

The international banking markets in 1982

This article is the second of an annual series. The main developments during 1982 in the international banking markets were:

- *In aggregate, bank lending grew at a slower rate in nominal terms (page 47). On the other hand, international bond issues maintained the high rate established at the end of 1981 (page 48).*
- *The banks concentrated their lending increasingly on developed countries and there was a fall in lending to non-oil developing countries in the second half of the year. Spreads on lending rose.*
- *As oil exporters' surpluses were eliminated, they continued to draw down their deposits (page 51).*
- *The United States was the largest provider of new funds to the market (page 53). The share of business placed in the United States increased rapidly with the establishment of International Banking Facilities (IBFs). Nevertheless, London remained the largest centre (page 57).*
- *Sterling business of UK banks with overseas customers continued to expand (page 59), while the eurosterling market stagnated (page 60).*

The main themes of the article are drawn out in the opening section which describes international financial developments over the past year. The world economy continued to be weak, although payments imbalances narrowed somewhat; high interest rates and weak commodity (particularly oil) prices exacerbated the debt service problems of some developing countries, leading to rescheduling of debt and a reassessment of risks associated with sovereign borrowers; and there were some failures among large financial and corporate borrowers. All this created a more cautious attitude towards international lending.

Most of the detail in the article derives from the Bank for International Settlements (BIS) statistics up to September 1982 and data for the London market in the following quarter. The more recent and important developments up to the end of February 1983, including financial assistance packages such as those assembled for Brazil and Mexico, are also described, although it is too early to tell what their full significance will be for the markets as a whole.

The main financial developments in 1982

The world economy during 1982 was dominated by continuing weakness in the major economies. Some recovery had been expected during the second half of the year but failed to materialise. This meant that the volume of world trade fell slightly during the year; there was also an unexpectedly sharp contraction in non-oil developing countries' import volumes.

Current account imbalances were lower than in 1981 and there were significant changes in their distribution. World demand for oil fell and the oil exporting countries as a whole ceased to be in surplus. The counterpart⁽¹⁾ was partly a reduction of around \$15 billion in the non-oil developing countries' deficit and partly smaller deficits in the OECD countries, where there were important differences between

individual countries. The lower deficits in non-oil developing countries could have resulted partly from cuts in their imports enforced by a reduced supply of bank credit.

There is only a broad relationship between world trade, payments imbalances and international bank lending, but the slowdown in economic growth might have led anyway to a slowdown in the growth of bank lending. Indeed the growth of net international bank lending fell to 15 per cent in the twelve months to September compared with an annual average of over 20 per cent in 1978-81. And by early 1983 the annual growth of lending from London had fallen below 10 per cent.

Inflation fell more rapidly than expected, but despite falls in nominal interest rates from the high levels reached in 1981, real interest rates remained historically high. These high interest rates, with weak commodity prices, exacerbated the debt servicing problems of the developing countries—problems which would have arisen anyway from the slower growth in their export volumes. Nominal interest rates fell sharply in the second half of 1982 but the cash flow relief came too late to help many borrowers. The effects of this fall will take time to work through fully as the cost of floating rate borrowing is adjusted, typically, only every three or six months.

(1) The problem of analysis is complicated by the size of the world current account discrepancy, which was discussed in the September 1982 *Bulletin*, page 356.

With short-term rates falling more rapidly than long-term rates, the slope of the yield curves changed from negative to positive; this contributed to a revival in the international bond markets and there were record new issues. These shifts in the yield curves may have added to some already emerging reluctance to place deposits with some banks. Oil exporting countries in particular were running down their bank deposits, quite independently of their current account position, and switching to longer-term investments (see table on page 31). There was also some decline in the use of the euromarkets by non-banks in developed countries.

Events in 1982 fall into two distinct periods. During the first half of the year, bank lending to final users continued to grow at much the same nominal rate as in the second half of 1981, despite problems in Eastern Europe and uncertainties arising from the South Atlantic conflict.

