International financial developments

The growth of international bank lending has slowed down over the past year, particularly, although not exclusively, to the less developed countries (LDCs). New credit announcements were very low early in 1983 although a considerable amount is being lent in association with rescheduling agreements. Increased financial pressures on LDCs have led to a sharp decline in their imports of goods and services, and, as LDCs account for around 20% of OECD exports, this has further weakened the economies of the industrialised world and was a significant factor behind the decline in world trade last year.

A number of international gatherings[1] *have stressed the importance not only of avoiding an abrupt contraction in the flow of finance to LDCs, but of ensuring, through trade liberalisation and world economic recovery, adequate growth of export markets particularly for those developing countries who are adjusting their domestic economies under IMF programmes. A major development helping to ease the financial pressures on the non-oil exporting LDCs and supporting activity in the industrialised world has been the decline in oil prices.*

In the foreign exchange markets, sterling weakened in the first three months of 1983 but, by the end of May, had recovered about three-quarters of the fall since last November. In effective terms, both the dollar and the yen were more stable than in recent years. The EMS was realigned in March.

The role of intervention in the foreign exchange markets was the subject of a report[2] *published in April which concluded that intervention had been an effective tool particularly in influencing exchange rates in the short run, that it had a more durable impact when combined with domestic policy changes, but that it did not allow countries to meet exchange rate objectives inconsistent with fundamental economic trends.*

International balance of payments

It is not possible to say with confidence what has been happening to world current account positions as there is a large discrepancy[3] between the current balances of the main country groups. Virtually all of these groups appear now—inconsistently—to be in deficit (see table). The world payments discrepancy in 1982, of $95 billion, is equivalent to about 5% of world trade.

Current account summary

$ billions; *seasonally adjusted*

	1981	1982			1983
	Year	Year(a)	Q3	Q4(a)	Q1(a)
Total OECD	– 30	– 31	– 10	– 7	– 8
of which:					
Major countries(b)	*– 3*	*– 6*	*– 5*	*– 2*	*– 2*
Other	*– 27*	*– 25*	*– 5*	*– 5*	*– 6*
Oil exporting countries	59	4	1	5	– 7
Other developing countries	– 81	– 67	– 15	– 11	– 11
Other countries(c)	– 11	– 1	—	1	1
World discrepancy(d)	– 63	– 95	– 24	– 12	– 25

(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.

Oil exporting countries

With oil demand weak, the oil exporters' current account surplus was largely eliminated last year. In the second half of the year there was a small aggregate surplus, as a number of countries, notably Libya, Nigeria and Iran cut imports sharply. In the fourth quarter, there was also a small recovery in exports. In the first quarter of 1983, the current account appears to have moved into deficit. Exports fell sharply, while imports were virtually unchanged. Export volume fell—in the first quarter oil production was 22% below the corresponding period in 1982, and under 50% of capacity—and falling prices also contributed to the fall in export earnings.

Preliminary information for the first quarter of 1983—a reduction of $6 billion in deposits and investments in the United States and the United Kingdom—suggests that the oil exporters' deficit could have been transmitted into a reduction in assets. In 1982, by contrast, the much reduced current balance was augmented (except in the fourth

(1) Including the Development Committee of the World Bank and IMF, the meeting of trade and finance ministers in Paris, and the Williamsburg summit.

(2) By a study group set up after the Versailles summit (the Jurgensen Group). Finance ministers of the seven largest industrialised countries endorsed the main conclusions of the report, which was also considered at the Williamsburg summit.

(3) The world current payments discrepancy was discussed in the September 1982 *Bulletin*, page 356.

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

$ billions

	1981	1982			1983
	Year	Year	Q3	Q4	Q1(a)
Exports	284	233	57	60	48
Imports	161	160	38	38	37
Merchandise trade	123	73	19	22	11
Net invisibles	− 64	− 69	−18	−17	−18
of which, official transfers	*− 4*	*− 4*	*− 1*	*− 1*	*− 1*
Current balance	**59**	**4**	**1**	**5**	**− 7**
Net movements in external borrowing etc(b)	6	14	6	—	..
Surplus available for investment	**65**	**18**	**7**	**5**	**..**

.. not available.

(a) Provisional.

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

quarter) by external borrowing and changes in outstanding export credit on oil shipments which brought the total cash surplus for investment in the year to $18 billion, albeit only just over a quarter of the preceding year's amount. Identified capital movements in the fourth quarter show oil exporting countries to have reduced their deposits with banks in the United Kingdom, United States and other industrialised countries by a total of $7 billion. Investment in the United States and United Kingdom rose by $0.5 billion, with a reduction in longer-term investment partly offsetting a movement into US Treasury bills; and present estimates suggest that investments in other industrialised countries were reduced for the first time, by $1.5 billion.

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

$ billions

	1981	1982			1983
	Year	Year	Q3	Q4	Q1(b)
United Kingdom:					
Sterling bank deposits	0.4	1.3	0.2	0.3	−0.1
Eurocurrency bank deposits	7.8	− 9.4	1.1	− 4.0	−3.4
British government stocks	0.9	− 0.4	−0.3	− 0.2	−0.2
Treasury bills	—	− 0.1	—	—	—
Other sterling placements	0.2	− 0.6	−0.2	− 0.2	−0.1
Other foreign currency placements	—	—	—	—	0.1
	9.3	− 9.2	0.8	− 4.1	−3.7
United States:					
Bank deposits	− 2.0	4.4	−1.0	− 1.4	−0.7
Treasury bonds and notes	10.9	6.9	1.5	0.1	−0.8
Treasury bills	− 0.5	0.4	—	1.1	−0.4
Other portfolio investment	4.6	− 0.4	0.1	− 0.9	−0.4
Other	3.3	1.7	0.3	0.6	..
	16.3	13.0	0.9	− 0.5	..
Bank deposits in other industrialised countries	− 5.1	−12.8	−3.7	− 2.1	..
Other investment in other industrialised countries(c)	19.4	6.6	2.2	− 1.5	..
IMF and IBRD(d)	2.4	2.0	0.6	1.3	−0.4
Loans to developing countries	7.2	3.9	0.6	0.7	0.1
Total identified deployed net cash surplus	**49.5**	**3.5**	**1.4**	**− 6.2**	**..**
Residual of unidentified items(e)	15.5	14.5	5.6	11.2	..
Total net cash surplus derived from current account (as shown in the previous table)	**65**	**18**	**7**	**5**	**..**

.. 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. See the additional notes to Table 16.1 in the statistical annex in the March *Bulletin* for a list of oil exporting countries.

