International financial developments

Among the main developments:

- *The overall current account surplus of oil exporting countries was largely eliminated in 1982 and other imbalances narrowed.*
- *In the second half of the year some countries, particularly in Latin America, encountered severe difficulties in servicing their external debts. Banks became more cautious in their lending and spreads widened.*
- *This caution affected some inter-bank lending and in the fourth quarter the London eurocurrency market contracted. Announced international bank credits also fell sharply.*
- *With interest rates falling, the international bond markets remained buoyant—but only developed countries had access.*
- *Sterling fell sharply from mid-November until more stable conditions returned in February. The dollar was also weak in the early part of the period, but recovered towards the end of January.*

International balance of payments developments

The world current account

Imbalances between the major groups of countries narrowed in 1982, as they had in the previous year, though the influences and pressures operating on different groups of countries varied widely. Most striking was the substantial reduction in the oil exporting countries' surplus from over $100 billion in 1980, and nearly $60 billion in 1981, to around $10 billion last year. The deficit of the OECD group of countries is estimated to have been $29 billion in 1982, almost unchanged from the previous year. The combined deficit of non-oil developing countries fell for the first time in five years, but it remained large, at over $60 billion. The total deficit of other countries was also reduced.

Current account summary

$ billions; *seasonally adjusted*

	1981	1982				
	Year	Year(a)	Q1	Q2	Q3(a)	Q4(a)
Total OECD	−30	−29	− 6	− 5	−10	− 8
of which:						
Major countries(b)	*− 3*	*− 7*	*− 1*	*1*	*− 5*	*− 2*
Other	*−27*	*−22*	*− 5*	*− 6*	*− 5*	*− 6*
Oil exporting countries	59	10	3	− 1	3	5
Other developing countries	−78	−63	−19	−16	−13	−15
Other countries(c)	− 9	− 1	− 1	—	—	—
World discrepancy(d)	−58	−83	−23	−22	−20	−18

(a) Includes Bank estimates/forecasts.
(b) United States, Canada, France, Italy, Japan, United Kingdom and West Germany.
(c) South Africa and the centrally planned economies.
(d) This item reflects errors and omissions arising from incomplete country coverage, timing differences and other statistical deficiencies.

Analysis of shifts in current account balances among the main country groupings continues to be clouded by the unexplained discrepancy in the world current account, which was over $80 billion in 1982.(1) As the year progressed, the discrepancy narrowed, perhaps partly because of marked reductions in interest rates during 1982—one of the factors thought to underlie the discrepancy is an under-recording of investment income receipts by some large holders of external assets.

Current account positions of the major groups of countries showed only small quarterly fluctuations during 1982. The oil exporters' surplus was eliminated in the second quarter as demand for their oil continued to decline, especially in the major industrial countries. In the second half of the year, oil demand remained weak, but the oil exporters moved back into small surplus as a number of them cut back their imports. Within this group, Nigeria, Indonesia and Iraq had large deficits but these were matched by still substantial surpluses in Saudi Arabia, Kuwait and the United Arab Emirates.

The combined deficit of OECD countries showed no clear trend during 1982. As a group, the major industrial countries were in small deficit for most of the year, while the current account of the smaller OECD countries taken together was also broadly stable through the year but remained in large deficit. Austria, Belgium and the Netherlands recorded marked improvements, but deficits in a number of other countries widened slightly.

By contrast, the developing countries achieved a substantial reduction in their current account deficit between the final quarters of 1981 and 1982. This occurred in spite of falling export revenues and a deterioration in their financial

(1) The world current account discrepancy was described in the September 1982 *Bulletin*, page 356.

position in the third quarter of 1982. The main explanation was a substantial decline in the volume of developing countries' imports between the fourth quarters of 1981 and 1982, the first such fall since 1975. This fall contributed in turn to the weakness of demand in the developed economies.

Major industrial countries

Within the group of major overseas countries, some important, but largely offsetting, movements took place during 1982, reflecting a combination of cyclical and competitive influences. In the United States, the earlier appreciation of the dollar, together with a small revival in domestic demand, contributed to a sharp deterioration in the current account—there were deficits of $5–6 billion in both the third and fourth quarters. France was in large deficit throughout the year. For Japan and West Germany, earlier gains in competitiveness have had surprisingly little effect so far on their current accounts; nonetheless, both countries moved into comfortable surplus in the second half of 1982 (although in West Germany this probably also reflected the depressed domestic economy).

Major countries: current balances

$ billions; *seasonally adjusted*

	1981 Year	1982 Year(a)	Q1	Q2	Q3	Q4(a)
United States	4.5	− 8.1	1.1	2.2	−5.2	−6.1
Canada	− 4.5	2.2	−0.1	0.5	0.9	0.9
France	− 4.8	−12.4	−2.0	−4.4	−3.5	−2.5
Italy	− 8.7	− 5.4	−2.2	−1.2	−1.6	−0.4
Japan	4.8	6.9	0.8	2.5	2.1	1.5
West Germany	− 6.5	3.3	−0.2	0.7	0.9	1.9
Six major overseas countries	−15.2	−13.5	−2.6	0.3	−6.4	−4.7
United Kingdom	12.6	6.8	1.1	1.4	1.5	2.8

(a) Includes Bank estimates.

United Kingdom

Visible trade was in surplus by £1.3 billion in the fourth quarter of last year, a marked improvement on the £0.6 billion surplus in the previous quarter. Within this total, the surplus on oil account continued to grow and the non-oil deficit fell. The surplus on invisible trade rose slightly to £0.4 billion, compared with £0.2 billion in the third quarter, with an improved surplus on services only partially offset by net interest, profits and dividends from overseas moving into deficit.

The main counterpart of the larger current account surplus in the fourth quarter (£2.0 billion, unadjusted) cannot be identified at present: the balancing item shows a net outflow of £3.2 billion. In the light of this, an identified net capital inflow of £0.3 billion must be a particularly uncertain estimate. Among the identified flows, outward portfolio investment increased slightly to £1.5 billion. The portfolio outflow increased by 40% between 1981 and 1982 suggesting that the pace at which institutions were diversifying their portfolios last year had accelerated. Banking flows were again substantial in the fourth quarter.

UK balance of payments

£ billions; *not seasonally adjusted*

	1981 Year	1982 Year	Q1	Q2	Q3	Q4
Current account	**+6.0**	**+3.9**	**+0.9**	**+0.3**	**+0.7**	**+2.0**
Outward portfolio investment	−4.2	−5.8	−1.6	−1.3	−1.3	−1.5
Net direct investment (non-oil)	−4.3	−1.9	−0.5	−0.8	−0.7	+0.1
Banks' net external lending in foreign currencies	+1.5	+4.7	+1.7	+0.5	+1.3	+1.2
Banks' sterling lending overseas	−2.9	−3.2	−1.1	+0.2	−1.3	−1.0
Sterling balances(a)	+2.8	+4.6	+1.5	+1.3	+1.3	+0.5
Other flows	—	+1.0	−0.3	+0.2	—	+1.0
Total identified capital flows	**−7.1**	**−0.6**	**−0.3**	**+0.1**	**−0.7**	**+0.3**
Official financing	+0.7	+1.3	—	+0.7	−0.2	+0.8
Balancing item	+0.3	−4.6	−0.6	−1.1	+0.3	−3.2

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

Sterling lending overseas remained strong, and inflows into private sterling balances continued, though not at the rapid rate seen earlier last year; and a net inflow of £1.2 billion from banks' foreign currency borrowing and lending financed on-lending in foreign currency to the UK private sector and banks' purchases of bonds from overseas.

