their distribution among countries. In 1979 and 1980, for example, West Germany and Japan experienced large deteriorations in their current accounts, but in 1981 they registered marked improvements. By contrast, few of the developing or minor developed oil importing countries achieved any reduction in their external deficits, because of the slowdown in their export markets and the weakening in their terms of trade associated with recession in the larger economies; but many oil exporting countries had moved back into substantial deficit by 1981.

The growth of the aggregates⁽¹⁾

International bank lending

One way to assess the growth of international banking is by measuring the increase in the size of banks' balance sheets—that is, in the stock of cross-border lending. While there have been variations, occasionally sizable, from quarter to quarter, the growth of cross-border lending has in general been remarkably regular. Since 1976, the annual growth rate has been around or somewhat above 20%, gradually rising during 1978 and 1979 to just under 30%, but falling again from the fourth quarter of 1979. In the year to September 1981, the growth was around 20% (Chart 2). A similar picture of fairly regular growth is shown if inter-bank redepositing is netted out, though there

is some sign of slightly faster growth in 1980 (25%), possibly related to the oil price rise in the previous year, before a return to more normal rates (21% in the year to September 1981).

An alternative, though related, measure of the growth of international banking activity is the increase in new lending (as defined in column 3 of Table B). On this basis, international banking has expanded rapidly in recent years, and seems to have grown faster than world income in 1977–80 (see Chart 1)—though this may not have been so in 1981, perhaps because of high and fluctuating interest rates or bankers' reluctance to lend as readily as in the past. Such expansion represents increasing recourse to cross-border and foreign currency banking to provide finance and liquidity. It may simply be part of a gradual adjustment to the higher current account imbalances and higher gross value of world trade since the 1973–74 oil shock, but it could also be due to the banks' desire to spread their portfolio risk by participating in more cross-border lending or simply to the closer integration of the world economy.⁽²⁾

International bond and note issues

International bond and note issues grew much more slowly than net new international bank lending over the period 1977–80 (see Table B): after allowing for estimated redemptions there was hardly any growth, with net issues remaining steady at just under \$30 billion a year. Over much of the period, bond yields were lower than short-term interest rates, which made it difficult for traders to fund their portfolios and deterred investors from committing

(1) The growth rates quoted here exclude, so far as possible, the effects of exchange rate movements against the dollar (the currency in which the data are expressed).

(2) For fuller discussion of such relationships see, for example, R B Johnston, *Banks' international lending decisions and the determination of spreads on syndicated medium-term eurocredits*, Bank of England Discussion Paper No 12; W A Allen, *Intermediation and pure liquidity creation in banking systems*, BIS Working Paper No 5, February 1981; and Appendix IV of *International capital markets*, IMF Occasional Paper No 7, August 1981.

funds long-term. But in 1981 the total of new international bond and note issues increased by 22%, despite volatile interest rates.⁽¹⁾ The prolonged period of high interest rates and uncertainty about their future level led to several innovations to aid the marketing of bonds and was also responsible for the greater use of floating-rate notes. Convertible issues, too, took a larger share of the total.

Main suppliers and users of international banking funds⁽²⁾

Oil exporting countries

In 1980 and the first half of 1981, the oil exporting countries continued to be the main external source of funds to banks in the BIS reporting area. But the rise in their deposits slackened sharply after September 1980, and in the third quarter of 1981 they fell. Several factors may account for this: the decline in the oil exporters' current account surpluses; the movement of funds from bank deposits into other assets; and, possibly, the growth in the number of Arab—or other—banks conducting business (including direct lending to the non-oil developing countries) outside the BIS reporting area. In some respects, a common pattern seems to have emerged after the two oil price rises in 1973–74 and in 1979, despite the different economic background in the two periods. There is a sharp initial contraction in the oil exporters' surplus, and a fall in the proportion of that surplus going into new bank deposits. Industrial countries then take the place of the oil exporters as the principal net suppliers of funds to the international banking system, and a more conventional pattern, of industrial countries exporting capital to developing countries, is re-established. It does, however, seem likely that the deficits of the developing countries will now persist for longer than after the first oil shock.

United States

The shortfall of funds from the oil exporters has been made up from within the area by banks in the United States. These banks, net capital exporters before 1979, resumed this role in the period under review, providing over \$50 billion (net) in new credit between end-1979 and end-September 1981, compared with \$40 billion by oil exporting countries. (Part of this outflow from US banks will have been matched by inflows of oil exporters' funds into non-banking assets in the United States, but it is not possible to measure this accurately.) The net outflow from the US banks ceased in the third quarter of 1981, but it is too early to know whether this has any longer-term significance.

During this period US non-banks also substantially increased their deposits with banks abroad—especially those in the neighbouring Caribbean area. (The increase—of some \$30 billion—was probably offset to some extent by increased borrowing by US non-banks, but there are no fully comparable statistics.)

Banks in the rest of the reporting area

Although banks in the European reporting area—particularly those in the United Kingdom—are responsible for a large share of gross international banking flows, their net position as a group is fairly evenly balanced; after importing a net \$20 billion in 1980, they exported \$15 billion during the first three quarters of 1981. The position of banks in Japan—net importers of funds in the first half of 1980—remained balanced thereafter, even though their gross business grew considerably. In contrast, the net external borrowing of banks in Canada rose by some \$13 billion in the first three quarters of 1981, though this was to some extent a counterpart of the placing of funds abroad by Canadian non-banks, following the imposition of reserve requirements on foreign currency deposits with domestic banks.

Developed countries outside the reporting area

Developed countries outside the reporting area (broadly the smaller OECD countries) absorbed a net \$20 billion from the reporting banks between end-1979 and end-September 1981, with half of this increase occurring in 1981; their borrowing continued to expand, while their deposits, at least in the first part of the year, contracted. Within this group, Spain showed the most marked change, with a switch from holding net deposits of \$2.0 billion at end-1979 to being a net borrower of \$3.3 billion at end-September 1981. Other countries which increased their net borrowing substantially during the period were Portugal (+ \$3.3 billion) and South Africa (+ \$2.9 billion).

As this group of developed countries increased its net indebtedness, there was a gradual shift towards shorter maturities, and outstanding debt with a residual maturity of under one year formed 41% of these countries' total borrowing from the banks at end-June 1981, compared with 38% at end-1979; for Portugal and South Africa the movement was sharper still. On the other hand, undisbursed credit committed by the banks to this group of countries grew by 6.2 percentage points (as a percentage of their outstanding borrowing) in contrast to a fall of 1.4 points for all countries outside the reporting area; thus some countries arrange their borrowing well in advance of drawing the funds while others boost their gross assets immediately.

Eastern Europe (Table C)

The increases in net lending to Eastern Europe which characterised the past decade continued in 1980 and the first half of 1981. This trend was, however, at least temporarily reversed in the third quarter of 1981, influenced by the convertible currency problems of Poland and Romania and also by some general concern on the part of Western bankers about their lending to the area.

In the early part of 1980, following the intervention in Afghanistan, borrowing by Eastern European countries became more difficult and a number of them had to draw

(1) Data for the whole of 1981 are shown in the review of international financial developments earlier in the *Bulletin*.

(2) The data underlying this section are those for banks in the BIS reporting area, as shown in Table J in the appendix to the article.