(b) Preliminary.

(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.

Less developed countries

The developing countries' deficit was significantly reduced from $81 billion in 1981 to $67 billion in 1982. Falling demand for these countries' products, especially primary commodities, halted the growth in their export volume (for the first time since 1975) and weakened further their terms of trade. But facing severe financing pressures, they achieved a substantial cut—over 7%—in their volume of imports, which more than offset the fall in export revenue. This year commodity prices have recovered (see page 160), but it is not yet clear whether this has been reflected in higher export receipts.

Developing countries' balance of payments

$ billions; *not seasonally adjusted*

	1981	1982				
	Year	Year(a)	Q1	Q2	Q3	Q4(a)
Current account	−81	−67	−20	−18	−16	−13
Capital account	78	49	15	15	11	8
of which:						
Concessionary and other official flows	*24*	*22*	*6*	*5*	*5*	*6*
Direct investment	*12*	*9*	*3*	*2*	*2*	*2*
Borrowing from banks(b)	*40*	*20*	*3*	*13*	*− 1*	*5*
Borrowing via bond issues	*4*	*3*	*1*	*1*	*1*	*—*
Other capital flows	*− 2*	*− 5*	*2*	*− 6*	*4*	*− 5*
Official financing balance	3	18	5	3	5	5
of which:						
Use of Fund credit	*6*	*4*	*—*	*1*	*1*	*2*
Liabilities to other CMIs	*—*	*4*	*—*	*—*	*1*	*3*
Reserves(b) etc (increase−)	*− 3*	*10*	*5*	*2*	*3*	*—*

(a) Includes estimates/forecasts.

(b) Adjusted to exclude valuation effects.

Net capital inflows declined by $29 billion last year, most notably bank borrowing. With private sector finance difficult to obtain, developing countries have made much greater use of official sources of finance than before. Reserves were drawn down to an unprecedented extent in 1982 and temporary finance was provided by the monetary authorities of a number of countries (partly through the BIS). Towards the end of the year, borrowing from the IMF also increased, and accelerated in the first quarter of 1983 with larger countries, including Mexico, Brazil and Argentina, drawing on the Fund.

OECD countries

The combined recorded current account deficit of the OECD countries was little changed in 1982, at $31 billion.

The major seven industrial countries' current account deficit widened slightly in 1982, from $2.6 billion to about $6 billion. Within this small overall movement, there were large but offsetting swings in the current accounts of a number of countries. The United States, France and the

United Kingdom, for instance, all saw substantial deteriorations. In the United States and the United Kingdom, past losses of competitiveness were a significant influence, and, in both cases, domestic demand was reviving in the middle of the year against the trend in most other countries. In France, the strength of domestic demand was also important, particularly in the first half of 1982 as the economy responded to earlier expansionary measures. By contrast, the current account position of West Germany improved by almost $10 billion in 1982; most of this swing reflected a terms of trade gain, while trade volumes made only a small contribution, in spite of Germany's competitive edge. Canada's current account also improved strongly last year, with import volumes sharply down following a downturn in domestic demand (led by heavy destocking).

Major countries: current balances

$ billions; *seasonally adjusted*

	1981	1982			1983
	Year	Year(a)	Q3	Q4(a)	Q1(a)
Canada	− 4.5	2.2	0.9	0.9	—
France	− 4.8	−12.0	−3.2	−2.4	−2.5
Italy	− 8.7	− 5.4	−1.6	−0.4	−0.6
Japan	4.8	6.9	1.9	1.3	3.3
United Kingdom	12.6	6.8	1.5	2.8	0.4
United States	4.5	− 8.1	−5.2	−6.1	−4.0
West Germany	− 6.5	3.3	0.8	2.0	1.4
Major countries	**− 2.6**	**− 6.3**	**−4.9**	**−1.9**	**−2.0**

(a) Includes Bank estimates.

Provisional current account figures for the major countries at the beginning of 1983 are difficult to reconcile with developments in the oil market. As a group, their deficit remained steady at an estimated $2 billion, in spite of falls in both the price and volume of their oil imports. Only the figures for Japan and the United States correspond with this picture, Japan also strengthening its export volume. By contrast, Canada's current account moved back to rough balance, and there was a significant fall in the UK surplus, from $2.8 billion in the final quarter of 1982 to a provisionally estimated $0.4 billion in the first quarter of 1983. For the United Kingdom this worsening was wholly attributable to a deterioration in non-oil trade, with little change in either the oil balance or invisibles account in the quarter. The current account positions of France, West Germany and Italy were little changed in the quarter.

The counterpart of the reduced UK current account surplus in the first quarter cannot yet be identified; the balancing item suggests an unrecorded inflow after the large unrecorded outflow in the fourth quarter. Identified capital outflows increased slightly. Outward portfolio investment remained substantial and external sterling lending by UK banks was strong. Offsetting these outflows there was a small inflow in net direct investment, because of a recovery in inward investment, and increased inflows into sterling balances from the low fourth quarter. UK banks'

UK balance of payments

£ billions; *not seasonally adjusted*

	1982				1983
	Year	Q2	Q3	Q4	Q1
Current account	**+4.1**	**+0.1**	**+0.8**	**+2.2**	**+0.6**
Outward portfolio investment	−5.9	−1.3	−1.4	−1.6	−1.6
Net direct investment (non-oil)	−1.5	−0.6	−0.5	−0.5	+0.1
Banks' net external liabilities in foreign currencies	+4.2	+0.5	+1.2	+0.9	+0.5
Banks' sterling lending overseas	−3.2	+0.2	−1.3	−1.0	−0.9
Sterling balances(a)	+4.6	+1.2	+1.5	+0.3	+1.4
Other flows	+0.1	+0.1	−0.2	+0.6	−1.9
Total identified capital flows	**−1.7**	**+0.1**	**−0.7**	**−1.3**	**−2.4**
Official financing	+1.3	+0.7	−0.2	+0.8	+0.6
Balancing item	−3.6	−0.9	+0.1	−1.8	+1.2

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

foreign currency borrowing abroad was much reduced compared with the average for 1982.

The smaller OECD countries had a modest fall in their current account deficit in 1982. Severe domestic restraint in many countries kept import volumes subdued, but with export markets also weak, few were able to improve their current account positions. Large deficits were run by Australia, Spain and Sweden last year.