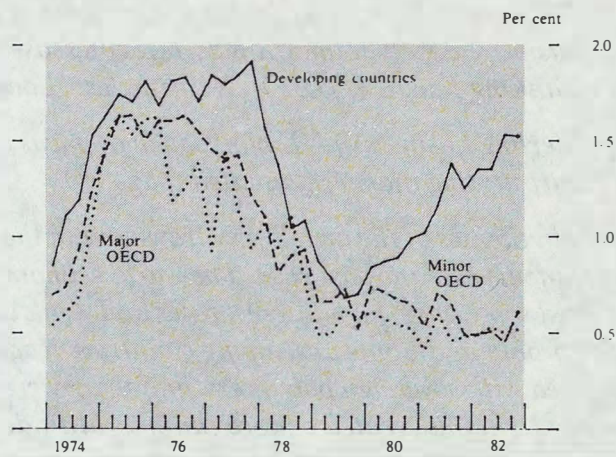
In the second half of the year, problems emerged with some individual borrowers, both domestic and international. The failure of certain financial institutions made banks more cautious in their behaviour. In the United States, in the middle of May, Drysdale Government Securities collapsed and this was followed in July by the failure of Penn Square, a bank specialising in loans to the domestic energy sector. In several countries the risk of bankruptcies of some large and heavily indebted corporations threatened to increase bank losses. These events increased the attention already being focussed on the adequacy of banks' capital and perhaps led to greater caution and discrimination by depositors. Somewhat different problems followed the appointment of Commissioners to administer the Italian bank Banco Ambrosiano in June, and in particular the default of Banco Ambrosiano Holdings, a Luxembourg holding company controlled by the bank. In August, when Banco Ambrosiano had to be placed in liquidation, a consortium of Italian banks conducted a rescue operation which fully safeguarded the liabilities of Banco Ambrosiano, Milan, but did not extend to its foreign subsidiaries.

Banks of some nationalities had already started to adopt a more conservative stance and this movement was reinforced by the events described. Many now put greater emphasis on profitability rather than rapid balance sheet growth. Supervisors have similarly given greater attention to provisions and capital adequacy. They have encouraged banks to maintain their capital and reserves at an appropriate level to support their operations through the period of uncertainty ahead, and also to recognise deterioration in the quality of some assets by making adequate provisions.⁽¹⁾

The banks' caution has been most evident through pricing of loans: spreads over London inter-bank offered rate (LIBOR) charged on credits to some developing countries, notably in Latin America, increased sharply from late 1981. There was also some shortening of maturities of loans. However, the increase in spreads and shortening of

maturities has not yet been as pronounced or generalised as after the 1973-74 oil price rises and the banking failures in 1975. In 1974 spreads increased sharply for all borrowers, but over the past two years only certain borrowers have faced significant increases, so that the range of spreads has widened (Chart 1). Although from time to time there have been reports of increased tiering of interest rates in the inter-bank market, and a lower volume of activity, this has also not yet been as marked as post-1974. Then, the major problems related to some of the intermediaries, but this time they are concentrated on individual non-bank debtors. The reaction has consequently been largely a cutback in the quantity of bank lending to individual borrowers rather than a general increase in costs.

Chart 1
Average spreads on syndicated medium-term eurocredits

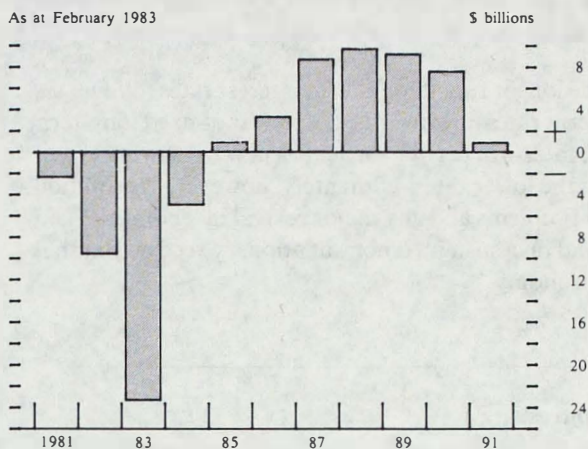


Difficulties of sovereign borrowers

Among the most serious of the difficulties with individual debtors were those with Mexico. On 20 August, Mexico announced a 90-day moratorium, subsequently extended for a further 120 days, on repayments to banks of all principal on all maturities of public sector debt except for trade-related debt and bond issues; the inter-bank debt of overseas branches of Mexican banks was also not included. Repayment of a significant part of private sector debt was also in arrears by August. The moratorium was intended to allow discussions on a formal rescheduling to take place. The authorities of creditor countries reacted swiftly. A facility of \$925 million was arranged by the US authorities, matched by a similar amount through the agency of the BIS, which was guaranteed by a number of central banks. This facility was to provide bridging finance until the Mexicans could reach agreement with the IMF on an adjustment programme and financing. An advisory group, comprising representatives of the major commercial banks with considerable exposure to Mexico, was formed to advise on the handling of difficulties and to act as a channel of communication with the commercial banks concerned. With the backing of central banks, the IMF asked the commercial banks to commit themselves to additional

(1) These questions are discussed further in two speeches by Mr W P Cooke, the Head of Banking Supervision, one reprinted on page 61 of this *Bulletin* and one on page 547 of the December 1982 *Bulletin*.