Table C
Banks in the BIS reporting area vis-à-vis Eastern Europe^(a)

	Outstanding end-December 1979	Transactions				Outstanding end-September 1981	Undisbursed credit commitments as a percentage of outstanding lending(c)	
		1980 H1	1980 H2	1981 H1	1981 Q3		End-December 1979	End-June 1981
		<i>\$ billions; changes exclude estimated exchange rate effects(b)</i>					<i>Per cent</i>	
Deposits from Eastern Europe	15.5	-2.9	+3.8	-4.9	+1.3	10.8		
of which:								
Bulgaria	0.7	+0.1	—	+0.1	+0.1	0.8		
Czechoslovakia	1.0	+0.1	+0.2	-0.3	—	0.8		
German Democratic Republic	1.9	+0.2	—	—	—	1.9		
Hungary	1.2	-0.4	+0.6	-0.3	-0.2	0.8		
Poland	1.1	-0.4	—	—	+0.3	0.8		
Romania	0.3	—	—	+0.1	+0.1	0.4		
USSR	8.6	-2.4	+2.8	-4.4	+0.9	4.5		
Lending to Eastern Europe	55.9	+1.8	+4.9	+3.0	+1.0	58.7	17.7	13.4
of which:								
Bulgaria	3.1	+0.1	-0.5	-0.3	-0.1	2.1	8.4	13.6
Czechoslovakia	2.8	+0.1	+0.7	—	—	3.2	9.7	6.4
German Democratic Republic	7.7	+1.1	+1.1	+1.1	—	9.8	16.5	14.6
Hungary	7.4	—	+0.4	-0.2	+0.2	6.9	5.2	8.9
Poland	15.0	—	+0.8	+0.4	—	14.2	24.6	15.5
Romania	4.0	+1.2	+0.3	+0.3	-0.5	4.7	18.3	13.8
USSR	12.9	-0.8	+1.9	+2.1	+1.1	15.4	21.7	13.9

(a) Excluding the position of banks in West Germany vis-à-vis the German Democratic Republic.

(b) The figures for individual countries are adjusted by the Bank of England for the estimated effect of exchange rate movements, but as the adjustments are based on incomplete information, they should be regarded as approximate.

(c) These figures are derived from the BIS half-yearly series and have a slightly larger coverage than the quarterly series.

down their liquidity. In the second half of the year, however, as their trade with the West became more affected by developments following the 1979 oil price rise, these countries increased their borrowing significantly while also to some extent rebuilding their deposits.

The position of the area as a whole in 1981 was heavily affected by the USSR. A poor grain harvest, lower gold sales and a decline in the price of gold were factors behind the significant increase in Russian borrowing and the sharp reduction in liquidity with Western banks in the first half of the year. During this period, the continued increase in net bank claims on Poland reflected in part an accumulation of arrears. In the third quarter, while continuing to run arrears, Poland increased its net assets with Western banks as a result of rescheduling relief on official debt and larger reductions in convertible currency imports than in convertible currency exports.

The maturity analysis published by the BIS shows a sharp fall in the first half of 1980 in the USSR's outstanding borrowing of up to one year, reflecting a reduction in new

short-term borrowing after the intervention in Afghanistan; this was followed by a period in which the USSR, while having no recourse to the syndicated loan market, obtained a substantial increase in shorter-term banking facilities. There was also some deterioration in the maturity structure of Eastern European borrowing generally over the period—particularly that of the German Democratic Republic, where there was a sharp increase in the proportion of outstanding borrowing falling due within three years.

Non-oil developing countries (Table D)

From end-1979 to end-September 1981, new borrowing by non-oil developing countries from banks in the BIS reporting area amounted to \$65 billion, bringing the total outstanding to \$212 billion; their net liability position was \$123 billion at end-September 1981, compared with \$67 billion at end-1979.

Latin American countries—representing over two thirds of the outstanding borrowing by this group—accounted for three quarters of this rise. The maturity profile of lending to Latin America showed a slight shortening during the

Table D
Banks in the BIS reporting area vis-à-vis non-oil developing countries

	Deposits with banks		Lending by banks		Net lending (claims +)		Undisbursed credit commitments as a percentage of outstanding lending(a)	
	End-Dec. 1979	End-Sept. 1981	End-Dec. 1979	End-Sept. 1981	End-Dec. 1979	End-Sept. 1981	End-December 1979	End-June 1981
	<i>\$ billions</i>						<i>Per cent</i>	
Latin America	38	35	103	146	+65	+110	19.7	16.4
of which:								
Argentina	8	6	13	22	+5	+16	21.5	13.8
Brazil	8	5	37	46	+29	+41	17.3	13.3
Mexico(b)	8	10	31	50	+23	+40	19.8	15.6
Other	51	54	53	66	+2	+13	45.4	31.7
Total	89	89	156	212	+67	+123	27.8	21.8

(a) See footnote (c) to Table C.

(b) Conventionally included in 'non-oil developing countries' even though now an exporter of oil.

eighteen months to end-June 1981, accompanied by a fall in unused credit facilities (expressed as a percentage of outstanding borrowing). At end-September 1981, almost 90% of the outstanding net borrowing by Latin America was accounted for by Mexico, Brazil and Argentina. During the period from end-1979, both Argentina and Brazil ran down their reserves, and there was an associated fall in their total deposits; in addition, they substantially increased their borrowing. Mexico, despite a small rise in deposits, increased its net borrowing by \$17 billion; although the banks have sometimes viewed Mexico differently from other developing countries because of expectations of oil receipts, spreads on announced medium-term credits to the Mexican public sector began to rise in early 1982 and there was a shortening of the maturity profile of lending by BIS reporting banks during the last eighteen months for which comprehensive data are available: 47% of all loans at end-June 1981 were for one year and under, compared with 34% at end-December 1979.

Individual developing countries other than those in Latin America showed little significant change in their net borrowing over the period from end-December 1979, but the Asian countries increased their net borrowing by \$8 billion.

Medium-term syndicated credits in 1981

The data used in this section have been compiled by the Bank of England and are not strictly comparable with the BIS figures.⁽¹⁾ Nevertheless, they may be useful in indicating shifts in the type of lending—for example, whether more or less bilateral and unpublished lending is taking place and whether the maturity of lending is changing. Moreover, the medium-term credits data are useful in providing up-to-date indications of market

conditions, at least in the segment of the market which they cover.

Volume of borrowing

The total of newly-announced medium-term credits in 1981, \$123 billion, was 68% higher (in dollar terms) than in 1980. But the 1981 total includes an exceptional \$41 billion of standby credits for North American borrowers announced in connection with takeover activity. Excluding these, the credits for 1981 still increased by 12%, and were the highest on record. Nevertheless, such growth rates have to be regarded with caution, because they refer only to gross new credits without any netting off of repayments, and they do not allow for lags or for differences between the amounts announced and the actual amounts drawn. The flow of repayments is expected to grow in the immediate future as the surge of loans to finance balance of payments deficits after the 1973–74 oil price rise falls due for repayment.

Shares of the market (Chart 3)

The major OECD countries accounted for a larger share of borrowings in the market in 1981 than in previous years, even when the 'jumbo' standby credits mentioned above are excluded. The developing countries also increased their share; nonetheless, there is also evidence that some major developing country borrowers, particularly in Latin America, are now meeting a larger proportion of their financing needs through channels other than publicised medium-term syndicated credits, and this is supported by a divergence between the BIS data and announced medium-term credits. In the case of some countries (for example Brazil) this may largely reflect the lack of publicity given to medium-term loans provided by a single bank or by a small number of banks in a 'club' deal. But other countries (for example Venezuela and, more recently, Mexico) are clearly relying heavily on short-term borrowing, including the use of acceptance credit facilities.