For the year as a whole, the current account surplus fell back to £3.9 billion from its record 1981 level of £6.0 billion. Trade in oil contributed £4.6 billion in 1982, growing from £3.1 billion the previous year, but this was more than offset by a sharp worsening of the non-oil deficit (from £0.2 billion to £2.4 billion) and a smaller surplus on invisible trade (from £3.1 billion in 1981 to £1.7 billion in 1982).

Developing countries

Last year the developing countries' current account deficit narrowed but this was accompanied by an even sharper fall in their net private capital inflows. Particularly striking was the behaviour of international bank lending:[1] in the first half of 1982 this had continued at rates not much below those in 1981, but it fell away dramatically in the third quarter as the debt servicing problems of Mexico and other

Developing countries' balance of payments

$ billions; *not seasonally adjusted*

	1981 Year	1982 Q1	Q2	Q3(a)
Current account	−78	−18	−15	−14
Capital account	75	13	12	9
of which:				
Concessionary and other official flows	*24*	*6*	*5*	*6*
Direct investment	*12*	*3*	*2*	*2*
Borrowing from banks(b)	*40*	*2*	*13*	*− 1*
Borrowing via bond issues	*4*	*1*	*1*	*1*
Other capital flows	*− 5*	*1*	*− 9*	*1*
Official financing balance	3	5	3	5
of which:				
Use of Fund credit	*6*	—	*1*	*1*
Liabilities to other CMIs	—	—	—	*1*
Reserves(b) *etc (increase −)*	*− 3*	*5*	*2*	*3*

(a) Includes estimates/forecasts.

(b) Adjusted to exclude valuation effects.

(1) These developments are described in the article on international banking on page 43.

International direct investment flows

During the past two years there have been pronounced changes in flows of international direct investment. In particular, there has been a substantial turn-round in US *net* direct investment which, for the first time since 1944, recorded inflows in 1981 and again in 1982 (Table 1).

Table 1
US direct investment
$ billions

	1979	1980	1981	1982(a)
Outward	−25.2	−19.2	− 8.7	4.3
of which:				
Reinvested earnings	*−19.0*	*−17.0*	*−13.0*	*− 5.0*
Inter-company accounts	*0.1*	*1.1*	*5.7*	*16.3*
Other (including equity holdings)	*− 6.3*	*− 3.3*	*− 1.4*	*− 7.0*
Inward	11.9	13.7	21.3	8.3
of which:				
Reinvested earnings	*4.0*	*6.2*	*4.1*	*1.1*
Inter-company accounts	*3.2*	*0.7*	*6.7*	*3.9*
Other (including equity holdings)	*4.7*	*6.8*	*10.5*	*3.3*
Net	**−13.3**	**− 5.6**	**12.6**	**12.6**

Source: US Department of Commerce.

(a) Estimates based on available data expressed at an annual rate.

United States

Most of the turn-round in US net flows can be traced to movements in *outward* investment, although in 1981 there were exceptionally large inflows of *inward* investment to the United States, partly reflecting several large corporate take-overs. An important part of the reduction in recorded outward investment is accounted for by US corporations financing domestic operations with funds raised in the eurobond market via their subsidiaries. These funds have then been channelled back to the United States and are recorded as reduced US direct investment abroad, ie as smaller net claims by the parent company on its overseas subsidiary. The exchange rate implications of these transactions are not clear, as only a small amount of net dollar purchases may be involved. Such external eurobond direct investment in US corporations was particularly important in 1982. US corporate eurobond issues—not all of which will have been channelled to the United States—totalled $5 billion in 1980, $7 billion in 1981 and reached $16 billion 1982, although they fell off after the middle of the year. Thus part of the fall in outward investment recorded in Table 1 is perhaps more properly regarded as an increase in inward portfolio investment.

In addition, US motor manufacturers borrowed heavily from their subsidiaries in Europe in 1981. US investment abroad was also reduced somewhat in 1980–81 by sales of equity holdings in Canadian energy companies, and more generally by weak domestic profits and the need to repatriate a larger proportion of foreign earnings. US oil companies, in contrast to the rest of US industry, did increase equity investments overseas in the first half of 1982.

Other major OECD countries

The other major countries saw a substantial rise in net outflows of direct investment in 1981, most notably in the cases of Canada and the United Kingdom (Table 2). To a significant extent these movements were the counterpart to transactions in the United States. UK companies, for example, were probably taking advantage of the particularly strong sterling/dollar exchange rate in 1981. In both countries, these outflows were much reduced in 1982. As in the United States, outward direct investment from the United Kingdom and West Germany has been curtailed along with domestic investment. Changes in competitiveness may have helped to maintain inward investment into West Germany while depressing the United Kingdom's, although this latter effect should now be declining.

Table 2
Major OECD net direct investment
$ billions

	1979	1980	1981	1982
United States	−13.3	− 5.6	12.6	12.6(a)
Canada	− 0.8	− 3.5	− 8.5	− 2.7(a)
France	0.5	0.3	− 2.1	− 1.4(a)
Italy	− 0.2	− 0.2	− 0.3	..
Japan	− 2.7	− 2.1	− 4.7	− 4.1
United Kingdom	− 2.0	− 2.1	− 8.7	− 3.3
West Germany	− 2.8	− 3.3	− 2.9	− 2.3
Total	**−21.3**	**−16.5**	**−14.6**	**− 1.5**

.. not available.

(a) First three quarters expressed at an annual rate.

By contrast, outward direct investment from Japan continued to grow rapidly in 1982. Traditionally much of Japan's outward investment has been geared towards assuring supplies of raw materials, but recently greater protectionist pressures have induced a shift towards investments in manufacturing plant in other OECD countries. Inward investment into Japan remains negligible.

Developing countries

In total, there appears to have been a distinct reduction in net direct investment outflows from the major OECD countries in 1982 to the developing countries, and particularly to Latin America (Table 3). This exacerbated their already serious external financing difficulties.