Chart 2
Change in principal repayments resulting from rescheduling^(a)



(a) The countries covered are: Argentina, Brazil, Chile, Ecuador, Mexico, Poland (excluding 1983 maturities) and Romania.

medium-term lending of \$5 billion (representing a 7 per cent increase in each bank's exposure) to ensure the viability of the Fund programme underlying an Extended Fund Facility of SDR 3.4 billion. This \$5 billion had been fully committed by the end of February 1983. The banks also rolled over their maturing loans and maintained their exposure to the agencies of Mexican banks abroad.

In the autumn, problems emerged with Brazil; and in November Argentina took steps to regularise arrears and debts to British banks, thereby laying the foundations for commercial bank bridging finance, new money and rescheduling. The actions taken in relation to Mexico were broadly repeated with these countries: a bridging loan was arranged from the BIS, backed by central banks; collective action was taken by the banks to maintain and reschedule their existing lending; and there was close co-operation between the IMF and the commercial banks, an IMF loan being linked to increased new lending by the commercial banks, with the encouragement of central banks.⁽¹⁾

In addition, Venezuela sought to refinance short-term debt on a medium-term basis but is now seeking a more formal rescheduling of short-term public sector debt. Chile also announced that it needed to reschedule medium and long-term public and private financial sector debt: a 90-day standstill on capital repayments of such debt, effective from 31 January, has been agreed pending rescheduling negotiations. Yugoslavia approached governments, the commercial banks, the BIS and the International Bank for Reconstruction and Development (IBRD) for assistance, in support of its continuing IMF programme.

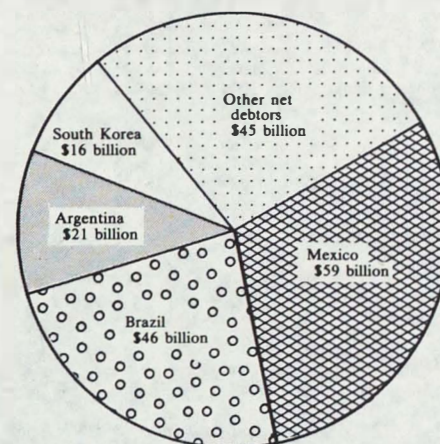
The effect of these difficulties, which increased towards the end of the year, can be seen in bank lending for the second half of 1982 (Chart 6 on page 48): announcements of medium-term credits dropped sharply, especially to the developing countries. Statistics from the BIS for the third

quarter show only a slow rise in total net lending with a fall in lending to the non-oil developing countries and Eastern Europe (Table A). Figures for the London market in the fourth quarter show a similar picture.

By early 1983, negotiations were under way to reschedule nearly \$45 billion of commercial debt due between 1982 and the end of 1984; in most cases the repayment of principal would be postponed until at least 1986 (Chart 2). Agreements had also been signed for \$5 billion of 1981 and 1982 maturities of Polish and Romanian debt. Most of the \$45 billion is accounted for by Mexico and the other Latin American countries mentioned, but it also includes Cuba and Ecuador. In some cases, rescheduling and temporary suspensions of principal to facilitate negotiations may have followed pressure from some banks; in others borrowers may have acted without prior consultation. In most cases interest payments have been maintained.

Chart 3
Floating rate debt: the major debtors

Shares of net floating rate debt^(a) in 1982



(a) Only countries with net floating rate debt are included. The chart is based on data published by the OECD.

Prospects

Against this background the banks' cautious attitude towards their lending is likely to continue in 1983, and the high growth rates of international lending experienced in the 1970s are unlikely to be resumed for the time being. Emphasis on adequate provisions and the maintenance of sufficient capital will reinforce the growing conservatism of the banks themselves towards their international lending. While encouraging this, the bank supervisors are also alive to the need in some cases for additional lending to troubled borrowers in order to preserve and improve the quality of existing lending. New lending arranged as part of the rescue packages, and rescheduled lending, may help to maintain the level of lending to the non-oil developing countries; and this, together with a number of large credits announced early in 1983, is likely to mean an upturn in total net lending in the first half of this year after the pause in the second half of 1982.