International banking and capital markets[1]

Outstanding cross-border lending by banks in the main financial centres grew in 1982 by $183 billion, some $100 billion less than the average of the previous three years.[2] In the fourth quarter, lending rose only $33 billion, or $20 billion excluding interbank business.

Banks in the BIS reporting area (fourth quarter 1982)

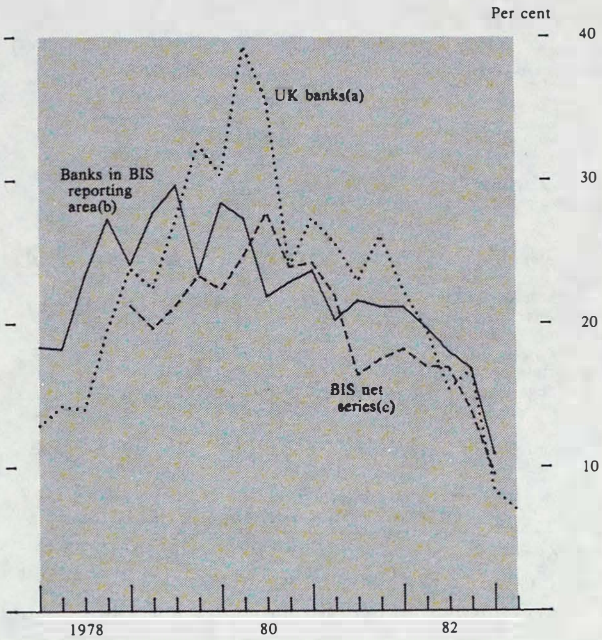
Just over half of the fourth quarter rise was attributable to banks in the European reporting area, in particular banks in France (+$10 billion) and Italy (+$9 billion); and building-up of end-year interbank positions was probably responsible for most of these movements. After adjustment for this and other seasonal influences—notably the unwinding of the large positions built up by Japanese banks at their end-September accounting half-year—the rise in interbank business, though low, was not markedly so against a background of sluggish growth in business with non-bank customers.

Of the new funds advanced by the reporting banks, $8 billion was to countries outside the BIS area, developed countries accounting for nearly half of it. Non-oil developing countries increased their borrowing by $5 billion, compared to a net repayment of $1 billion in the previous quarter. The rise was almost entirely due to countries in Asia, with South Korea ($2½ billion) showing the largest increase. Outstanding lending to Latin American countries, which have accounted for most of the

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

(2) While the problems faced by some major borrowers during the year, and the consequent caution in the banks' lending policies, have obviously contributed towards the slowdown, the rate of growth of bank lending should also be seen in the context of slackening growth of nominal world income and trade—see the March 1983 *Bulletin*, pages 47–8.

Bank lending to non-residents



(a) UK banks includes the monetary sector and certain other financial institutions, consistent with the population in Tables 14.1 and 16.1 of the statistical annex.
(b) Total cross-border lending by banks in the BIS reporting area *plus* an estimate for non-reporting banks in the offshore centres.
(c) Excludes double-counting arising out of redepositing of funds between reporting banks but includes funds (foreign currency and domestic currency obtained through switches) used by banks for domestic lending.

new borrowing by non-oil developing countries in recent years, fell by $1 billion.

Within the reporting area (where the gross data include large interbank flows), French borrowing rose by over $1 billion for the second quarter running, probably as a result of drawings on a $4 billion credit.

Oil exporting countries reduced their deposits with the banks for the sixth successive quarter, with the fall during the fourth quarter of 1982 of $8 billion being the largest withdrawal of funds in a single quarter. Thus, during 1982, they were the largest net takers of funds: the rise in their net borrowing of $26 billion (gross borrowing +$8 billion, deposits −$18 billion) was larger even than the increase of $16 billion in the net borrowing of the non-oil developing countries.

The major suppliers of funds to the international banking market were again banks in the United States, whose gross lending increased by $15 billion during the fourth quarter, with two-thirds channelled through their international banking facilities.

The eurosterling banking market grew slightly in the fourth quarter of 1982, to bring business outstanding back to its level earlier in the year.

Eurosterling market[a]

£ billions

	1981	1982			
	31 Dec.	31 Mar.	30 June	30 Sept.	31 Dec.
Deposits by:					
UK banks	3.3	3.6	2.8	3.2	3.3
UK non-banks	1.0	0.9	1.0	1.0	1.2
Other Western Europe	5.5	5.6	5.0	5.3	5.3
Oil exporting countries	0.8	0.7	0.6	0.6	0.6
Other	1.7	1.4	1.5	1.4	1.6
Total	**12.3**	**12.2**	**10.9**	**11.5**	**12.0**
of which, CMIs	*0.6*	*0.4*	*0.4*	*0.3*	*0.3*
Lending to:					
UK banks	3.4	3.6	3.7	3.9	4.0
UK non-banks	0.7	0.6	0.6	0.6	0.6
Other Western Europe	5.0	5.0	4.6	5.0	5.1
Other	1.2	1.0	0.9	0.8	0.9
Total	**10.3**	**10.2**	**9.8**	**10.3**	**10.6**

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 business of banks in the BIS reporting area and offshore centres

$ billions; changes exclude estimated exchange rate effects

	1981	1982		Out-standing end-Dec. 1982
	Year	Year	Q4	
Deposits from non-residents				
Total	**+299**	**+138**	**+ 18**	**1,866**
Placed with banks in:				
Reporting European area	+128	+ 52	+ 17	1,039
of which, United Kingdom	*+ 79*	*+ 48*	*− 6*	*482*
United States	+ 38	+ 68	+ 5	245
Canada and Japan	+ 40	− 2	− 7	159
Offshore centres:				
US banks	+ 33	+ 2	+ 3	178
Non-reporting banks	+ 60	+ 19	..	246(a)
Source				
Outside reporting area				
Developed countries	+ 3	—	− 3	44
Eastern Europe	—	+ 2	+ 4	16
Oil exporting countries	+ 3	− 18	− 8	135
Non-oil developing countries	+ 10	+ 4	+ 2	101
of which, Latin America	*+ 6*	*− 2*	—	*37*
Sub-total	+ 17	− 12	− 5	310
Inside reporting area(b)				
Banks(c)	+154	+ 97	+ 18	1,066
Non-banks(d)	+ 45	+ 23	+ 6	210
Unallocated(e)	+ 83	+ 31	− 1	289
Lending to non-residents				
Total	**+329**	**+183**	**+ 33**	**1,947**
Lent by banks in:				
Reporting European area	+136	+ 55	+ 18	1,024
of which, United Kingdom	*+ 80*	*+ 35*	*− 7*	*458*
United States	+ 76	+107	+ 15	361
Canada and Japan	+ 24	+ 8	− 2	130
Offshore centres:				
US banks	+ 32	—	+ 3	172
Non-reporting banks	+ 61	+ 13	..	260(a)
Direction				
Outside reporting area				
Developed countries	+ 17	+ 16	+ 4	113
Eastern Europe	+ 5	− 5	− 1	53
Oil exporting countries	+ 4	+ 8	—	79
Non-oil developing countries	+ 42	+ 20	+ 5	247
of which, Latin America	*+ 33*	*+ 12*	*− 1*	*169*
Sub-total	+ 66	+ 37	+ 8	492
Inside reporting area(b)				
Banks	+152	+101	+ 23	965
Non-banks	+ 31	+ 19	+ 5	197
Unallocated(e)	+ 78	+ 26	− 2	293
Foreign currency deposits from residents(a)				
From banks	+ 46	+ 40	− 2	298
From non-banks	+ 8	+ 9	+ 4	59
Foreign currency lending to residents(a)				
To banks	+ 41	+ 37	− 3	283
To non-banks	+ 30	+ 14	+ 5	146