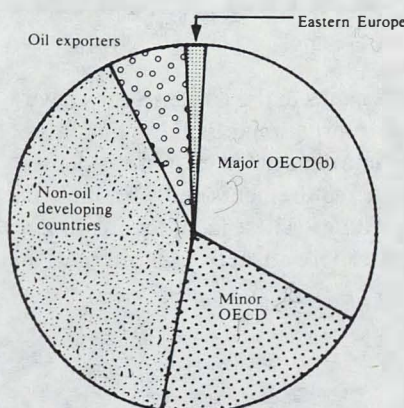
Spreads⁽²⁾

The diversity of spreads obtained by different borrowers which emerged in 1980 continued in 1981. Those obtained by the OECD countries remained fine, with terms for major OECD borrowers averaging a little under $\frac{1}{2}\%$, and for minor OECD borrowers a little over $\frac{1}{2}\%$. The average spread for developing countries rose by about $\frac{3}{8}\%$ in 1981 but this movement was far from uniform, and distinct tiers emerged. Average spreads on public sector and state-guaranteed loans to borrowers from Asian countries fell between 1980 and 1981, while Latin American and other borrowers faced an increase in average spreads. By the end of 1981, the mean spread on developing countries' borrowing reached 0.8%, with Asian countries paying about 0.5% on average, Latin American countries 1.2%, and borrowers from other developing countries 1.3%. Certain Asian borrowers—Thailand, South Korea, Malaysia and India—obtained very fine terms. This may in part reflect a desire of banks, particularly those at or close to

Chart 3

Announced new medium-term credits^(a)

Market share in 1981



(a) Excluding the \$41 billion of 'jumbo' credits for North American borrowers.

(b) Belgium/Luxembourg, Canada, France, Italy, Japan, the Netherlands, Switzerland, the United Kingdom, the United States and West Germany.

(1) They cover public announcements of syndicated credits with an original maturity of three years and over (excluding bankers' acceptances, fixed-rate credits and the guaranteed fixed-rate portion of export credits) whereas the BIS data show actual disbursements, net of repayments, and cover many other types of lending, including shorter-term, unpublished and bilateral deals.

(2) Margins (above London inter-bank offered rate—LIBOR) paid by borrowers.

their limits for lending to countries elsewhere, to diversify their risks, but there is also abundant liquidity and intense competition in Asia, where Japanese banks have been particularly active. Brazilian spreads, which rose sharply in 1980, stabilised in 1981 at around $2\frac{1}{8}\%$ – $2\frac{1}{4}\%$, whereas Argentine spreads rose in mid-1981 to 1% – $1\frac{1}{4}\%$. Columbia, on the other hand, obtained consistently fine spreads (around $\frac{1}{2}\%$) throughout the year.

Only a few countries from the Eastern bloc announced medium-term borrowings in 1981. These were principally Hungary and the GDR; spreads (at approximately $\frac{5}{8}\%$ over LIBOR) were little changed from earlier years.

Maturities⁽¹⁾

Changes in maturities on new borrowing were less marked in 1981 than in 1980 (when there was a sharp shortening of original maturities across most categories of borrower). For the developing countries, the higher spreads reported above were accompanied by shorter maturities, and the average maturity for new credits to these countries fell to under 8 years in 1981, compared with over $8\frac{1}{2}$ years in 1980. Less predictable was a decline in average maturities for major OECD borrowers from 8 years in 1980 to $7\frac{1}{2}$ years in 1981. This was caused by heavier borrowing for 3–6 years, possibly reflecting borrowers' reluctance to incur debt at longer maturities rather than the unwillingness of banks to lend.

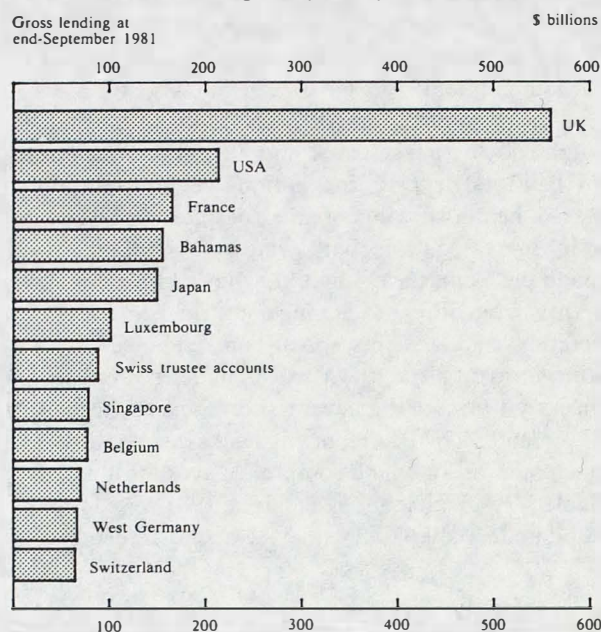
Since 1979 borrowers have thus been generally less able to achieve such low spreads or long maturities as in the immediately preceding period—although certain borrowers continue to obtain fine terms.

International banking centres

Chart 4 (and, in more detail, Table K in the appendix) presents estimates of the market share of the major international banking centres.⁽²⁾

The United Kingdom remains the largest international banking centre, with over a quarter of the market; this is more than twice the share of the United States and over three times that of France. The next largest centre is the Bahamas: though not a part of the BIS reporting area, over 70% of its business is covered by the data received by the BIS on the foreign branches of US banks in offshore centres. Not only is the United Kingdom the largest centre, but its share of total international banking business, which fell during the early 1970s as other centres developed, has been increasing again since. Relatively little of this increase is attributable to the ending of exchange controls: despite the rapid expansion of sterling lending to non-residents which followed the ending of exchange controls in October 1979 and the abolition in June 1980 of the 'corset'—which penalised the growth of sterling business—the rate of

Chart 4
International banking analysed by centre



increase in this lending since end-1979 is no greater than that of foreign currency lending, and it represents only a small proportion of UK banks' international banking business. The UK (non-bank) private sector's foreign currency transactions with UK banks have also increased since exchange control abolition, but they account for only a small part of the foreign currency business of UK banks. The only other countries to have increased their market share significantly in the last few years have been Japan, Singapore, Hong Kong and Bahrain, perhaps reflecting the economic buoyancy of the regional markets these financial centres serve. Swiss trustee accounts have also expanded rapidly.

The countries whose shares have decreased are those in mainland Europe. France remains the third largest centre, but its share fell from 9.4% to 7.9% during the first nine months of 1981; the amount of business outstanding also fell.

From 3 December 1981, banks in the United States have been allowed to operate International Banking Facilities, whereby they can take time deposits from non-residents without incurring reserve requirements and without being subject to interest rate ceilings. These facilities are designed to make the United States more attractive for international banking.

The London market

Bank group shares

Table E shows the gross international lending of banks in London, analysed by groups of banks. The share of

(1) Throughout this article, lending on roll-over terms is classified by its final maturity date rather than by the date of the next roll-over.

(2) The statistics record the centres where business is booked, which may differ from those where it is arranged. For centres in the BIS reporting area, the figures include foreign currency lending to both non-residents and residents, and domestic currency lending to non-residents. For other offshore centres, only foreign currency lending to non-residents is included, except for Bahrain and Singapore where elements of foreign currency lending to residents are also included. Hence these estimates should be viewed as broad magnitudes only.

Table E
UK banks' international lending by bank group^(a)

	Total	British banks	American banks	Japanese banks	Other overseas banks	Con-sortium banks
	\$ billions	Percentage share				
End-Dec. 1977	234.4	23.1	34.2	11.4	25.6	5.7
End-Dec. 1978	301.6	23.0	31.7	12.8	26.8	5.7
End-Dec. 1979	392.3	23.0	29.0	16.2	26.7	5.1
End-Dec. 1980	494.9	23.7	25.0	19.9	26.5	5.1
End-Sept. 1981	570.4	23.6	23.9	23.4	25.2	3.9

(a) Foreign currency lending to residents and non-residents and sterling lending to non-residents.