Table 3
World direct investment summary
$ billions

	1979	1980	1981	1982(a)
Major OECD	−21.3	−16.5	−14.6	−1.5
Other OECD	0.7	1.4	1.6	2.3
Oil exporting countries	− 0.4	− 2.5	1.6	1.0
Other developing countries	7.8	9.1	11.7	8.5
of which:				
Latin America	*5.0*	*5.4*	*7.2*	*4.0*
Other	*2.8*	*3.7*	*4.5*	*4.5*
World discrepancy(b)	**−13.2**	**− 8.5**	**0.3**	**10.3**

(a) Bank estimates for 1982.

(b) The world direct investment discrepancy (normally a large negative number) has traditionally been accounted for by the asymetrical recording of reinvested direct investment income. Since 1979, however, it has been dominated by US corporations' external bond financing for which there is in general no counterpart recorded by other countries.

countries came to light. Although bank exposure to the developing countries may have increased slightly in the fourth quarter because of bridging finance, total bank lending for the year as a whole may have been less than half the $40 billion lent in 1981. Inflows of direct investment from OECD countries also appear to have decreased markedly during the year: these are discussed in the box opposite.

With this shortfall in private capital inflows, some developing countries had to make substantial recourse to official finance. In particular, they drew down their foreign exchange reserves at a rapid and unsustainable rate, and turned increasingly to the IMF for financial assistance. In addition, temporary financing was provided by the monetary authorities of a number of countries, in part via the BIS, to Brazil, Argentina and Mexico. The developing countries are likely to increase substantially their use of Fund credit in 1983.

Oil exporting countries

The combined current account of the oil exporting countries was in small deficit in the second quarter of 1982 but then improved as exports recovered slightly. Imports fell a little in the second and third quarters but this movement does not appear to have continued into the fourth.

It is not yet clear how the virtual elimination of the oil exporters' combined current surplus has been reflected in the pattern of their external financial flows. It is estimated that in the third quarter net borrowing, together with changes in credit given for oil exports, increased the surplus available for investment to $10 billion—$8 billion more than in the previous quarter. Identified capital movements, however, shed little light on the deployment of the third quarter surplus. They show bank deposits in the United States and other industrialised countries to have fallen by $5 billion, partly offset by a small rise in deposits with UK banks. Investment in industrialised countries continued,

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

$ billions

	1981	1982				
	Year	Year(a)	Q1	Q2	Q3	Q4(a)
Exports	284	235	61	56	57	61
Imports	161	158	41	40	38	39
Merchandise trade	123	77	20	16	19	22
Net invisibles	− 64	− 67	−17	−17	−16	−17
of which, official transfers	*− 4*	*− 4*	*− 1*	*− 1*	*− 1*	*− 1*
Current balance	**59**	**10**	**3**	**− 1**	**3**	**5**
Net movements in external borrowing etc(b)	9	..	8	3	7	..
Surplus available for investment	**68**	..	**11**	**2**	**10**	..

.. not available.

(a) Provisional.

(b) For definitions, see footnote (a) to following table.

Identified deployment of oil exporters' surpluses[a]

$ billions

	1981	1982				
	Year	Year(b)	Q1	Q2	Q3	Q4(b)
United Kingdom:						
Sterling bank deposits	0.4	1.3	0.5	0.3	0.2	0.3
Eurocurrency bank deposits	8.8	−9.4	−1.1	−5.4	1.1	−4.0
British government stocks	0.9	−0.2	0.1	0.2	−0.4	−0.1
Treasury bills	—	−0.1	−0.1	—	—	—
Other sterling placements	0.2	−0.6	−0.1	−0.1	−0.2	−0.2
Other foreign currency placements	—	—	—	—	—	—
	10.3	−9.0	−0.7	−5.0	0.7	−4.0
United States:						
Bank deposits	− 2.0	4.4	1.5	5.3	−1.0	−1.4
Treasury bonds and notes	10.9	6.9	2.6	2.7	1.5	0.1
Treasury bills	− 0.5	0.4	0.8	−1.5	—	1.1
Other portfolio investment	4.6	−0.4	0.1	0.3	0.1	−0.9
Other	3.3	..	0.2	0.6	0.3	..
	16.3	..	5.2	7.4	0.9	..
Bank deposits in other industrialised countries	− 5.1	..	−1.3	−5.9	−4.1	..
Other investment in other industrialised countries(c)	19.5	..	3.0	2.9	2.3	..
IMF and IBRD(d)	2.3	..	0.5	−0.4	0.6	..
Loans to developing countries	7.2	..	1.2	1.1	0.5	..
Total identified deployed net cash surplus	**50.5**	..	**7.9**	**0.1**	**0.9**	..
Residual of unidentified items(e)	17.5	..	3.1	1.9	9.1	..
Total net cash surplus derived from current account (as shown in the previous table)	**68**	..	**11**	**2**	**10**	..

.. 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. Oil exporting countries are listed in the additional notes to Table 16.1 in the statistical annex.

(b) Provisional.

(c) Mainly loans and holdings of equities.

(d) Includes holdings of gold.

(e) The residual may reflect errors in either the current or capital account.

though at a reduced rate. Partial data for the fourth quarter suggest that bank deposits in the United Kingdom and United States were reduced by $5 billion, with investments in those countries unchanged overall.

International banking and capital markets

An article on page 43 describes international banking developments in the third quarter of 1982, and in the preceding year. It includes material from the latest BIS release (for end-June 1982) on the maturity of lending, as well as from the latest quarterly release on international banking developments in general.[1]

London market (fourth quarter 1982)[2]

Foreign currency

In the fourth quarter, the London eurocurrency market, as measured by gross foreign currency assets of UK banks, contracted by $8 billion. This follows a $44 billion increase in the third quarter. The contraction was essentially in inter-bank activity: business between UK banks fell by $3 billion—apparently more than accounted for by unwinding of end-half-year positions by Japanese banks—

(1) A table showing external business of banks in the BIS reporting area and offshore centres can be found on page 46. Geographical details of outstanding deposits and lending are given in Table 13.1 of the statistical annex, and a new table (13.2) gives information from the BIS half-yearly release on maturity and unused credits.

(2) All transactions data in this section exclude the estimated effects of exchange rate fluctuations and so may not correspond to differences between amounts outstanding.

and lending to banks overseas fell by $11 billion, of which $3 billion was lending to own offices overseas.[1] Lending to non-banks in the UK and overseas increased.

Overseas lending fell in total by $5.8 billion. The main fall (other than in inter-bank business) was in lending to oil exporting countries (—$2.3 billion); lending to developing countries rose slightly (by $0.2 billion).

Deposits from overseas also fell, by $5.2 billion. Oil exporting countries (— $3.5 billion) and European countries outside the BIS area (—$1.8 billion) reduced their deposits —Spain withdrawing $1.4 billion. On the other hand, deposits from the non-oil developing countries increased slightly ($0.5 billion).