.. not available.

(a) Partially estimated.
(b) Includes business with the offshore centres; the split between banks and non-banks is partly estimated.
(c) Includes liabilities to CMIs (as well as to commercial banks) and to banks' trustee accounts.
(d) CDs reported by UK banks as held in custody for US banks are believed to be virtually all owned by US non-banks and have been re-allocated to non-banks in this table.
(e) Mainly the positions of non-reporting banks in offshore centres.

Maturity analysis of UK banks' lending to countries outside the BIS reporting area (end-December 1982)

The maturity structure of UK banks' lending to countries outside the BIS reporting area,(1) other than to the offshore banking centres,(2) lengthened markedly during the second half of 1982; it had been shortening over the previous two years. The data should be interpreted with caution since the lengthening of maturities may include some reallocation of overdue and rescheduled loans.

At end-December, claims with a maturity of less than six months amounted to 37.8% of all claims for which a maturity analysis is available, compared with 39.6% at end-June 1982. The overall lengthening of maturities was repeated for most country groups, including Latin America, despite a rise in short-term claims on Argentina from 35% of the total at end-June 1982 to 41% at end-December 1982.

Unused credit facilities rose slightly, to the equivalent of 22% of disbursed credit. Increases in credit lines were mainly to Australia, New Zealand and the oil exporting countries; unused credit to both Argentina and Mexico fell by around $300 million.

UK banks' short-term lending as a percentage of total lending(a)

	1980	1981		1982	
	31 Dec.	30 June	31 Dec.	30 June	31 Dec.
Western Europe(b)	37.3	37.4	39.8	39.5	38.1
Eastern Europe	32.6	30.5	33.9	33.7	31.2
Australia, New Zealand and South Africa	27.3	37.3	34.9	47.1	43.8
Major oil exporting countries	44.0	48.1	48.2	50.9	48.4
Non-oil developing countries	35.4	37.2	36.1	36.2	34.6
of which:					
Middle East and North Africa	*57.0*	*61.2*	*61.9*	*62.0*	*60.8*
Other Africa	*35.3*	*40.2*	*35.6*	*39.1*	*40.7*
Asia	*47.6*	*46.6*	*46.9*	*52.0*	*46.9*
Latin America	*29.1*	*31.2*	*29.9*	*27.2*	*26.1*
All countries	**36.4**	**37.8**	**38.2**	**39.6**	**37.8**

(a) Debt due for repayment within six months as a percentage of total outstanding lending (excluding amounts unanalysed by maturity) to each group of countries. Based on the series in Table 14.3 in the statistical annex.
(b) Except BIS reporting area.

London market (first quarter 1983)

Foreign currency

Gross foreign currency liabilities of UK banks grew strongly (by $30 billion) during the first quarter of 1983, having declined by $8 billion in the previous quarter. Most of the growth (80%) was due to interbank activity of Japanese banks, both within the United Kingdom (+$13 billion) and cross-border (+$10 billion), as they came to the end of their accounting year at end-March. Lending to non-banks overseas rose by $4 billion, more than during any quarter last year except the third, although still historically low.

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 +

	1982				1983
	31 Mar.	30 June	30 Sept.	31 Dec.	31 Mar.
BIS reporting area:					
European area	+ 2.7	+ 9.0	+11.4	+11.1	+10.1
Canada	+ 1.8	+ 1.7	+ 1.9	+ 2.5	+ 0.7
Japan	+17.0	+14.9	+14.4	+14.9	+17.1
United States	−41.0	−47.4	−52.4	−54.9	−58.0
Offshore banking centres	+10.6	+ 6.2	+ 4.4	+ 2.0	− 2.5
Other Western Europe	+11.8	+12.1	+11.7	+14.0	+15.3
Australia, New Zealand and South Africa	+ 7.5	+ 8.7	+ 8.8	+ 9.4	+ 9.4
Eastern Europe	+10.2	+10.0	+ 9.2	+ 8.0	+ 7.0
Oil exporting countries	−42.2	−35.9	−34.7	−33.6	−30.4
Non-oil developing countries	+23.3	+22.1	+22.2	+21.9	+22.9
Others(b)	−16.7	−17.3	−15.2	−14.9	−12.1
Total	**−15.0**	**−15.9**	**−18.3**	**−19.4**	**−20.5**

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

There has been a further increase in very short-term (0–8 days) mismatching of foreign currency liabilities and assets(3) perhaps associated with a rundown of short-term interbank assets to finance banks' substantial acquisitions of foreign bonds.

Sterling

During the first quarter of 1983, UK banks' external sterling deposits (official and private) increased by £1.3 billion, of which half came from non-banks. This was in line with the average quarterly increases of £1.2 billion during 1982, but much greater than the £0.5 billion growth in the fourth quarter of 1982.