American banks fell from 34% to 24% between end-1977 and September 1981, while the share of Japanese banks doubled, and that of the British banks increased slightly.

By September 1981, sterling accounted for only 2.7% of UK banks' international lending compared with 4.5% at end-1977, despite the increase in its use following exchange control abolition. Nearly 70% of external sterling lending is transacted by the British banks, so the British banks' share of foreign currency business has been growing somewhat faster than the combined foreign currency and sterling figures suggest: over the period, their share of foreign currency business grew from 19.5% to 21.7%.

Relation to global flows

The analysis of business of UK banks is interesting not only in its own right but also as an indicator (which is generally available earlier than the figures for the whole international banking area) of trends in the wider market. The following analysis examines the extent to which any trends or positions of UK banks *vis-à-vis* the country groups discussed above differ from those already noted for the BIS reporting area as a whole.⁽¹⁾

The net position of UK banks *vis-à-vis* other countries in the BIS European reporting area has remained fairly constant: at end-1979, UK banks had a small net liability position of \$3 billion, whereas by end-September 1981 there was a net asset position of similar size. Although the net position has fluctuated during this period, it has rarely been more than \$5 billion in either direction. Over the same period, net deposits from the Netherlands increased by \$5 billion and from Switzerland by \$8 billion (perhaps representing the re-depositing of trustee account funds) while there was increased net borrowing from London by Belgium (\$2 billion), France (\$3 billion), Luxembourg (\$4 billion) and Italy (\$6 billion).

Business with Canada and Japan remained fairly static with both countries maintaining small net liability positions *vis-à-vis* UK banks. However, net deposits from the United States doubled between end-1979 and end-September 1981, rising by \$17 billion.

At end-September 1981 deposits, net of claims, held in London by the oil exporting countries were \$44 billion, representing half of their net assets with banks in the BIS

reporting area. Even in the third quarter of 1981, when there was an overall fall in their deposits in the BIS reporting area, the oil exporters increased their deposits at UK banks by \$3 billion.

Total net lending by UK banks to developing countries at end-September 1981 stood at \$22 billion, only 18% of the total for all BIS reporting banks, whereas their net lending to developed countries outside the BIS reporting area, at \$16 billion, was 36% of the total for all reporting banks. Thus UK banks take a proportionately large amount of deposits from the oil exporters, and on-lend a lower than average amount to the developing countries and a higher than average amount to developed countries, any surplus funds being accounted for by cross-border inter-bank activity. One reason for this pattern could be that much of international bank lending to Latin America is arranged and booked by US banks in the Western hemisphere and that much of international bank lending to Asia is arranged and booked in Singapore and Hong Kong.

Analysis by currency

International banking

Table F analyses by individual currency (for the whole BIS reporting area) the three main types of lending identified in Table A: foreign currency lending to non-residents; foreign currency lending to residents; and domestic currency lending to non-residents.

Table F
International bank lending by currency^(a)

	US\$	DM	Sw. Fc.	£	Yen	Other ^(b)
Foreign currency lending to non-residents						
1977	72.7	15.7	5.8	1.3	0.4	4.1
1979	73.6	14.5	4.9	1.4	1.0	4.6
1981 Q3	72.7	13.6	6.6	1.6	1.6	3.9
Foreign currency lending to residents						
1977	77.3	9.2	4.6	0.6	0.4	7.9
1979	73.7	9.5	4.8	0.8	1.8	9.4
1981 Q3	75.6	7.8	6.3	1.1	2.4	6.8
Domestic currency lending to non-residents						
1977	52.4	16.3	8.4	6.6	2.1	14.2
1979	52.4	13.7	8.5	4.9	4.5	16.0
1981 Q3	57.4	11.7	7.8	5.6	5.0	12.5

(a) The table shows percentages of total lending, with the underlying data revalued at constant end-September 1981 exchange rates to eliminate those changes which merely reflect exchange rate movements. The totals analysed are for banks in the BIS reporting area.

(b) Including unallocated items.

The US dollar, which was the vehicle for the initial development of the euromarkets twenty-five years ago, still accounts for nearly three quarters of total foreign currency lending to non-residents. Deutschmark lending has lost two percentage points of its share during the period shown, perhaps because of its weakness during some of the time (including a short period when the authorities were dissuading its use in external lending); the proportion of Swiss franc lending has risen by almost one percentage point; and the share of the market taken by external lending in yen rose from 0.4% to 1.6%.

(1) Data on UK banks (the London market) are shown in two summary tables in the review of international financial developments earlier in the *Bulletin* and in more detail in Tables 14 and 16 in the statistical annex.

The same broad picture obtains in foreign currency lending to residents, with the US dollar share remaining around 75%; but there is more diversification among the non-dollar currencies.

The dollar accounts for around half of domestic currency lending to non-residents; this reflects the predominance of such lending from the United States. The large share of this type of lending transacted in currencies not separately identified in Table F (around 15%) gives some indication of the number of countries that are involved in domestic currency lending abroad.

Predictably, it seems that borrowers of minor currencies in the international markets deal mainly through banks located in the currency's country of origin; the next preferred channel is with banks in the borrowers' own country; only as a last choice is a bank in a third country used. This pattern differs from that shown by the major currencies.

When viewed in aggregate, the main features of the currency analysis of international lending are, first, the relative stability of the respective shares—perhaps surprising, given the growth of the market—and the continued predominance of the dollar; and second, the changing fortunes of the deutschmark and yen: lending in yen increased its share between December 1979 and September 1981, possibly because of Japan's improved balance of payments position, while the share of the deutschmark fell.

The pattern on the deposits side is broadly the same, except that the minor currencies account for a slightly higher proportion of business than for lending, presumably because the need to hold working balances in these currencies is greater than the need to borrow in them.

International bonds and notes

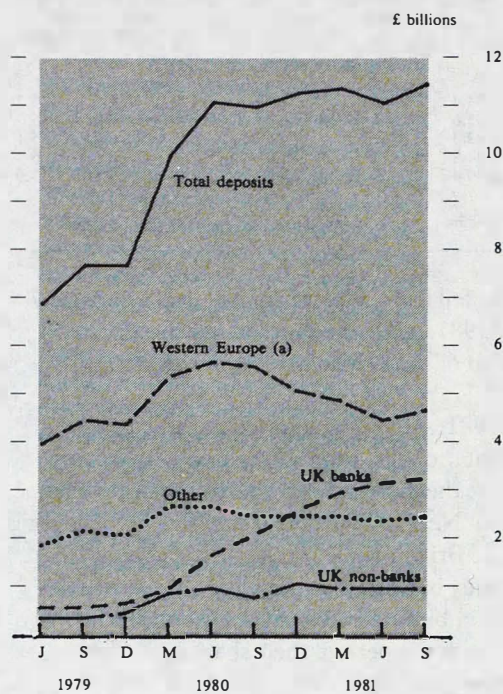
Despite high and volatile dollar interest rates, the share of dollar-denominated bonds in total new issues grew from 42% in 1980 to 56% in 1981, and exceeded 60% in the fourth quarter. As in bank lending, the share of the deutschmark contracted—to 6% of new issues compared with a fifth in 1979 and 1980—reflecting official policy and record post-war coupons. Yen issues almost doubled in 1981, representing 7% of the total. Sterling's share, which had risen in 1980 with the reopening of the domestic sterling market to foreign borrowers, was maintained in 1981 at 3% of new issues, including ten 'bulldogs' (fixed-coupon issues on the domestic sterling market for foreign borrowers).