UK banks' foreign currency liabilities and assets by customer[a]

$ billions

	1981	1982			
	31 Dec.	31 Mar.	30 June	30 Sept.	31 Dec.
Foreign currency liabilities of UK banks to:					
Other UK banks	143.1	158.6	140.6	159.9	158.3
Other UK residents	19.2	18.8	19.9	20.9	20.5
Overseas central monetary institutions	53.4	51.0	43.1	50.5	43.6
Own offices overseas(b)	65.2	66.4	63.9	71.9	77.8
Other banks overseas	205.0	216.5	220.3	231.8	229.2
Other non-residents	93.3	94.0	90.6	94.7	97.8
Other liabilities(c)	10.4	9.1	8.4	7.7	7.8
Total liabilities	**589.6**	**614.4**	**591.8**	**637.4**	**635.1**
Foreign currency assets of UK banks with:					
Other UK banks	140.4	156.5	138.3	156.0	154.5
Other UK residents	23.6	24.6	25.4	26.7	28.1
Own offices overseas(b)	127.3	132.8	129.4	144.3	141.7
Other banks overseas	166.4	169.0	165.5	170.3	166.6
Other non-residents	114.2	114.1	115.5	119.3	123.3
Other assets(c)	17.9	17.9	17.3	18.7	19.1
Total assets	**589.8**	**613.8**	**591.4**	**635.3**	**633.3**

(a) The reporting population is broader than the UK monetary sector (see the 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) Data available from UK monetary sector only.
(c) Mainly capital and other internal funds on the liabilities side and investments on the assets side.

Statistics for mid-February indicate that business in aggregate remained fairly flat after the end of the fourth quarter (as did the business of US International Banking Facilities).

The maturity analysis of UK banks' foreign currency claims and liabilities at mid-November 1982 is shown in Table 14.2 in the statistical annex. Short-term (less than six months) net liabilities of banks in the United Kingdom (expressed as a percentage of total business) increased, from 25.2% at mid-August to 26.6% at mid-November, with all bank groups increasing their short-term mismatched positions; the increase was particularly notable at the very short end (see page 58).

Sterling
The growth in UK banks' sterling liabilities to overseas residents slowed in the fourth quarter: they rose by only £0.6 billion, the increase being more than accounted for by deposits from commercial banks overseas. Over the whole of 1982, banks' external sterling liabilities increased by 32% (£4.6 billion), compared with a 21% increase in 1981.

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			
	31 Dec.	31 Mar.	30 June	30 Sept.	31 Dec.
BIS reporting area:					
European area	+ 2.2	+ 2.4	+ 8.7	+11.1	+11.1
Canada	+ 1.5	+ 1.8	+ 1.7	+ 1.9	+ 2.6
Japan	+16.6	+17.0	+14.9	+14.3	+14.9
United States	−34.6	−41.0	−47.4	−52.4	−55.0
Offshore banking centres	+ 9.6	+10.7	+ 6.1	+ 4.4	+ 2.2
Other Western Europe	+11.3	+11.8	+12.1	+11.7	+14.0
Australia, New Zealand and South Africa	+ 6.7	+ 7.5	+ 8.7	+ 8.8	+ 9.4
Eastern Europe	+11.2	+10.2	+10.0	+ 9.5	+ 8.0
Oil exporting countries	−42.8	−41.1	−34.7	−33.6	−32.4
Non-oil developing countries	+22.5	+23.3	+22.0	+22.2	+21.8
Others(b)	−15.6	−16.8	−17.2	−15.5	−16.0
Total	**−11.4**	**−14.2**	**−15.1**	**−17.6**	**−19.4**

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

The growth of UK banks' sterling lending overseas was again strong in the fourth quarter, rising by £1.1 billion. This increase was almost entirely in loans and advances to non-banks, with acceptance lending showing no change. Over the whole year sterling lending overseas has increased by 28%—roughly the same rate as in 1981 (26%).

UK banks' external sterling liabilities and assets by customer[a]

£ billions

	1981	1982			
	31 Dec.	31 Mar.	30 June	30 Sept.	31 Dec.
UK banks' sterling liabilities to:					
Overseas central monetary institutions(b)	1.2	1.5	1.3	1.5	1.5
Own offices overseas	1.7	1.8	1.9	2.1	2.2
Other banks overseas	4.3	4.6	5.5	5.7	6.3
Other non-residents	7.4	8.2	8.7	9.3	9.1
Total liabilities	**14.6**	**16.1**	**17.4**	**18.6**	**19.2**
UK banks' sterling assets:					
Loans and advances to:					
Own offices overseas	1.2	1.1	1.3	1.3	1.4
Other banks overseas	3.0	3.2	2.5	2.9	3.1
Other non-residents	1.7	2.0	2.4	2.9	3.5
Bills	5.0	5.0	5.1	5.2	5.4
Acceptances	1.5	2.2	2.0	2.5	2.5
Total assets	**12.4**	**13.5**	**13.3**	**14.8**	**15.9**

(a) The reporting population is broader then the UK monetary sector (see the additional notes to Tables 16.1 and 16.2).
(b) Includes international organisations.

Eurosterling
In contrast to the contraction in the previous quarter the eurosterling market grew slightly in the third quarter of 1982. The main participants continued to be UK banks and other Western European customers, with UK non-banks, who are small net providers of funds, accounting for less than 10% of outstanding business.

(1) Business with the banks' own offices overseas, previously included indistinguishably within total business with banks overseas, is separately identified for the first time in the accompanying table (and in the similar table on sterling business).

Eurosterling market[(a)]

£ billions

	1981		1982		
	30 Sept.	31 Dec.	31 Mar.	30 June	30 Sept.
Deposits by:					
UK banks	3.3	3.3	3.6	2.8	3.2
UK non-banks	1.0	1.0	0.9	1.0	1.0
Other Western Europe	5.4	5.5	5.6	5.0	5.3
Oil exporting countries	1.0	0.8	0.7	0.6	0.6
Other	1.5	1.7	1.4	1.5	1.4
Total	**12.2**	**12.3**	**12.2**	**10.9**	**11.5**
of which, CMIs	*0.7*	*0.6*	*0.4*	*0.4*	*0.3*
Lending to:					
UK banks	3.2	3.4	3.6	3.7	3.9
UK non-banks	0.7	0.7	0.6	0.6	0.6
Other Western Europe	5.3	5.0	5.0	4.6	5.0
Other	1.4	1.2	1.0	0.9	0.8
Total	**10.6**	**10.3**	**10.2**	**9.8**	**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.

International bank credits[(1)]

Announced international bank credits fell sharply to a low level in the fourth quarter of 1982, but recovered slightly at the start of 1983.[(2)] Credits announced in the fourth quarter were half the total for the third quarter, with December a particularly inactive month. Increased announcements in January mainly reflected two loans, $1.3 billion for Denmark and $1 billion for Indonesia. Of the $5.9 billion announced in February, $3 billion was raised in the first week, once again comprising a few very large loans.

This pattern of 'jumbo' loans by sovereign borrowers suggests a desire to tap the market early to avoid risks over future conditions in the market and perhaps further rises in spreads.