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

$ billions

	1982				1983
	31 Mar.	30 June	30 Sept.	31 Dec.	31 Mar.
Foreign currency liabilities of UK banks to:					
Other UK banks	158.6	140.6	159.9	158.2	166.7
Other UK residents	18.8	19.9	20.9	20.3	20.2
Overseas central monetary institutions	51.0	49.1	50.5	44.1	44.9
Own offices overseas(b)	66.4	63.9	71.9	77.8	80.8
Other banks overseas	195.8	193.0	206.0	203.4	210.7
Other non-residents	114.7	117.9	120.5	122.1	122.6
Other liabilities(c)	9.1	7.4	7.7	10.2	7.9
Total liabilities	**614.4**	**591.8**	**637.4**	**636.1**	**653.8**
Foreign currency assets of UK banks with:					
Other UK banks	156.5	138.3	156.0	154.4	163.5
Other UK residents	24.6	25.4	26.7	28.5	28.7
Own offices overseas(b)	132.8	129.4	144.3	141.7	146.4
Other banks overseas	169.0	165.5	170.3	166.6	166.5
Other non-residents	114.0	115.5	119.3	123.5	125.1
Other assets(c)	16.9	17.3	18.7	19.6	22.8
Total assets	**613.8**	**591.4**	**635.3**	**634.3**	**653.0**

(a) The reporting population is broader than the UK monetary sector (see the additional notes to Table 14.1 in the March 1983 *Bulletin*). 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.

(1) See Table 14.3 in the statistical annex.
(2) External lending to offshore banking centres is excluded from this analysis as much of it consists of short-term interbank business, which tends to distort the maturity profile when combined with lending to other countries. Bahrain, traditionally classified as an oil exporting country, is also excluded because of its role as an offshore centre.
(3) See Table 14.2 in the statistical annex.

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

	1982				1983
	31 Mar.	30 June	30 Sept.	31 Dec.	31 Mar.
UK banks' sterling liabilities to:					
Overseas central monetary institutions(b)	1.5	1.3	1.5	1.5	1.7
Own offices overseas	1.8	1.9	2.1	2.2	2.6
Other banks overseas	4.6	5.5	5.7	6.3	6.3
Other non-residents	8.2	8.7	9.3	9.1	9.8
Total liabilities	**16.1**	**17.4**	**18.6**	**19.1**	**20.4**
UK banks' sterling assets:					
Loans and advances to:					
Own offices overseas	1.1	1.3	1.3	1.4	1.6
Other banks overseas	3.1	2.4	2.8	3.0	3.0
Other non-residents	2.0	2.5	3.0	3.6	4.0
Bills	5.1	5.1	5.2	5.4	5.6
Acceptances	2.2	2.0	2.5	2.5	3.0
Total assets	**13.5**	**13.3**	**14.8**	**15.9**	**17.2**

(a) The reporting population is broader than the UK monetary sector (see the additional notes to Tables 16.1 and 16.2 in the March 1983 *Bulletin*).
(b) Includes international organisations.

Sterling lending overseas continued to rise rapidly, by £1.3 billion during the first quarter. Most of this increase took the form of lending to non-banks, including an increase of £0.5 billion in acceptance lending.

International bank credits

In the first half of 1983 announcements of bank credits have been sharply reduced. The $12.1 billion total of announced syndicated credits in the first quarter was less than half that of twelve months ago and the $2.1 billion in March was the lowest monthly figure for more than four years. In the first quarter an unusually high share, 40 per cent, was accounted for by the five largest credits and the number of announcements was under a half of those a year earlier. Not only were many LDCs absent from the market, but borrowing by the major industrialised countries was also sluggish, perhaps reflecting a more buoyant bond market. In the second quarter, there have been some tentative signs of recovery with the amount raised by minor OECD borrowers totalling over $1 billion in both April and May.

Substantial amounts, however, have been syndicated as part of the new money packages, arranged with the IMF and

Announced new medium-term eurocurrency credits[a]
$ billions

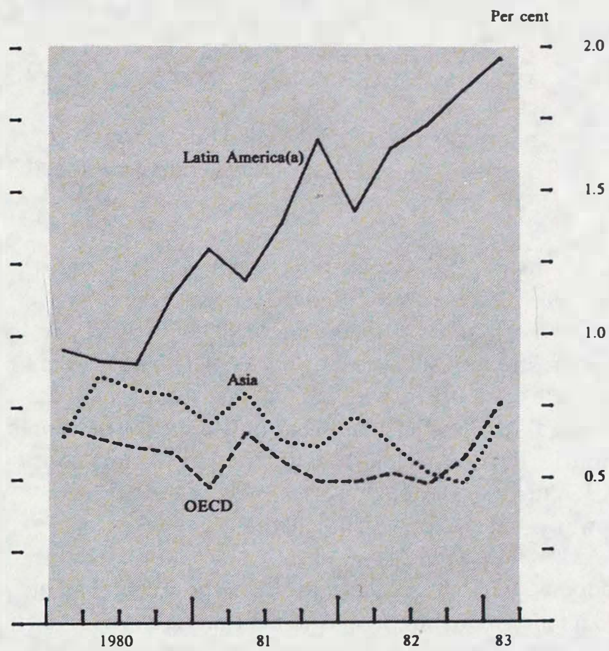
	1981	1982		1983		
	Quarterly average		Q4	Q1	April	May
Major OECD countries	17.7(b)	6.1	2.4	1.4	1.1	0.6
Minor OECD countries	3.5	4.3	2.5	5.0	1.2	1.2
Oil exporting countries	3.2	3.7	2.7	2.0	0.8	0.4
Developing countries	8.9	8.1	3.7	3.3	0.7	0.6
of which:						
Newly industrialised(c)	*3.5*	*3.1*	*2.0*	*1.0*	*0.3*	*0.2*
Net oil exporting(d)	*2.5*	*3.2*	*0.7*	*0.6*	*0.1*	*0.1*
Other developing	*2.9*	*1.8*	*1.0*	*1.6*	*0.3*	*0.3*
Other borrowers	0.4	0.5	0.1	0.4	—	—
Total	**33.7(b)**	**22.7**	**11.4**	**12.1**	**3.8**	**2.8**

(a) Data cover original maturities of one year and over.
(b) $41 billion in 1981 related to takeover activity in North America.
(c) Mainly Argentina, Brazil and South Korea.
(d) Mainly Mexico and Malaysia.

commercial banks, which have accompanied many of the reschedulings, so the quarterly and monthly figures do not accurately reflect the scale of the commercial banks' involvement in international lending.

In conjunction with reschedulings, the banks have agreed, or are involved in negotiations, to provide new funds totalling some $14 billion. More than two-thirds of this consists of loans to Mexico, Brazil and Argentina. Other countries which have negotiated for new money to accompany the restructuring of their debts include Chile, Peru, Uruguay, Ecuador and Yugoslavia.

Average spreads paid by borrowers from developing countries



(a) Latest two quarters include spreads on new money raised in conjunction with rescheduling packages.