Eurosterling

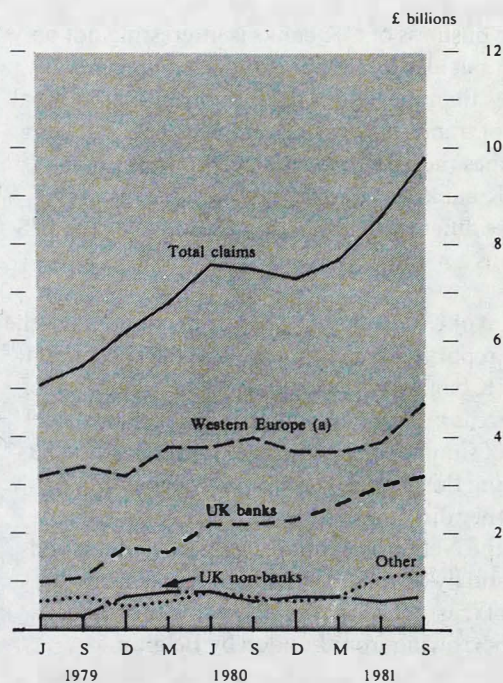
The eurosterling market is small—outstanding business amounted to only around £11 billion (\$20 billion) in September 1981. To put this in context, the sterling liabilities and assets of banks in the United Kingdom exceed £100 billion, and the eurosterling market accounts for less

Chart 5
Eurosterling market deposits and claims

Deposits by:



Claims on:



(a) Excluding the United Kingdom.

than 2% of the overall eurocurrency market. Nonetheless, the market has recently changed significantly, both qualitatively and quantitatively, largely as a result of the abolition of UK exchange controls.⁽¹⁾

Until October 1979 the eurosterling market was heavily influenced by UK exchange controls, which partially separated eurosterling from the domestic market. Under

(1) Recent data are shown in Chart 5 and in the review of international financial developments earlier in the *Bulletin*.

the controls, the ability of non-residents to borrow sterling from UK residents was restricted. Instead it was the eurosterling market—as well as, for example, the sale of other currencies that had been borrowed—which had to satisfy non-residents' demand for sterling, and the strength of this demand was an important factor in determining the market's size. UK residents were, in general, allowed to borrow from, but not deposit in, the market. A feature of the market during this period was that eurosterling interest rates were typically higher than those in the domestic market—exchange controls prevented the arbitrage flow of sterling from the United Kingdom to the eurosterling market which otherwise would have closed this differential.⁽¹⁾ But because exchange controls did permit a flow from the eurosterling to the domestic markets, eurosterling rates rarely fell below domestic rates. The size of the positive differential varied, depending on the strength of demand for eurosterling, but it was typically between zero and 3%.⁽²⁾

The abolition of exchange controls in October 1979 had an immediate impact on the eurosterling market. UK residents (banks and non-banks) were now free to lend to, as well as borrow from, the market, and in the following months their use of the market grew. An additional factor encouraging this growth was the continued operation of the corset (which had been largely irrelevant to the growth of eurosterling while exchange controls applied): after the end of exchange controls the penalties imposed by the corset on the growth of sterling business will have encouraged some business which otherwise might have been transacted in the United Kingdom to be taken elsewhere. Indeed, while the corset continued, a positive differential in favour of eurosterling often reappeared.

Since June 1980, the market has been free from the effects of exchange controls and the corset, and has become more integrated with the domestic market. The differential between eurosterling and domestic rates has virtually disappeared: any remaining difference may reflect transactions costs and the small additional costs placed on banks in the domestic market, who are now required to hold $\frac{1}{2}\%$ of their eligible sterling liabilities as non-interest-bearing deposits at the Bank of England.

In this most recent period, the growth of the market has slackened. This may be partly due to the unwinding of business which had been undertaken under the influence of the corset, but it suggests that the major readjustment to the new environment was virtually complete within nine months of the abolition of exchange controls and that there is no natural tendency for the market to grow rapidly; in the three main eurosterling centres—Paris, Brussels and Amsterdam—this pattern of a peak at June 1980 is

particularly marked. UK non-bank business has changed little, and the only consistent suppliers and increasing users of funds over the period were UK banks. The fact that, unlike most other sectors of the market, UK banks' business has continued to expand since June 1980 may reflect the growing integration of the international inter-bank markets.⁽³⁾ The largest sector of the market—liabilities to Western European countries (other than the United Kingdom)—has contracted from £5.7 billion to £4.7 billion since June 1980, almost reversing the increases of the previous nine months. This sector, however, includes trustee business undertaken by banks in Switzerland, which is estimated to have accounted for around half of these fluctuations; many of these funds originate from outside Western Europe, with oil exporting countries probably the main depositors.

One notable feature of the market has been the extent to which banks have switched out of spot eurosterling, presumably because the advantages seen by their customers in holding sterling deposits outside the United Kingdom outweigh those of borrowing sterling offshore rather than in London and because the banks may choose to lend surplus sterling 'on the swap' (thus exchanging spot sterling for a spot dollar asset) rather than direct in the inter-bank market.⁽⁴⁾ Although the excess of sterling liabilities over assets had narrowed considerably at September 1981 to less than £2 billion from a peak of £4 billion at end-1980, this still represented a large proportionate switched-out position compared with other eurocurrencies.

Thus the eurosterling market has passed through several different stages recently. It is now probably best regarded as an extension of the domestic market, the major attraction being its locational convenience for some customers. As mentioned above, the price difference between the domestic and eurosterling markets is negligible. In this respect, the market is different from those in, for example, eurodollars or eurodeutschmarks, where domestic reserve requirements mean that the cost of intermediation domestically is significantly greater than in the euromarkets; the consequent interest rate differential encourages use of the eurocurrency.

Non-bank participation in the international banking markets

Non-banks may do business with banks abroad in the non-banks' domestic currency or in foreign currency, or with domestic banks in foreign currency.

The degree of involvement of the non-bank sector in the euromarkets could have relevance for domestic monetary

(1) For the theoretical background, see 'Some aspects of the determination of eurocurrency interest rates' in the March 1979 *Bulletin*, page 35.

(2) Precise measurement of the differentials between eurosterling and domestic sterling rates is hazardous because, in a market as small and fragmented as for eurosterling, quoted rates—even if they are simultaneous—may not always be an exact guide to the rates at which business is done.

(3) No detailed analysis of the sterling business of offshore banking centres is available, as they are outside the narrow BIS reporting area. However, UK banks' transactions with these centres are included in UK banking statistics (see Table 16 in the statistical annex) and these show that business with these centres has expanded at a similar rate to sterling business between UK banks and banks in the BIS reporting European centres.

(4) See the December 1980 *Bulletin*, pages 440–41.

policy. Eurocurrency deposits⁽¹⁾ may be treated by non-banks as forming part of their liquid assets, and as such their size and growth would need to be considered along with purely domestic financial aggregates. Similarly, non-bank borrowing in the euromarkets may need to be considered when assessing the strength of credit demand in the domestic economy.⁽²⁾

United Kingdom

Although the movements in UK non-banks' eurosterling business since the abolition of exchange controls are prominent in their own context (see previous section), the magnitudes involved are modest in relation to domestic aggregates. Eurosterling deposits by UK non-banks at end-September 1981 were equivalent to only 1.4% of sterling M₃, and their eurosterling borrowing to only 1.2% of sterling credit extended to UK non-banks by domestic banks.