(1) The action taken in response to these debt problems is discussed in the Governor's speech to the Overseas Bankers Club, reprinted on page 39 of this *Bulletin*.

Rescheduling will afford a substantial breathing space to the major debtors and the adjustment programmes undertaken in conjunction with IMF assistance should improve their economic performance; interest rate falls in the second half of 1982 will also help. The immediate benefit of this will have been concentrated on borrowers with substantial floating rate debt, net of floating rate assets. Thus Mexico and Brazil (each with net floating rate debt of about \$50 billion) will derive considerable benefit from a sustained reduction in interest rates, as will Argentina (\$21 billion) and South Korea (\$16 billion) (Chart 3). These four countries account for over 70 per cent of the net

floating rate debt of those non-oil developing countries which are net debtors (although there are also some developing countries with a positive net floating rate asset position).

Over the longer run, if long-term interest rates follow short-term rates downwards, borrowers at fixed long-term interest rates will begin to benefit as new borrowing takes place at the lower rates. Ultimately, however, the solution to their problems and any major revival in lending is likely to depend on a sustained non-inflationary recovery in the world economy.

Table A

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

\$ billions; changes exclude estimated exchange rate effects

	Outstanding end-1978	1979			1980				1981				1982			Outstanding Sept. 1982
		Year	Year	Year	Q1	Q2	Q3	Q4	Q1	Q2	Q3					
Deposits from non-residents																
Total	957	+278	+281	+299	+55	+46	+89	+108	+46	+13	+50				1,814	
Placed with banks in:																
Reporting European area	593	+174	+178	+128	+28	+10	+27	+64	+3	-4	+36				1,003	
of which, United Kingdom	225	+65	+72	+79	+23	+10	+22	+24	+19	-1	+36				484	
United States	92	+38	+9	+38	-6	+8	+13	+22	-27	+27	+9				239	
Canada and Japan	64	+21	+40	+40	+12	+10	+14	+3	+11	-11	+5				164	
Offshore centres: US banks	107	+21	+14	+33	+7	+8	+15	+3	-2	+1	-				175	
Non-reporting banks(b)	101	+24	+39	+60	+14	+10	+20	+16	+7	+1	-				234	
Source																
Outside reporting area																
Developed countries	38	+7	+6	+3	-	-1	+3	+1	-	-1	+3				51	
Eastern Europe	11	+5	+1	-	-4	-1	+1	+4	-3	+1	+1				12	
Oil exporting countries	82	+37	+41	+3	+5	+2	-1	-3	-1	-7	-4				140	
Non-oil developing countries	77	+12	+3	+10	-1	+1	+2	+8	-1	+4	-1				98	
of which, Latin America	33	+5	-1	+6	-	-2	+1	+3	-	-1	-1				37	
Sub-total	208	+61	+51	+17	-	+1	+5	+10	-5	-3	-1				301	
Inside reporting area(c)																
Banks(d)				+158	+24	+18	+49	+63	+33	+2	+46				1,010	
Non-banks	630	..	..	+41	+10	+7	+12	+16	+7	+11	+2				227
Unallocated(e)	119	..	..	+83	+21	+20	+23	+19	+11	+3	+3				276
Lending to non-residents																
Total	1,000	+235	+281	+329	+69	+53	+91	+115	+48	+27	+69				1,874	
Lent by banks in:																
Reporting European area	611	+153	+158	+136	+32	+18	+31	+56	+5	-5	+37				984	
of which, United Kingdom	218	+63	+72	+80	+26	+13	+23	+19	+16	-3	+29				460	
United States	119	+17	+41	+76	+7	+15	+13	+41	+28	+38	+26				346	
Canada and Japan	56	+16	+29	+24	+9	-	+14	+1	+9	-8	+9				128	
Offshore centres: US banks	107	+21	+13	+32	+6	+7	+14	+4	-3	+2	-2				169	
Non-reporting banks(b)	107	+28	+40	+61	+15	+12	+20	+14	+9	-	-				248	
Direction																
Outside reporting area																
Developed countries	64	+8	+15	+17	+4	+4	+4	+5	+5	+4	+3				106	
Eastern Europe	48	+8	+7	+5	+1	+2	+1	+1	-3	-1	-1				52	
Oil exporting countries	56	+7	+6	+4	-2	+1	+2	+3	+1	+3	+3				77	
Non-oil developing countries	121	+35	+40	+42	+5	+9	+11	+17	+3	+13	-1				240	
of which, Latin America	80	+23	+27	+33	+5	+6	+9	+12	+4	+8	+1				169	
Sub-total	289	+58	+68	+66	+8	+16	+18	+25	+6	+19	+4				475	
Inside reporting area(c)																
Banks(d)				+152	+33	+14	+38	+67	+26	+2	+50				930	
Non-banks	590	..	..	+31	+7	+2	+11	+11	+1	+4	+9				190
Unallocated(e)	121	..	..	+78	+21	+21	+24	+12	+15	+2	+6				279
Foreign currency deposits from residents(b)																
From banks	118	+40	+51	+46	+19	+1	+23	+3	+29	-24	+37				300	
From non-banks	42	+3	+7	+8	-	+2	+3	+3	+1	+2	+2				51	
Foreign currency lending to residents(b)																
To banks	116	+37	+55	+41	+18	+2	+17	+4	+30	-25	+35				297	
To non-banks	72	+15	+28	+30	+3	+6	+9	+12	+2	+3	+4				123	