The amount of rescheduled loans has grown rapidly. Roughly $62 billion of borrowing to be repaid between 1982 and 1984 has been, or is in the process of being rescheduled. This is around 6% of the total outstanding amount of international lending to non-banks by banks in the BIS reporting area.

In the market's cautious mood of the last six months most borrowers have faced an increase in spreads over LIBOR of at least $\frac{1}{8}$%.

International bonds and notes

The total value of issues completed rose sharply to a new record of nearly $21 billion in the first quarter of 1983. Completions faltered somewhat in April, but recovered strongly in May.

In the *fixed rate* market, which accounts for the majority of issues, the trend in international interest rates (and inflation) was the major influence. Rates fell early in the year encouraging issues, but the setbacks in April reflected a firming of (particularly US) interest rates. Uncertainty concerning the trend in interest rates meant that from time

Completed international bond issues[a]

$ billions

	1980	1981	1982	1983		
	Quarterly average			Q1	April	May
By borrower:						
OECD countries	6.5	8.2	14.6	17.7	4.0	5.9
International institutions	1.7	2.1	2.8	2.8	0.6	1.3
Other	0.5	1.0	1.1	0.3	0.1	0.3
Total	**8.8**	**11.3**	**18.5**	**20.8**	**4.7**	**7.5**
of which:						
Banks	..	*2.3*	*4.2*	*5.5*	*1.3*	*3.0*
Industrial and commercial companies	..	*4.2*	*6.1*	*6.0*	*1.8*	*1.7*
State enterprises	..	*1.3*	*2.6*	*2.7*	*0.5*	*1.2*
Governments	..	*1.6*	*2.8*	*3.8*	*0.6*	*0.3*
International institutions	..	*2.1*	*2.8*	*2.8*	*0.6*	*1.3*

.. not available.

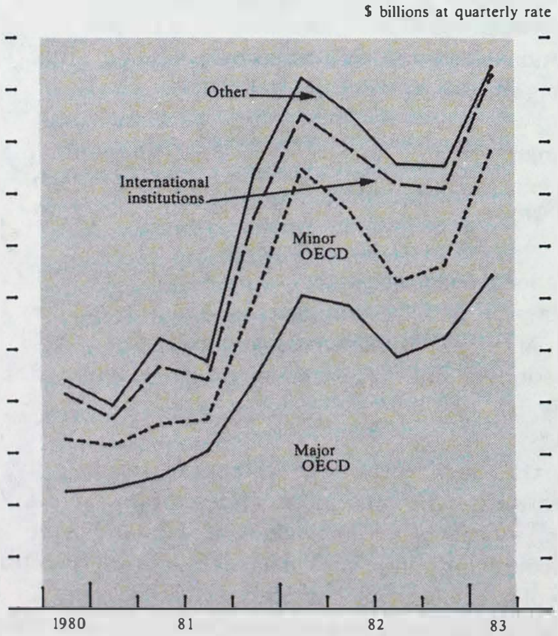
(a) Maturities of one year and over. The table includes fixed and floating rate euro and foreign issues, publicised private placements, and note issuance facilities. It excludes Canadian borrowing in New York.

to time underwriters were left holding large amounts of unsold paper—although a positive yield curve made this profitable.

Borrowing by OECD countries continues to dominate the fixed rate markets, accounting for 80% of completions in the first five months of 1983. A notable feature this year has been the strength of interest by banks, which have used fixed rate bond issues, with interest rate swaps, to obtain cheaper floating rate finance. The only issues by developing countries have been small amounts and were mainly for Asian borrowers—South Korea, Malaysia and Taiwan—but also included Panama.

Coupons, which had fallen steadily in the second half of 1982, failed to maintain this momentum into 1983. Although Coca Cola made an issue in January—the first US dollar issue for two years to carry a coupon of under 10%—subsequent borrowers who tested the market with low coupons were judged to have over-priced their issues.

International bonds and notes: completed issues by borrower



The share of dollar denominated issues fell slightly in the first four months of 1983, as foreign borrowing in New York was reduced, although early in May Barclays Bank completed a $400 million 'Yankee' bond, representing the bulk of a $500 million shelf registration filed in April. The proportion of Swiss franc issues has increased in 1983 in response to demand from Japanese borrowers.

Another development has been a growing interest in *convertible bonds* and *equity-linked* issues, reflecting the buoyancy of stock markets worldwide. In the first quarter of 1983 the amount raised through convertibles equalled almost half the total for the whole of 1982, and this impetus was maintained into May.

Floating rate note completions were sporadic early in 1983 with a few large issues for sovereign borrowers and over $1.65 billion of issues for French banks. Foreign borrowers have taken advantage of a growing demand for floating rate paper from savings institutions and regional banks in the US domestic market. (This paper has been used to match liabilities from recently launched money market deposit accounts.)

International interest rates and equity prices

Interest rates in the last few months have shown little of the volatility exhibited last year. Short-term interest rates in the United States seem becalmed in the $8\frac{1}{4}\%$–$8\frac{3}{4}\%$ region, and although they have risen and fallen in line with market concern over the pace of economic recovery, the size of the budget deficits and the stance of monetary policy, the absolute size of the movements has been small. Despite speculation to the contrary, the Federal Reserve Banks have yet to cut their discount rate this year, although most banks cut their prime rates by $\frac{1}{2}\%$ point in late-February, bringing with it a similar fall in corporate bond yields.

In Europe, following the EMS realignment of 21 March, both short and long-term rates have been little changed, in part because of US developments, and in part because those countries whose currencies had been under pressure before the realignment tended to be ones that operated exchange controls, so that increases in eurorates did not filter back (to any extent) to domestic rates. As a result there was no need for a reaction in domestic rates after the realignment.

Only in Japan is there a distinct trend discernible in short rates, with rates declining by $\frac{1}{2}\%$ point over the last three months as expectations of a cut in discount rate of similar magnitude strengthened. Even there, however, government bond yields have been virtually flat over the period.