There has been greater growth in UK non-banks' foreign currency deposits with domestic banks (see Table G, second column)—part of the wide monetary aggregate, total M₃. During recent quarters, this component of total M₃ has exhibited large movements, thereby causing a divergence between total M₃ and sterling M₃. As with eurosterling, the abolition of exchange control removed a restriction on

Table G
UK non-banks' international banking business^(a)

\$ billions; changes exclude estimated exchange rate effects

		Deposits			Borrowing		
		Euro-sterling	Foreign currency		Euro-sterling	Foreign currency	
			At UK banks(b)	At banks abroad(c)		At UK banks(b)	At banks abroad(d)
1979	Q1	+0.1	-0.3	-0.1	-0.1	+0.6	+0.1
	Q2	-0.2	+1.4	+0.4	-0.2	+1.0	+0.2
	Q3	+0.1	-0.6	+0.1	+0.2	+0.1	-0.1
	Q4	+0.1	+1.1	+0.2	+0.8	+0.2	+0.9
	Year	+0.1	+1.6	+0.6	+0.7	+1.9	+1.1
1980	Q1	+0.9	+0.7	+0.4	+0.2	+0.9	-0.1
	Q2	+0.1	+1.0	+0.2	-0.2	+2.3	+0.5
	Q3	-0.3	+0.3	—	-0.5	+0.3	-0.1
	Q4	+0.7	+1.5	+0.6	+0.2	-0.6	+0.6
	Year	+1.4	+3.5	+1.2	-0.3	+2.9	+0.9
1981	Q1	-0.4	+2.8	+0.2	—	+1.3	+0.9
	Q2	+0.1	+1.3	+0.5	-0.2	-0.4	-0.4
	Q3	—	+1.8	+0.4	+0.3	+2.0	-0.3
	Q1 to Q3	-0.3	+5.9	+1.1	+0.1	+2.9	+0.2
Amount outstanding end-Sept. 1981		1.9	20.6	7.0	1.3	23.8	6.1

(a) Based on data from banks in the BIS reporting area.

(b) Excludes business of the UK public sector.

(c) Includes—in addition to bank deposits—US dollar commercial paper, bankers' acceptances and short-term US Treasury debt (amounting to \$0.9 billions at end-September 1981).

(d) Includes borrowing via US commercial paper (\$0.8 billions at end-September 1981). Excludes estimated borrowing by the UK public sector.

Table H
Non-banks' international banking business^(a): country comparison

\$ billions; changes exclude estimated exchange rate effects

	1980	1981			Outstanding end-Sept. 1981	Of which:	
Year	Q1	Q2	Q3	In the non- banks' domestic currency		In local currency of the accepting/ lending bank	
Deposits by residents of:							
Belgium/Luxembourg(b)	+ 2.8	+ 1.6	+ 0.7	+ 1.4	13.1	1.8	1.8
Canada	+ 1.0	- 2.1	—	+ 1.9	10.6	..	1.0
France	+ 1.1	- 0.1	—	+ 0.3	5.8	0.4	1.4
Italy	+ 0.1	+ 0.3	- 0.4	—	3.4	0.1	0.9
Netherlands	+ 1.6	+ 0.3	+ 0.8	+ 0.5	7.7	0.4	1.2
Sweden	+ 0.1	+ 0.1	—	+ 0.1	1.2	..	0.4
Switzerland	+ 2.6	- 0.7	- 0.4	+ 1.3	18.2	1.7	3.6
United Kingdom(c)	+ 5.6	+ 3.0	+ 2.1	+ 1.8	27.5	1.9	3.1
United States(d)	+ 9.2	+ 5.9	+ 5.8	+11.0	78.4	74.3	3.4
West Germany	+ 3.0	+ 2.1	- 0.6	- 0.3	8.8	3.5	1.4
Total	+27.1	+10.4	+ 8.0	+18.0	174.7	84.1	18.2
Borrowing by residents of:							
Belgium/Luxembourg(b)	+ 5.1	+ 1.5	+ 1.4	+ 2.5	17.1	0.2	2.5
Canada	+ 2.7	+ 1.0	+ 5.1	+ 2.3	25.8	..	3.7
France	+ 5.4	+ 0.5	—	+ 1.2	16.1	0.4	3.5
Italy	+10.3	- 0.3	+ 2.7	+ 0.4	28.3	0.1	3.0
Netherlands	+ 1.6	+ 0.3	- 0.4	+ 0.5	6.9	0.6	1.2
Sweden	+ 4.3	+ 0.8	+ 0.4	+ 1.2	14.2	..	1.8
Switzerland	+ 1.4	- 0.7	- 1.3	+ 1.5	8.8	1.1	1.4
United Kingdom(c)	+ 1.2	+ 1.3	- 2.6	+ 4.2	32.5	1.3	3.4
United States(d)	+ 2.7	+ 1.9	—	+ 2.2	18.8	14.2	4.1
West Germany	+10.6	+ 3.5	+ 3.1	+ 3.2	37.2	28.9	1.0
Total(e)	+45.4	+ 9.8	+ 8.4	+19.2	205.7	46.8	25.6

.. not available.

(a) Business with banks abroad, or with domestic banks in foreign currency. Includes data from banks in BIS reporting countries; some of the data are incomplete or estimated.

(b) Excludes cross-border business between Belgium and Luxembourg and business in the two domestic currencies.

(c) The coverage differs from that in Table G, mainly for the reasons given in footnotes (b), (c) and (d) to that table.

(d) Includes US dollar deposits with branches of US banks in the Caribbean area, but excludes borrowing from these branches.

(e) The coverage is less complete for total deposits—see footnote (d).

(1) In this section eurocurrency includes deposits (borrowing) abroad in the accepting (lending) bank's local currency, even though this is not strictly eurocurrency.

(2) The data cover the public sector as well as the non-bank private sector and therefore may not be an accurate indicator of private sector business, particularly for borrowing. The data for the United Kingdom in Table G have been adjusted to exclude estimated public sector borrowing.

such business, which may be comparatively easy to transact given the well-developed foreign currency market in London; and the fact that sterling interest rates were lower than the corresponding dollar rates for much of 1981 will have added to the attractiveness of foreign currency deposits (especially in mid-1981 when the UK private sector's liquidity was boosted by the Civil Service strike); related to this, there may have been a desire on the part of non-banks to cover their foreign currency bank borrowing more adequately. UK non-banks' foreign currency borrowing from UK banks rose rapidly following the increase in sterling interest rates and the fall in dollar rates in the autumn of 1981, in a period when their total borrowing from UK banks was rising sharply. (See also the review of the operation of monetary policy earlier in this *Bulletin*.)

Comparisons with other countries

Table H shows, for non-banks in most of the BIS reporting countries, eurocurrency deposits with and borrowing from banks in the reporting area.

In terms of amounts outstanding, UK non-banks are prominent both as depositors and borrowers—a reflection of the foreign currency business transacted with UK banks. US non-banks are the largest depositors, mainly in eurodollars. On the borrowing side, the non-bank sectors in West Germany, Italy and Canada, as well as the United Kingdom, are dominant.