Announced new medium-term eurocurrency credits[(a)]

$ billions

	1980	1981	1982			1983	
	Quarterly average			Q3	Q4	Jan.	Feb.
Major OECD countries	5.2	17.7(b)	6.1	7.9	2.4	0.4	0.5
Minor OECD countries	4.7	3.5	4.3	4.3	2.5	1.4	2.8
Oil exporting countries	3.2	3.2	3.7	4.4	2.7	1.3	0.5
Developing countries	6.5	8.9	8.1	5.1	3.7	0.8	1.9
of which:							
Newly industrialised countries(c)	*2.7*	*3.5*	*3.1*	*2.7*	*2.0*	*0.2*	*0.7*
Net oil exporting countries(d)	*1.7*	*2.5*	*3.2*	*1.1*	*0.7*	*0.1*	*0.5*
Other developing countries	*2.1*	*2.9*	*1.8*	*1.3*	*1.0*	*0.5*	*0.7*
Other borrowers	0.8	0.4	0.5	0.9	0.1	0.2	0.2
Total	**20.4**	**33.7**(b)	**22.7**	**22.6**	**11.4**	**4.1**	**5.9**

(a) For the first time in the *Bulletin*, these data cover original maturities of one year and over—see footnote (1).

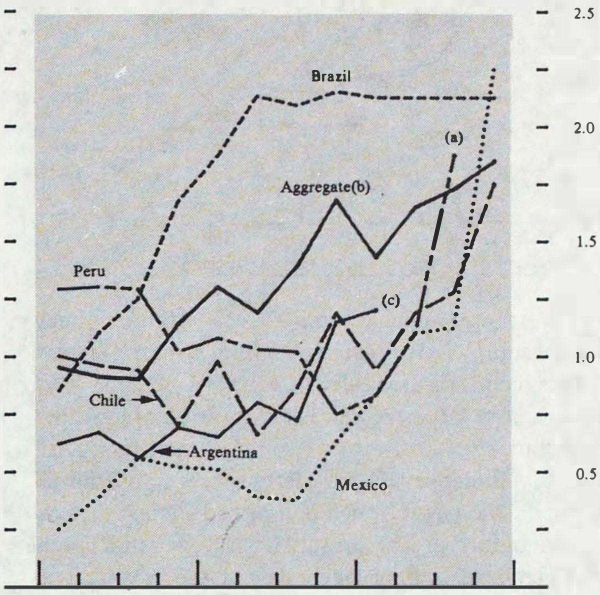
(b) $41 billion in 1981 related to takeover activity in North America.

(c) Mainly Argentina, Brazil and South Korea.

(d) Mainly Mexico and Malaysia.

The banks have become more cautious in their international lending, particularly since the Mexican debt problems emerged in August 1982, and this has tended to increase spreads paid by several borrowers, not just non-oil developing countries. For example, the recent loan for Denmark carried spreads of $\frac{1}{2}$%–$\frac{5}{8}$% over LIBOR, $\frac{1}{8}$% higher than was typical for this borrower less than a year ago, and a loan of comparable size for Sweden announced in February was priced at $\frac{1}{2}$% over LIBOR, also a slight increase in spread.

Latin America



(a) Peru has not borrowed in the relevant categories since 1982 Q3.

(b) Excluding terms on rescue packages.

(c) Argentina has not borrowed in the relevant categories since 1982 Q1.

Oil exporting countries borrowed $1.3 billion in January (compared with $0.9 billion in December) with Indonesia accounting for most of this. The less favourable prospects for many oil exporting countries, and for countries in the Asian region, has also widened spreads for some of these borrowers. Thus Indonesia paid $\frac{1}{2}$% over LIBOR compared with $\frac{3}{8}$% on earlier borrowings, and South Korea recently paid $\frac{5}{8}$% over LIBOR compared with a more typical spread on its loans during the past year of $\frac{1}{2}$%.

Borrowing by the developing countries was still at a very low level—loans totalling $0.7 billion were announced in December and $0.8 billion in January—compared with the monthly average in the first half of 1982 of $3.9 billion. The absence of major borrowers such as Brazil and Mexico has had a marked effect on the total.

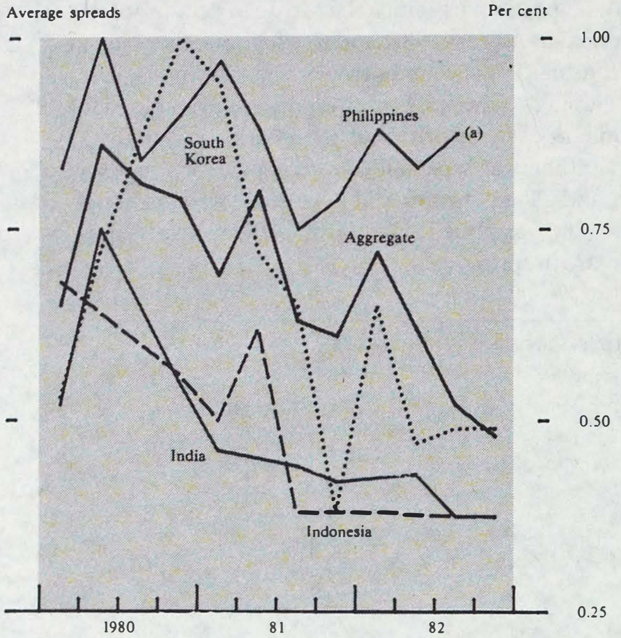
International bonds and notes[(1)]

The *fixed rate bond* market remained very buoyant in the fourth quarter of 1982, encouraged by the downward path

(1) The data in this issue have been extended to cover public announcements of credits and bonds with original maturities of one year and over. This change has added about 20% to the figures for 1982 for announced international bank credits. In addition, note issuance facilities (medium-term lines of credit, underwritten by banks and evidenced by the issue of short-term notes which are sold to investors) are now included within the total bond figure.

(2) The data in the text and those in the table do not include the new money which has accompanied some of the recent rescheduling agreements, discussed in more detail in the article on page 43. The chart does, however, include the terms on these loans, as well as those arranged in normal ways, for individual countries.

Asia



(a) The Philippines have not borrowed in the relevant categories since 1982 Q3.

of US interest rates in the autumn. Over $14 billion of new issues were completed of which $6 billion were in October alone. This record rate was almost equalled again in January when $3 billion of new issues were completed in one week; but with short-term US interest rates rising in mid-January, underwriters were left holding a substantial amount of unsold paper, much of it priced against the assumption of further interest rate falls. New issues reached a similar high level in February—despite the overhang of unsold paper—stimulated by renewed expectations of falling interest rates.

Sweden made a $1 billion *floating rate note* issue in January 1983, later increased to $1.2 billion, and, with France, accounted for most of the activity in this market. There are some signs that the market is now being used as an alternative to the syndicated credits market, particularly for new issues by sovereign or state guaranteed non-bank borrowers.