Source: Bank for International Settlements.

.. not available.

(a) The coverage of this table is as in Table 13.1 in the statistical annex plus an estimate for non-reporting banks in certain offshore centres (those listed in footnote (b) to Table 13.1 plus Bahrain and the Netherlands Antilles).

(b) Partial estimates.

(c) Includes business with the offshore centres; the split between banks and non-banks is partly estimated. The treatment of London dollar CDs differs in this table (and in Tables E and F) from that in the UK contribution to the BIS statistics. In the BIS statistics CDs reported by UK banks as held in custody for US banks are reported as due to banks; but since these CDs are believed to be virtually all owned by US non-banks, they have been allocated to non-banks in this article.

(d) Includes liabilities to banks' trustee accounts (which may originate from non-banks).

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

International banking: recorded flows

The figures in this article are mainly those collated by the BIS and cover the international business of banks in the BIS reporting area plus a partial estimate for the business of banks located in the offshore banking centres. They include foreign and domestic currency business with non-residents and also foreign currency business with residents. For certain purposes it is helpful to eliminate inter-bank transactions from the gross measures, and to focus on non-bank deposits with the market and lending by the market to non-banks; for these purposes the BIS net series is used. Statistics for banks in the United Kingdom (the London market), which are a component of the BIS aggregates, are also used. A box on page 52 gives a fuller description of the statistics.

A further indicator of market conditions is provided by the figures for announcements of medium-term credits collected by the Bank of England. These are not comparable with the BIS figures for a variety of reasons; in particular they take no account of repayments and do not allow for timing or other differences between the amounts announced and amounts disbursed. Nevertheless, they do provide a quick indicator of current market conditions, especially of the terms on which lending is contracted. The article also covers international bond issues, many of which are managed by banks. Banks hold some bonds themselves but most are probably held by non-banks (including financial institutions such as investment and pension funds).

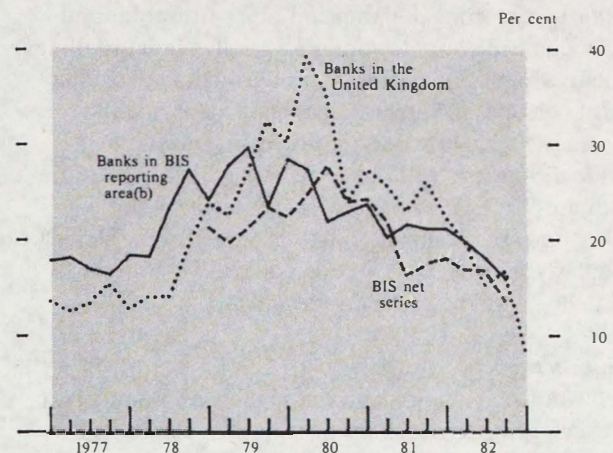
The growth of credit

Bank lending (Table A)

A depressed world economy, together with greater caution of the banks, slowed down the growth of outstanding international bank claims in nominal dollar terms in the year to end-September 1982 to 16 per cent, compared with over 20 per cent per annum between 1976 and 1981 (Chart 4). Net lending similarly slackened. With oil exporting countries as a whole running down their deposits, new funds to finance lending are now coming overwhelmingly from within the BIS reporting area, notably from the United States. There was also a change in the direction of lending, towards countries in the reporting area; even outside the reporting area it was the minor OECD countries who increased their borrowing most rapidly. Figures for the London market in the fourth quarter show that this pattern continued.⁽¹⁾