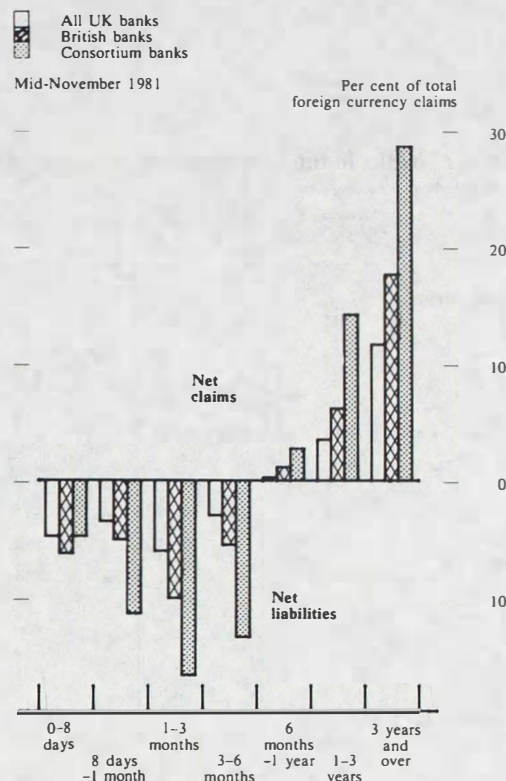
While for many countries the stock of such deposits and borrowing is not large, transactions have in certain periods been sizable in relation to the changes in domestic aggregates. This has been true recently for virtually all the countries shown in the table (including the United Kingdom—see above).

The flows shown in Table H indicate that since the beginning of 1980 non-banks in the countries shown have, in general, been more active in borrowing than in making deposits in the euromarkets. The growth in borrowing as a percentage of the amounts outstanding is well spread between most non-bank sectors, apart from those of Switzerland and the United Kingdom where borrowing has grown less fast than the average. On the deposit side, the picture is more varied, with non-banks in West Germany and Belgium/Luxembourg, as well as the United Kingdom, showing the fastest growth; at the other extreme, the modest growth in Canadian non-banks' deposits disguises a substantial fall in their foreign currency deposits booked in Canada, particularly in 1981 after the imposition of reserve requirements on such deposits.

Maturity transformation

Chart 6 summarises mid-November 1981 data on maturity transformation carried out by UK banks in foreign currencies.⁽¹⁾ The classification of maturities in the statistics on the basis of the shortest conceivable maturity on liabilities and the longest conceivable maturity on

Chart 6
Maturity transformation by UK banks in their foreign currency business^(a)



(a) The chart shows net liabilities and net assets expressed as a percentage of total claims, on the same basis as Table L.

assets, while clearly of prudential significance, does not acknowledge the role of the inter-bank market, as a source of liquidity, in facilitating maturity transformation without undue funding risk (or the influence of the roll-over mechanism in lessening interest rate risk). In percentage terms, the degree of maturity transformation is relatively modest in each maturity band, with the exception of the three years and over band. The cumulative transformation (at around the one year mark) is considerable; in absolute terms, too, the amount of maturity transformation undertaken has increased appreciably as the market has grown (for example, net liabilities of under one year amounted to \$29 billion in November 1975 and \$95 billion in November 1981, while net claims of over one year amounted to \$29 billion in August 1975 and \$86 billion in November 1981). But in percentage terms the degree of transformation has remained fairly stable, despite the fluctuating recycling burdens on the banks (Table L).

The data include the positions of UK branches of overseas banks, much of whose maturity transformation probably occurs outside the United Kingdom, as they tend to invest short-term funds with their parent banks. Thus the degree of maturity transformation undertaken by British banks and UK-based consortium banks is higher than that by UK banks as a whole (see Chart 6), but there has been no radical shift in the pattern of maturity mismatching since 1975 (see Table L).

(1) The data collected from UK banks, and shown in Table 14.2 of the statistical annex, are the most detailed eurocurrency maturity data published for any of the euromarket centres; UK banks also submit a maturity analysis of their sterling business for supervisory purposes, but these data are not yet co-ordinated into a statistical series and published. Discussion of maturity transformation is therefore limited to foreign currency business.

Appendix

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

\$ billions; changes exclude estimated exchange rate effects

Bilateral, changes include estimated exchange rate effects

	Outstanding end-1978	1979	1980					1981				Outstanding end-Sept.
		Year	Year	Q1	Q2	Q3	Q4	Q1	Q2	Q3		
Deposits from non-residents												
Total	957	+278	+280	+60	+58	+54	+108	+53	+47	+87		1,620
Placed with banks in:												
Reporting European area	593	+174	+178	+36	+38	+24	+80	+28	+10	+27		930
of which, United Kingdom	225	+65	+71	+24	+12	+6	+29	+22	+9	+22		412
United States	92	+38	+9	+3	-2	+1	+7	-6	+8	+13		154
Canada and Japan	64	+21	+40	+10	+10	+10	+9	+12	+10	+14		157
Offshore centres: US banks	107	+21	+14	+3	+2	+9	+1	+7	+8	+15		173
Non-reporting banks	101	+24	+39	+8	+10	+10	+11	+13	+11	+18		206
Source												
<i>Outside reporting area</i>												
Developed countries	38	+7	+6	-1	+2	+3	+2	-	-1	+3		49
Eastern Europe	11	+5	+1	-2	-1	+1	+3	-3	-1	+1		11
Oil exporting countries	82	+37	+41	+12	+12	+11	+6	+5	+2	-1		157
Non-oil developing countries	77	+12	+3	-	+2	+1	+1	-1	+1	+2		89
of which, Latin America	33	+5	-1	-1	-1	-	+2	-1	-	+1		35
Sub-total	208	+61	+51	+9	+14	+16	+12	-	+1	+5		306
<i>Inside reporting area</i>												
Banks(b)	630	..	..	..	..	..	..	..	..	..		979
Non-banks		..	..	..	..	..	..	..	..	..		100
Unallocated(c)	119	..	..	..	..	..	..	..	..	..		235
Lending to non-residents												
Total	1,000	+235	+281	+51	+61	+61	+107	+67	+52	+89		1,642
Lent by banks in:												
Reporting European area	611	+153	+158	+35	+28	+18	+77	+32	+18	+30		921
of which, United Kingdom	218	+63	+68	+23	+11	+8	+28	+26	+13	+22		400
United States	119	+17	+41	-2	+18	+12	+12	+7	+14	+13		214
Canada and Japan	56	+16	+29	+9	+1	+11	+8	+9	-	+14		120
Offshore centres: US banks	107	+21	+13	+2	+2	+9	+1	+6	+7	+14		168
Non-reporting banks	107	+28	+40	+7	+12	+11	+10	+14	+12	+18		219
Direction												
<i>Outside reporting area</i>												
Developed countries	64	+8	+15	+2	+4	+3	+5	+4	+4	+4		93
Eastern Europe	48	+8	+7	+1	+1	+1	+4	+1	+2	+1		59
Oil exporting countries	56	+7	+6	-3	+1	+3	+5	-2	+1	+2		68
Non-oil developing countries	121	+35	+40	+4	+12	+12	+13	+5	+8	+11		212
of which, Latin America	80	+23	+27	+3	+7	+9	+9	+5	+5	+9		146
Sub-total	289	+58	+68	+4	+18	+19	+27	+8	+16	+18		432
<i>Inside reporting area</i>												
Banks(d)	590	..	..	..	..	..	..	..	..	..		829
Non-banks		..	..	..	..	..	..	..	..	..		140
Unallocated(c)	121	..	..	..	..	..	..	..	..	..		241

.. 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).

(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).