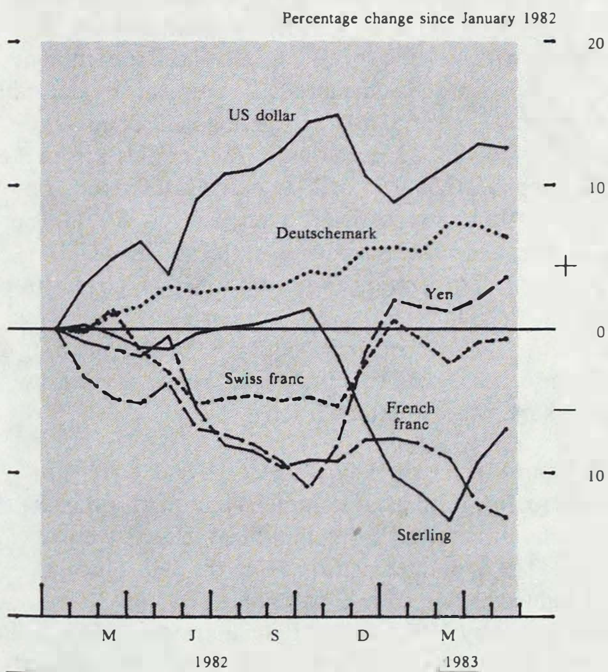
In contrast, equity markets have tended to strengthen over the period. In the United States the stock market has been markedly buoyant in the light of, on balance, encouraging news on the economy in general and the corporate sector in particular. And the strength of Wall Street, together with a strong dollar, led to renewed interest in European and Japanese stock markets.

Foreign exchange and gold markets

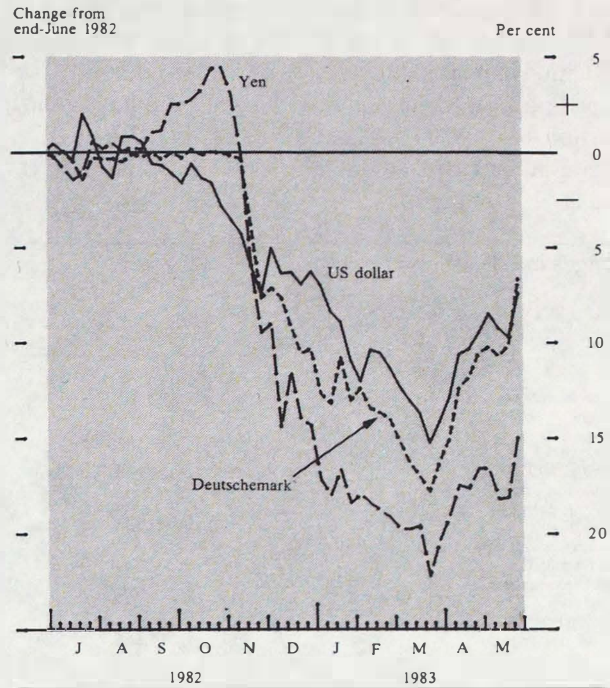
(Three months to end-May)

Sterling weakened in March on nervousness about oil prices: by late March it had depreciated by 15% on the effective index since mid-November. After BNOC's new oil prices were announced on 30 March and oil prices appeared to stabilise, sterling recovered sharply. Favourable economic indicators and expectations of the timing and result of the general election helped to carry it higher: by the end of May sterling's effective index had risen $12\frac{3}{4}\%$ since its low in late March. The dollar strengthened slightly in effective terms: hopes of a significant reduction in US interest rates faded as concern about monetary growth surfaced again. Pressures within the EMS came to a head after the elections in France and West Germany, and forced a realignment of the system on 21 March. A period of quieter trading followed, although the system remained fully stretched.

Indices of effective exchange rates



Sterling against selected foreign currencies



Sterling

Sterling fell to \$1.4975 (79.9 on the effective index) on 1 March, on news that the Gulf producers were considering an oil price cut. For the remainder of March, sterling reacted to changing views on oil price prospects, but was carried lower by the underlying mood of nervousness. After the OPEC conference in London reached a successful conclusion, sterling moved ahead to \$1.5255 on 14 March, but it then eased on profit-taking and the anticipation of a $\frac{1}{2}\%$ cut in base rates which was announced the following day. The pound held steady as Budget details were announced. Over the following days, sentiment towards sterling was unfavourable. BNOC's difficulties in securing a new price agreement raised market fears that prices might fall further, and the February inflation figures showed the first increase for several months. In addition, there was newspaper speculation that the Government was unconcerned about sterling's continued weakness. Sterling moved to a low of 77.9 on the effective index on 24 March and to all-time lows of DM 3.5235 on 24 March and \$1.4515 on 28 March.

The announcement of BNOC's new price proposals on 30 March and indications that oil prices could stabilise prompted a sharp turnround in sterling, which moved back above \$1.50 on 5 April and to \$1.5183 the following day. Expectations of a base rate cut caused the pound to ease, but it took on a firm tone again as BNOC's customers accepted the price proposals. The further $\frac{1}{2}\%$ cut in base rates to 10% on 14 April had been fully discounted already and there was only a brief pause in sterling's advance. For the rest of April, the pound was underpinned by signs of stability in oil prices, and took strength from favourable domestic economic indicators: the March inflation figures indicated a resumption of the downward trend, the March trade figures showed a large surplus and there were growing signs of a recovery in economic activity and in business confidence.

As the recovery of sterling was seen to persist, the currency derived further strength from the covering of short positions which had been built up while sentiment was less favourable. Sterling rose to \$1.5863 and 85.2 on the effective index on 4 May, but it then eased on renewed nervousness over oil prices, and fell on 9 May when the general election was announced. The pound weakened to \$1.5520 and 83.7 on the effective index on 17 May but, in the latter part of the month, opinion polls suggesting a decisive Conservative victory in the forthcoming general election prompted a sharp rise in sterling. On 31 May, sterling closed slightly below its best levels at \$1.6061, DM 4.0525 and 87.8 on the effective index.

Official reserves

During the three months to end-May, there was an underlying rise in the reserves of $71 million. The annual revaluation increased the reserves by $1,046 million, comprising a valuation gain of $1,351 million on gold and a valuation loss of $304 million on holdings of SDRs, ECUs and non-dollar currencies. At the end of May, the reserves stood at $17,924 million.

Changes in UK official reserves

$ millions

	1983 Jan.	Feb.	Mar.	Apr.	May
Change in reserves(a)	**−143**	**−276**	**− 287**	**+319**	**+268**
of which:					
Net borrowing (+)/ repayment (−) of public debt	*+ 5*	*−105*	*+ 41*	*+ 8*	*+ 35*
Valuation change on roll-over of EMCF swap	*+211*	—	—	*+145*	—
Underlying change in reserves	*−359*	*−171*	*− 328*	*+166*	*+233*
Annual revaluation of reserves	—	—	+1,046	—	—
Level of reserves (end of period)	**16,854**	**16,578**	**17,337**	**17,656**	**17,924**

(a) Excluding the annual revaluation of the reserves.