Completed international bond issues[a]

$ billions

	1980	1981	1982	1982		1983	
	Quarterly average			Q3	Q4	Jan.	Feb.
By borrower:							
OECD	6.5	8.2	14.6	12.7	13.3	6.8	4.9
International institutions	1.7	2.1	2.8	3.7	2.9	0.7	0.7
Other	0.5	1.0	1.1	0.8	0.9	0.1	0.1
Total(b)	**8.8**	**11.3**	**18.5**	**17.2**	**17.1**	**7.6**	**5.7**
of which:							
Banks	..	*2.3*	*4.2*	*4.0*	*3.8*	*2.1*	*1.4*
Other private corporations	..	*4.2*	*6.1*	*5.1*	*4.7*	*1.8*	*2.2*
State enterprises	..	*1.3*	*2.6*	*2.4*	*3.1*	*1.0*	*0.7*
Governments	..	*1.6*	*2.8*	*2.1*	*2.3*	*2.0*	*0.7*
International institutions	..	*2.1*	*2.8*	*3.7*	*2.9*	*0.7*	*0.7*

.. not available.

(a) For the first time in the *Bulletin*, these data cover original maturities of one year and over. The table includes euro and foreign issues, both fixed and floating rate, publicised private placements, and, for the first time, note issuance facilities. It excludes Canadian borrowing in New York.

(b) Components may not add to totals because of rounding.

There was a surge of interest in *partly paid* bond issues in the fourth quarter of 1982, which continued into January. Typically, terms were an initial payment of 10%–30%, with the balance due after six months. The market in *equity-linked paper* remained firm. Prospects for *zero coupon bonds* improved when Japan lifted its ban on domestic sales, although some restrictions were retained. Investors were also attracted to the bond market by features such as lenders' options to redeem after shorter than normal periods—only 100 days for the Northern Telecom issue in January.

Foreign exchange and gold markets

(Mid-November to end-February)

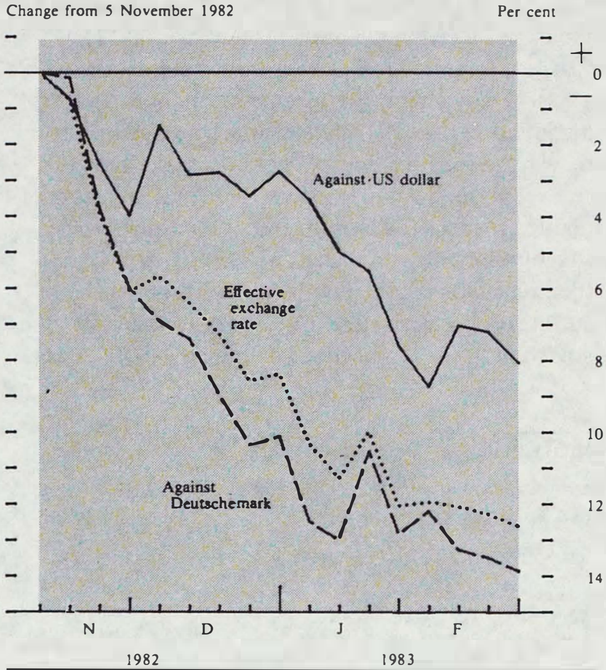
Sterling started to fall sharply in mid-November and steadied only briefly when interest rates rose at the end of November. It fell further in December with renewed uncertainty over oil prices, and was only temporarily relieved by the rise in interest rates in early January. A period of stability which followed was disturbed towards the end of February by further uncertainty over oil prices. The dollar also weakened in the first half of the period but started to recover towards the end of January; movements in interest rates were the main reasons for the fluctuations in the dollar. The periods of weakness in the dollar added to strains on the EMS with the deutschemark generally strong. Gold rose by 25% over the period to mid-February before falling back very sharply towards the end of the month.

Sterling

Sterling opened on 18 November at $1.5992, DM 4.10 and 87.6 in effective terms, having fallen sharply over the previous three days as a result of a number of adverse factors; these included the growing concern that sterling was overvalued, the Industry Act forecast which indicated an end to the current account surplus in 1983, and suggestions that oil prices might decline. Hopes of a cut in US discount rate, and a statement by the Chancellor of the Exchequer that the Government was determined to maintain the firm monetary conditions conducive to success in the fight against inflation, helped sterling recover slightly to close at $1.6211, DM 4.12¼ and 88.4 in effective terms on 19 November. However, press reports that the Government was prepared to contemplate a further fall in the value of sterling led to renewed pressure on the pound on 22 November. This pressure resumed when the Opposition published its economic programme calling for a large devaluation. By the morning of Friday 26 November sterling had fallen to $1.5695 and 84.9 in effective terms. At this point, higher sterling inter-bank rates began to steady the pound and it had recovered by about one per cent when the clearing banks started to announce increases in their base rates to 10%–10¼%. It moved up quickly to $1.6080, but settled back slightly to close at $1.5970 and 86.4 in effective terms. For the rest of the month sterling traded quietly and closed November at $1.6146, DM 4.00¾ and 86.7.

In early December sterling rose against a weak dollar, to a high of $1.6449, and to 87.1 in effective terms, despite

Sterling exchange rates



easing back against the stronger continental currencies. But it weakened sharply on 6 December on a report that UK export trade with Saudi Arabia might be in jeopardy, falling to $1.6280, DM 3.94 and 86.0 in effective terms. Saudi Arabia announced the following day that it would hold the oil price at $34 and this gave sterling some support, as did higher inter-bank rates and rumours of a further increase in base rates. Sterling continued to trade nervously around these levels, and weakened when market sentiment became more bearish about the prospects for oil prices as the OPEC meeting on 18/19 December approached. A further statement appeared to imply that Saudi Arabia was not wholly committed to a $34 oil price and contributed to sterling's fall on 17 December to $1.6170, DM 3.90 and 85.3 in effective terms. Though the outcome of the OPEC meeting gave the pound a brief boost, sterling remained weak.

Good trade figures published on 23 December had no apparent effect and sterling closed on that day at $1.5960, DM 3.83 and 83.7 in effective terms. The weakness of the dollar then helped it to recover slightly towards the end of December and it closed the month at $1.6175, DM 3.85 and 84.3.

Sentiment continued bearish over oil prices at the beginning of the New Year and sterling weakened further. Another bout of selling followed publication on 5 January of figures showing an unexpectedly large fall in the UK official reserves. Market rumours that there might be an early general election created uncertainty, adding to the pressure on sterling which fell to $1.5675, DM 3.68 and 80.6 by the close on 11 January. Money-market rates rose further, and after the close of business in London, a number of clearing banks raised their base rates to 11%, enabling sterling to recover to $1.5860 the following morning (81.4 in effective terms).