The rate of growth of international bank lending is measured in this article mostly in nominal dollar terms. These are the terms on which most business is done, but for some purposes this may need to be supplemented by other measures. Borrowers' ability to service their debts will be influenced by fluctuations in their income or trade, as may creditors' demand for deposits. The rather steady nominal growth of international bank business needs to be seen in the context of the recent slackening in the growth of activity

Chart 4
Growth of bank lending to non-residents^(a)



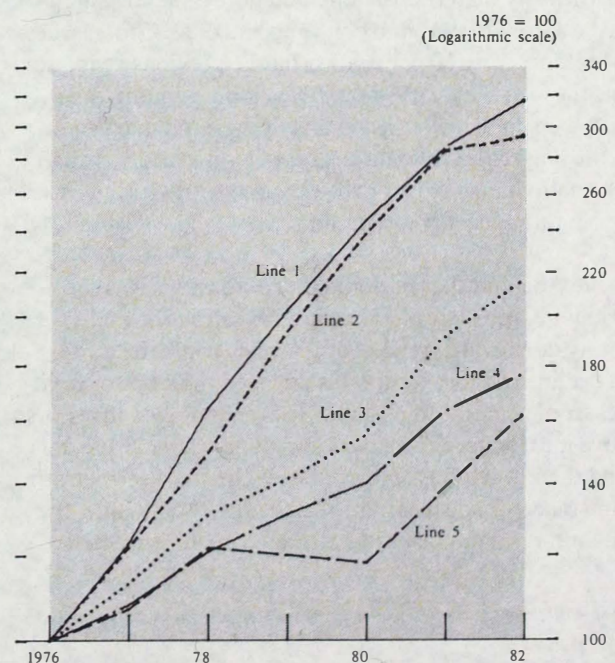
- (a) Change (excluding estimated exchange rate effects) during the previous twelve-month period, expressed as a percentage of the stock at the beginning of the period.
(b) Total cross-border lending by banks in the BIS reporting area plus an estimate for non-reporting banks in the offshore centres.

and trade, and of inflation which accelerated sharply in 1979 and 1980 but has since fallen back again.

There can be no uniquely valid measure of these effects, but in 1979 and 1980—when the world economy was expanding in real terms, inflation was high and the dollar was weakening—world trade⁽²⁾ and world income⁽³⁾ measured in dollars were rising as fast or faster than international lending (Chart 5). In 1981 and 1982, by

Chart 5
Measures of international bank lending

- Line 1 BIS net series (lending to all countries).
Line 2 Lending to non-oil developing countries.
BIS net series relative to:
Line 3 US dollar price of manufactured exports.
Line 4 World nominal income.
Line 5 World trade.



(1) For more detail on the latest quarter's data for the London market, see 'International financial developments' on page 31.

(2) Defined as the value of world imports of merchandise goods.

(3) Defined as the gross product of the market economies.

contrast, the growth in nominal bank lending slowed. But low or negative real growth in the world economy, lower inflation and a strong dollar meant that world trade and world income measured in dollars were stagnant or falling; so, relative to these measures, recent growth in the dollar value of outstanding international bank loans might be regarded as high. However, the borrowing needs of individual countries will also have been affected by high interest rates and changes in their terms of trade. Furthermore, the nominal growth of bank lending slowed particularly sharply in the second half of 1982 bringing it more in line with the path of trade and income.

Medium-term bank credits

The slowdown in nominal international bank lending and, in particular, the change in its distribution, can be seen more starkly from the medium-term credits figures. In 1982 as a whole, announcements of some \$90 billion were 5 per cent lower in dollar terms than in 1981, even when the exceptional standby credits for North American borrowers announced in connection with takeover activity are excluded from the 1981 total.