US dollar

The dollar was less volatile than in some recent periods, though still influenced by US interest rates, monetary growth and prospects for the federal deficit.

The dollar opened in London at DM 2.4414 and ¥238.85 on 1 March. Prospects of a reduction in US interest rates and of a deterioration in the US current account made a decline in its value seem likely. The dollar weakened against the deutschemark to DM 2.3775 immediately after the West German election. Thereafter the market became increasingly concerned about the rapid growth of the monetary aggregates and a possible slight tightening of US monetary policy; as a result US interest rates moved higher and, with the unwinding of speculative positions in the deutschemark as well, the dollar rose above DM 2.40. End-quarter factors added to the upward pressure on interest rates and to the dollar's firmness, and it closed in London on 31 March at DM 2.4260 and ¥ 238.92.

During April, US interest rates eased as end-quarter pressures abated and there was official comment that there were no sound reasons why short-term interest rates should rise. Even so, the dollar strengthened against all major currencies, except sterling and the yen. This partly reflected further progress in controlling US inflation but, furthermore, the size of the prospective federal deficits seemed to preclude any substantial reduction in US interest rates. Towards the end of the month, the dollar responded to changing views about the prospects of concerted central bank intervention reducing its value, but, as it became evident that no immediate action was in prospect, it rose.

In early May, the dollar weakened on hopes of a cut in discount rate, following improved monetary statistics and a successful start to the US Treasury's financing programme on 4 May. But market expectations of a cut in discount rate receded after higher than expected M_1 figures were announced on 6 May, and thereafter short-term interest rates tended to rise as a result of market concern about M_1 growth and indications that the economic recovery was becoming fairly well established. The turnround in interest rates, together with the apparent absence of any major changes in US economic policies following the Williamsburg summit, underpinned the rise in the dollar and it reached record levels against a number of currencies including the French franc (7.5780) and the lira (1,497.45). On 31 May, the dollar closed at DM 2.5232 and ¥238.96: in effective terms it was $2\frac{3}{4}\%$ higher than three months earlier.

EMS

At the start of March, a realignment of the EMS was widely expected as a result of the divergent economic performances of member countries. The system was fully stretched and required heavy intervention. Following elections in France and West Germany on 6 March, the system was put under further pressure and there were sharp fluctuations of some currencies within the narrow band. Until the realignment on 21 March, the deutschemark was at or near the top of its narrow band, even after a 1% reduction in discount and Lombard rates on 17 March (with simultaneous cuts in the Netherlands and some non-EMS countries). Pressure on the French franc was particularly intense: it was volatile and at times at or near the bottom of the narrow band, despite heavy intervention and exceptionally high eurofranc rates. The Belgian franc was also supported by heavy intervention, a $2\frac{1}{2}\%$ rise in discount rate and a tightening of exchange control, while the lira moved below the narrow band in spite of heavy intervention.

On 21 March, some markets were closed and currencies allowed to float until details of the realignment, which had been under discussion throughout the weekend, were released. The announcement was that the deutschemark was revalued by $5\frac{1}{2}\%$, the Dutch guilder by $3\frac{1}{2}\%$, the Danish krone by $2\frac{1}{2}\%$, and the Belgian franc by $1\frac{1}{2}\%$, while the French franc and lira were each devalued by $2\frac{1}{2}\%$ and the Irish pound by $3\frac{1}{2}\%$.

Following the realignment, the system was again fully stretched, although the positions of most member currencies were the opposite of those before the realignment. There was again substantial official intervention, although this eased in May. The reversal of speculative positions taken before the realignment kept the deutschemark at the bottom of the narrow band immediately after the realignment, and it remained there despite favourable inflation figures. Besides intervening, the Bundesbank supported money-market interest rates by draining liquidity from the markets until the end of April when conditions were tighter. The Dutch guilder followed the deutschemark closely and occasionally replaced it at the bottom of the system. Until the end of April, the French franc was at or near the top of the narrow band as a result of the market's reaction to the Government's austerity package and the return of speculative funds following the realignment. The Banque de France took this opportunity partially to rebuild the official reserves. Following the outbreak of political unrest in early May, the French franc fell back from its upper intervention limit within the system to be replaced by the Irish pound. However, the French franc moved back towards the top of the narrow band after better trade figures and a substantial EC loan were announced. The Belgian franc traded comfortably in the middle of the system, permitting the authorities to relax exchange control and to make cuts in the discount rate totalling 4½%. The lira traded around 5% above the weakest currency for most of the period following the realignment, allowing the authorities to build up their reserves and reduce discount rate by 1%.

Other currencies

The yen traded within a narrow range (generally ¥230–240) against the firm dollar, but appreciated against most of the European currencies: its effective index rose 1½% during the three months to end-May. It was underpinned during this period by a favourable trend in the Japanese current account. A cut in the Japanese discount rate was expected from time to time, but the strength of the dollar apparently deterred official action on this front.

The Swiss franc weakened against the deutschemark from Sw. Fcs 0.84¾ on 4 March to Sw. Fcs 0.86¾ on 14 March as speculation grew about a deutschemark revaluation. An increase in Swiss franc time deposit rates on 15 March helped the franc to strengthen, and its advance continued despite a ½% cut in the official discount rate on 17 March when the West German rate was cut by 1%. The Swiss franc subsequently moved higher against the deutschemark as speculative positions in the deutschemark were unwound and Swiss time deposit rates again rose: by the end of May, the Swiss franc had strengthened against the deutschemark to Sw. Fcs 0.83¼. The currency rose by 1¼% on its effective index over the period, but eased against the strong dollar.

In spite of a weakening of the currency ahead of the Budget in Canada on 19 April, the Canadian dollar moved closely with the US dollar as the current account continued to be favourable, inflation came down and the outlook for oil prices improved. Oil market developments pushed up the Norwegian krone in early April and the advance was sustained from then on. The Swedish krona held steady in spite of a ½% reduction in discount rate.

Gold

While the outcome of OPEC's London conference was uncertain, gold traded erratically between fixings of $417.50 on 8 March and $434.75 on 10 March. The successful conclusion of the conference saw the price move ahead to $440, but this advance was not sustained in the light of renewed nervousness about North Sea oil prices and the firming of US interest rates: the price slipped to $410 on 23 March. When BNOC's new pricing proposals were accepted, the gold price firmed. Thereafter, conditions in the gold market were quiet with the price trading in the range of $420–445.

London gold price