Sterling then enjoyed a quiet spell and by 21 January it had risen to DM 3.83 and 82.8 in effective terms, although it eased back to $1.5715 against the stronger dollar. At the beginning of the following week the OPEC conference failed to agree on production levels and price differentials, and Saudi Arabia forecast that North Sea oil prices would shortly be cut: sterling fell further, to a low against the dollar of $1.5175 (DM 3.73½ and 80.8 in effective terms) on 25 January, when Abu Dhabi was reported to be intending to increase its oil production. It recovered slightly to close at $1.5410, DM 3.73½ and 81.0. Subsequently, sterling was relatively stable in effective terms, and gained a little ground against the continental currencies, but it fell back against the stronger dollar to close the month at $1.5254, DM 3.74¾ and 80.9.

Sterling entered a more stable phase in early February. It changed little in effective terms, despite falling early in the month to a new all-time low against the strong dollar—reaching $1.5105 in New York on 2 February. For the next few weeks it traded steadily, gaining against the dollar which eased back, and slipping back against continental currencies, closing on 18 February at $1.5435, DM 3.70½ and 80.7 in effective terms. News of a cut of $3 in the price of North Sea oil was absorbed without difficulty.

When Nigeria announced a cut of $5½ in its oil price, followed by rumours that oil producers in the Gulf might decide on an even larger cut, sterling again came under pressure. It fell to $1.5207, DM 3.66 and 79.7 in effective terms by the close on 22 February. Hopes that an OPEC agreement might resolve the uncertainty surrounding oil prices enabled sterling to recover by the end of the month to 80.2 in effective terms and DM 3.68¾, despite falling against the strong dollar to $1.5155.

Official reserves
In the four months to end-February 1983, there was an underlying fall in the reserves of $1,738 million. The quarterly renewal of the EMCF swap gave rise to a valuation gain of $211 million.

Changes in UK official reserves

$ millions

	1982		1983	
	November	December	January	February
IMF oil facility repayment	—	—	− 57	—
Other HMG capital repayments	—	− 129	—	—
EMCF swap valuation	—	—	+211	—
Exchange cover scheme:				
Borrowing	+ 13	—	+114	+ 12
Repayments	−148	− 24	− 52	−117
Other (underlying changes in reserves)	−352	− 856	−359	−171
Total change in reserves (including valuation change)	**−487**	**−1,009**	**−143**	**−276**
Level of reserves (end of period)	**18,006**	**16,997**	**16,854**	**16,578**

US dollar
Interest rates in the United States eased over the first two days of the period in anticipation of the ½% cut in discount rate, to 9%, which was announced on 19 November. The dollar moved in line, continuing the decline which had begun in early November. After the cut was announced, a

further slight easing in interest rates occurred but, although this did not persist, the dollar, after a brief pause, maintained its downward path. Following an official suggestion that the United States might have a $75 billion trade deficit in 1983, the market focussed increasingly on the deteriorating prospects for the US current account, and publication on 26 November of a large US trade deficit hastened the decline. Having opened on 18 November at DM 2.5635, ¥261.30 and 125.3 in effective terms, the dollar ended the month at DM 2.4818, ¥252.08 and 122.5.

The downward movement of the dollar gained momentum early in December as US interest rates eased further. The fall was also assisted by suggestions from the President of the Bundesbank that a major shift in exchange rates could be under way and by expectations of a cut in US discount rate. The dollar closed on 7 December at DM 2.4132, ¥242.30 and 120.2 in effective terms. However, after a few days, hopes for a further early fall in the US discount rate faded. End-year factors began to have an effect, and interest rates edged back up, the dollar moving with them to reach DM 2.4700, ¥246.50 and 122.0 in effective terms by the close in London on 13 December. The $\frac{1}{2}$% cut in discount rate, to $8\frac{1}{2}$%, announced later that day took the market unawares and the dollar fell back sharply. With market interest rates easing, the dollar fell to DM 2.3707, ¥232.87 and 118.1 in effective terms by the close on 29 December before a small end-year rally took it back to DM 2.3805, ¥235.50 and 118.5.

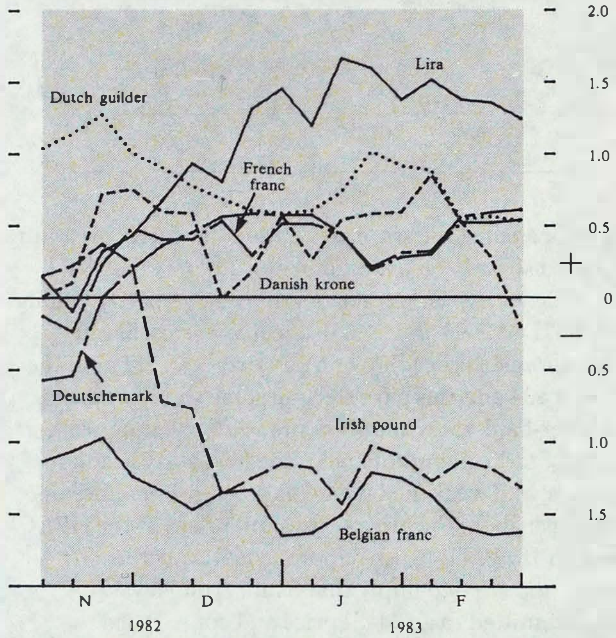
The dollar began January sharply lower, reacting to an increase in unemployment which strengthened expectations of further reductions in official interest rates. Market interest rates did ease further and the dollar closed on 10 January at DM 2.3316, ¥227.10 and 116.4 in effective terms. However, the discount rate cut did not materialise and hopes for it faded. Subsequently, concern about the US budget deficit caused market rates to rise, as did some tentative signs of a recovery in the US economy. The attractions of the dollar increased with fears of an inconclusive outcome to the West German election and it rose to DM 2.4735, ¥240.75 and 121.4 by the close on 24 January, before easing back to close the month at DM 2.4562, ¥239.07 and 121.0.

The dollar continued to strengthen in early February, reaching DM 2.4870, ¥241.63 and 122.1 in effective terms. However, growing hopes of a clear-cut result in the West German election and that there might be further leeway for interest rates to ease back, caused the dollar to weaken; it closed on 15 February at DM 2.3970, ¥232.62 and 118.7 in effective terms. Though statements by the Federal Reserve Chairman made it clear that a reasonably flexible monetary policy would continue to be followed, consideration of the implications that weakness in oil prices could have for some heavily indebted borrowers, and the favourable effects of lower oil prices on US inflation, then caused the dollar to recover. It closed on 28 February at DM 2.4335, ¥237.72 and 120.6 in effective terms.

Other currencies
The fall in the dollar aggravated the pressures which the EMS had experienced in the previous few months. The narrow band was nearly fully stretched for almost the whole period. Assisted by an improving current account and declining inflation rate, the deutschemark moved up within the narrow band in November. Other currencies did likewise, except the Belgian franc, isolated at the bottom of the system: at the top, the Dutch guilder continued to be supported by a large current account surplus. With a strengthening currency, the Danish authorities cut their discount rate by 1% with effect from 30 November, but the krone still went to the top of the system by the close on that day.