Table K
International banking analysed by centre

\$ billions; percentage share of total market in *italics*

	Gross lending (column 8 in Table A)	Of which:																	
		United Kingdom	United States	France	Bahamas	Japan	Luxembourg (a)	Swiss trustee accounts	Singapore	Belgium (a)	Netherlands	West Germany	Switzerland	Canada	Bahrain	Hong Kong	Italy	Panama	Cayman Islands (b)
End-Dec. 1978																			
Foreign currency lending to non-residents	763	203	4	81	105	26	58	..	..	32	37	21	31	22	..	..	22	19	18
Domestic currency lending to non-residents	236	15	115	18	..	8	1	..	—	4	9	40	19	1	—	..	1	..	..
Foreign currency lending to residents	188	84	..	21	..	25	..	—	..	22	3	2	6	10	..	..	12	..	..
Total(c)	1,225	301	118	120	105	59	59	37	27	58	48	63	56	32	23	21	35	19	18
		24.6	9.7	9.8	8.6	4.8	4.9	2.7	2.2	4.7	3.9	5.2	4.6	2.6	1.9	1.7	2.8	1.6	1.5
End-Dec. 1980																			
Foreign currency lending to non-residents	1,151	334	4	119	125	49	87	..	..	52	51	22	30	35	..	..	30	34	33
Domestic currency lending to non-residents	346	23	173	24	..	17	1	..	—	3	11	52	29	1	—	..	1	..	..
Foreign currency lending to residents	319	138	..	35	..	51	17	—	..	17	6	2	6	13	..	..	22	..	..
Total(c)	1,888	494	177	178	125	116	105	73	54	72	68	75	64	49	37	38	53	34	33
		26.2	9.4	9.4	6.6	6.2	5.6	3.6	2.9	3.8	3.6	4.0	3.4	2.6	2.0	2.0	2.8	1.8	1.7
End-Sept. 1981																			
Foreign currency lending to non-residents	1,273	379	4	110	155	64	84	..	..	56	52	21	29	37	..	43	23	..	39
Domestic currency lending to non-residents	369	21	210	23	..	19	1	..	—	3	12	44	29	1	—	2	1	..	..
Foreign currency lending to residents	360	159	..	33	..	67	16	—	..	18	7	2	5	21	..	..	17	..	..
Total(c)	2,089	559	214	165	155	149	101	88	78	77	71	66	63	59	46	45	41	..	39
		26.8	10.2	7.9	7.4	7.1	4.8	4.2	3.7	3.7	3.4	3.2	3.0	2.8	2.2	2.1	1.9	..	1.8

Sources: BIS, IMF, and various national sources.

.. not available.

(a) Lending by banks in Belgium to Luxembourg and *vice versa* is classified as lending to residents and is therefore excluded. Similarly, lending by these banks both in Belgian and Luxembourg francs is classified as domestic currency lending.

(b) Foreign assets of US banks only.

(c) The three components do not sum to the total because of the inclusion in the total of Swiss trustee accounts. The role of the Swiss banks in operating these accounts is formally that of an agent, but to the extent that they advise clients where the funds should be placed they can be said virtually to be performing a banking function.

Table L
Total net foreign currency deposit liabilities (—)/claims (+) as a percentage of total foreign currency claims^(a)

	1975	1976	1977	1978	1979	1980	1981						
	November					February	May	August	November	February	May	August	November
1. All banks													
Residual maturity:													
0-8 days	- 3.7	- 4.9	- 6.1	- 4.9	- 4.6	- 5.2	- 5.1	- 4.5	- 4.5	- 4.5	- 4.6	- 4.7	- 4.8
8 days to 1 month	- 2.8	- 3.9	- 3.4	- 3.6	- 3.5	- 3.6	- 3.3	- 4.3	- 2.9	- 3.6	- 4.0	- 4.2	- 3.5
1-3 months	- 5.2	- 5.3	- 5.6	- 5.7	- 5.1	- 5.4	- 4.7	- 4.8	- 5.6	- 5.3	- 5.6	- 5.9	- 6.1
3-6 months	- 4.3	- 2.7	- 2.4	- 3.1	- 2.3	- 2.7	- 3.5	- 3.1	- 3.4	- 2.8	- 2.9	- 3.0	- 3.0
6 months to 1 year	- 0.7	- 0.4	—	- 0.1	- 0.5	- 0.4	- 0.4	—	—	- 0.4	- 0.1	+ 0.5	+ 0.3
1-3 years	+ 3.9	+ 4.7	+ 5.1	+ 4.8	+ 3.3	+ 3.5	+ 3.4	+ 3.3	+ 3.4	+ 3.4	+ 3.8	+ 3.7	+ 3.6
3 years and over	+ 12.9	+ 12.6	+ 12.0	+ 12.8	+ 11.8	+ 12.9	+ 12.9	+ 12.7	+ 12.4	+ 11.8	+ 11.9	+ 12.0	+ 11.9
2. British banks													
Residual maturity:													
0-8 days	- 4.6	- 5.2	- 5.8	- 3.9	- 2.2	- 4.0	- 3.7	- 2.8	- 2.9	- 5.8	- 7.2	- 5.2	- 6.3
8 days to 1 month	- 5.1	- 5.9	- 4.3	- 4.2	- 7.9	- 6.6	- 6.2	- 5.2	- 5.2	- 5.8	- 5.8	- 6.3	- 5.1
1-3 months	- 7.1	- 7.1	- 8.7	- 8.8	- 9.0	- 11.0	- 10.0	- 8.9	- 9.1	- 9.1	- 9.4	- 9.2	- 10.2
3-6 months	- 7.1	- 5.9	- 6.1	- 6.9	- 7.6	- 7.5	- 7.0	- 7.4	- 6.9	- 6.8	- 5.4	- 5.8	- 5.6
6 months to 1 year	- 2.4	- 2.5	- 1.8	- 0.4	+ 0.3	+ 0.6	+ 0.1	+ 0.1	—	+ 0.8	+ 1.2	+ 1.4	+ 1.2
1-3 years	+ 6.6	+ 8.8	+ 8.4	+ 8.0	+ 6.3	+ 6.6	+ 6.1	+ 5.5	+ 5.9	+ 5.8	+ 6.3	+ 5.8	+ 6.3
3 years and over	+ 20.1	+ 18.8	+ 19.2	+ 18.5	+ 18.6	+ 20.4	+ 20.4	+ 19.5	+ 18.9	+ 18.5	+ 18.2	+ 18.1	+ 18.0
3. Consortium banks													
Residual maturity:													
0-8 days	- 5.4	- 5.9	- 5.8	- 5.9	- 3.3	- 3.2	- 6.2	- 4.0	- 5.4	- 4.9	- 4.9	- 5.3	- 4.8
8 days to 1 month	- 6.4	- 8.8	- 8.3	- 7.3	- 8.6	- 8.2	- 8.6	- 7.7	- 8.5	- 9.0	- 9.1	- 9.6	- 11.5
1-3 months	- 13.7	- 13.9	- 13.2	- 12.9	- 15.0	- 17.1	- 14.5	- 15.2	- 13.8	- 15.5	- 16.4	- 16.0	- 16.9
3-6 months	- 12.4	- 9.1	- 11.4	- 11.7	- 12.6	- 11.4	- 12.3	- 13.1	- 12.3	- 10.9	- 11.3	- 12.9	- 13.6
6 months to 1 year	- 1.0	+ 0.6	+ 1.6	+ 1.1	+ 2.1	+ 2.1	+ 3.5	+ 2.1	+ 1.6	+ 1.3	+ 2.4	+ 2.5	+ 2.8
1-3 years	+ 12.7	+ 15.1	+ 16.9	+ 17.2	+ 14.9	+ 15.0	+ 14.3	+ 14.1	+ 13.9	+ 13.9	+ 13.3	+ 14.0	+ 14.5
3 years and over	+ 29.2	+ 24.6	+ 21.7	+ 21.9	+ 23.8	+ 24.0	+ 25.5	+ 24.8	+ 25.5	+ 26.1	+ 26.9	+ 27.9	+ 29.2

(a) For detailed definitions of the series, see Table 14.2 (including the additional notes) in the statistical annex to this *Bulletin*.