EMS parity grid

Percentage deviation from adjusted central rate



Pressures on the system increased further in December amid rumours of an imminent realignment. A 1% cut in West German official interest rates announced on 2 December (a $\frac{1}{2}$% cut in Dutch rates was also announced on that day) was interpreted as a sign of confidence and the deutschemark strengthened further. Though under some pressure, the French franc held steady against the mark and statements by the French and West German finance ministers allayed fears of a further realignment in the near future. The Irish pound, which had weakened on political uncertainties, briefly replaced the Belgian franc at the bottom, while the guilder and Danish krone alternated at the top. The narrow band became less stretched in the week before Christmas. Towards the end of the month the French franc and then the deutschemark moved briefly to the top of the narrow band.

From mid-January, a stronger dollar helped to ease the pressure on the system. The deutschemark, after starting the month at the top of the system, weakened on expectations of a further cut in official interest rates and concern that the approaching West German election might not produce a clear-cut result. The French franc's rate against the deutschemark was maintained with greater ease than hitherto. The guilder and Danish krone alternated at the top of the narrow band, while the Belgian franc and the Irish pound took turns at the bottom. The Dutch authorities took advantage of the continuing strength of the guilder to cut their official interest rates by a further $\frac{1}{2}$% from 13 January.

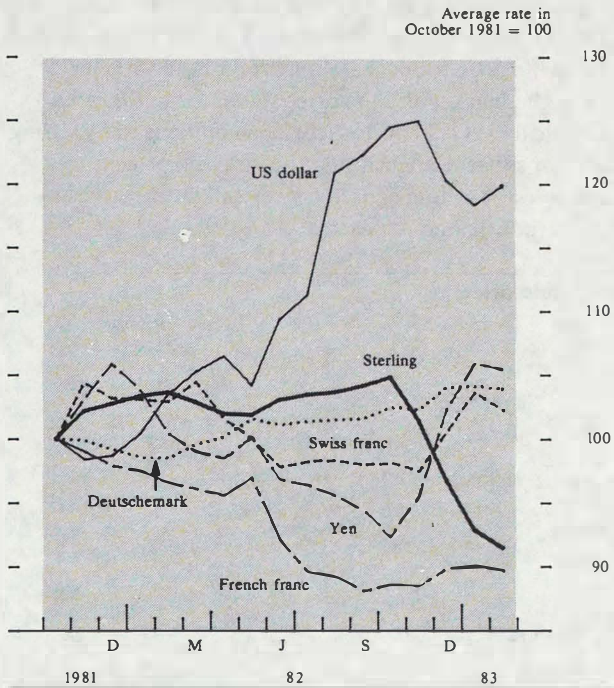
Pressure on the system revived early in February. As the dollar weakened and prospects improved for a decisive election result in West Germany, the deutschemark strengthened and pressure again affected the French franc. Except for one day, when it was briefly replaced by the Irish pound, the Belgian franc continued at the bottom of the narrow band which was again fully stretched. The guilder and deutschemark alternated at the top apart from two days early in February when the Danish krone went to the top, before slipping back towards the middle of the narrow band. On 28 February, the Dutch authorities announced a further $\frac{1}{2}$% cut in their official interest rates, effective from 1 March.

The lira began the period near the middle of the narrow band but rose towards the top as November progressed, and continued to strengthen during December. Towards the end of December measures were announced tightening fiscal and monetary policy, and the lira rose through the top of the narrow band to $2\frac{1}{4}$% above the bottom currency by end-December. Though occasionally sinking back to within the narrow band, it generally traded in a range a little over $2\frac{1}{4}$% above the bottom currency during January and February, assisted by news of a revision of the wage indexation system.

The yen strengthened considerably in the first part of the period as the market focussed on the prospect of a very large current account surplus in 1983. Starting at ¥261.30 it rose to ¥252.08 by end-November, supported by long-term capital account inflows. It rose further, to ¥235.50, by the end of December, and peaked at ¥227.10 on 10 January before closing the month at ¥239.07. It fell back a little further in early February but then recovered as the dollar weakened to close at ¥232.62 on 15 February, before falling again to ¥237.72 by the close on 28 February.

The Swiss franc also rose strongly against the dollar. Opening at Sw. Fcs 2.1980, it rose to Sw. Fcs 2.1320 by the end of November. Though the Swiss authorities cut their discount rate by $\frac{1}{2}$% on 2 December, at the same time that other European interest rates were cut, the franc continued to strengthen, closing December at Sw. Fcs 2.0130 and at Sw. Fcs 1.9187 on 10 January. It also began to strengthen against the deutschemark, where it had previously traded around Sw. Fcs 0.85 but rose to over Sw. Fcs $0.81\frac{3}{4}$ by 21 January despite cuts in commercial banks' deposit rates. A public expenditure package to stimulate the economy was announced on 31 January causing the currency to weaken; having closed on 31 January at Sw. Fcs 2.0060 and Sw. Fcs $0.81\frac{3}{4}$ it fell steadily against the deutschemark in February

Indices of effective exchange rates



to close at Sw. Fcs $0.84\frac{3}{4}$ on 28 February, weakening also against the dollar to Sw. Fcs 2.0600.

The Norwegian krone strengthened against the dollar but fell back slightly in effective terms over the period. The Swedish krona gained steadily against the dollar but weakened in effective terms both in the second half of November and in December. It continued this trend into early January, but fell back, both against the dollar and in effective terms, after the 1% cut in discount rate announced on 20 January. The krona rose a little then fell back again against the dollar in February but was stable in effective terms.

The Canadian dollar continued to be supported by a strong current account and the authorities sought to lower interest rates. After easing back against the US dollar and in effective terms in late November it continued to fall in effective terms in December, though recovering slightly against the US dollar later in the month. It strengthened in effective terms in January but eased back against the US currency. In early February it continued to strengthen in effective terms and also gained against the US dollar, before steadying in the second half of the month both against the US dollar and in effective terms.

Gold

Fluctuations of the US dollar and of US interest rates were the main influences on gold during the first part of the period. From $409.25 at noon on 18 November, the gold price rose to $458.15 on 7 December, as the dollar and US interest rates fell back, but then eased back to $438.75 by 13 December as the US currency recovered. Shortly after the cut in discount rate on 13 December, the gold price rose as the US dollar and interest rates fell further. By 10 January, when the dollar bottomed out, the price had risen to $474. From this point on, its fortunes were influenced by other factors—renewed concern about the international banking system, and significant institutional interest, both helped push the price up. By 17 January it had reached $498.50. Producer selling around the $500 level stabilised the market and the price remained in this area until it rose to $511.50 on 15 February, influenced by strong demand for silver. Concern that the weak oil price might prompt investor selling caused a steep fall in the price at the end of the month, and it closed at $408.50.

London gold price