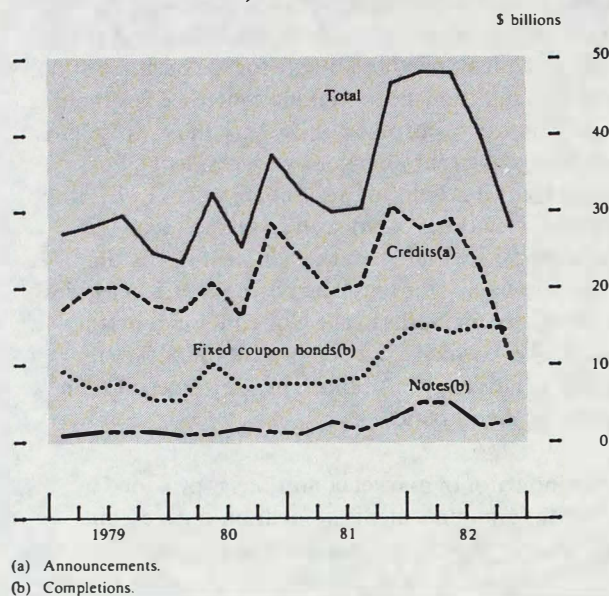
A marked contrast between the two halves of 1982 is evident in Chart 6. Up to the middle of the year announcements, of \$28 billion in each quarter, were 19 per cent above the average rate of 1981. From August onwards the level of credits announced was much lower, largely because of a sharp decline in credits for the non-oil developing countries; their announced borrowing fell from over \$23 billion during the first half of the year to below \$9 billion in the second. This is evidence of the banks' more cautious attitude towards lending to these countries as the financial position of many of them deteriorated.

International bond issues

An historically high rate of bond and note issues began in the last quarter of 1981 and continued in 1982. Gross issues, of \$74 billion, were 60 per cent up on the previous year and double the average for 1977-80. Developing countries have scarcely benefited from this revival in the bond markets, since the market is reluctant to accept anything other than prime quality paper from borrowers in the OECD countries and from international institutions.

One factor behind the accelerated pace of issues was the movement in interest rates. Long-term rates followed a generally downward trend over the year, while the more rapid decline of short-term rates changed the slope of yield curves from negative to positive. This encouraged investors to move into longer-term assets and bond traders were able to fund their portfolios at a profit over the short term. Both circumstances made it easier to sell issues. Meanwhile, the fall in long-term interest rates attracted borrowers keen to

Chart 6
Medium-term credits, bonds and notes



(a) Announcements.
(b) Completions.

reverse their growing dependence on short-term and floating rate debt.

Among the borrowers in the international bond market, US corporations accounted for over one fifth of the value of issues in 1982. Much of their borrowing was concentrated in the first half of the year; the upturn in long-term borrowing by US corporations was at first more cheaply accommodated by the eurobond market, which offered ease of access and willing investors. In the second half of the year US corporations used the eurobond market less while their use of the domestic US market continued to expand, perhaps because shelf registration⁽¹⁾ made it easier for them to respond rapidly to market conditions. In addition, investment demand for eurobonds may have shifted away from dollar issues in the second half of the year because the dollar was expected to weaken. This would have raised the cost of dollar borrowing in the eurobond market relative to the US market.

Borrowers from other OECD countries, besides reacting to interest rate changes, utilised the bond market in part as an alternative to bank credits. In the second half of the year, when conditions in the syndicated credit market became increasingly difficult, this was particularly noticeable. It compensated for the decline in US corporate issues so that both the level of issues, and the proportion of dollar issues within the total, were maintained throughout the year.

Banks' business with countries outside the reporting area⁽²⁾
The most striking change was that funds supplied by countries outside the BIS reporting area grew by only

(1) Since March 1982 the US Securities and Exchange Commission have permitted borrowers whose stock is widely held to cover all their possible issues of securities, for a period of up to two years, with one registration statement. Previously each issue had to be registered separately.

(2) This discussion is based mainly on the BIS figures and relates to the twelve months to end-September 1982 (Table A). Figures relate to amounts outstanding on the reporting banks' balance sheets, and changes in them from one reporting date to the next reflect withdrawals and repayments as well as gross new deposits and borrowing. The effect of exchange rate movements on the dollar value of non-dollar items has been eliminated as far as possible. It should be noted that a fall in outstanding lending recorded in the BIS statistics need not always mean a reduction in the debtor's total indebtedness, since the statistics do not include lending by official or international bodies.

Table B
Business of BIS reporting area banks with non-oil developing countries in Latin America

	Transactions in year to end-September			Transactions in quarter				Outstanding at end-September 1982	Outstanding lending due for repayment within one year(a)		Undisbursed credit commitments(a)	
	1980	1981	1982	1981		1982			End-June 1981	End-June 1982	End-June 1981	End-June 1982
				Q4	Q1	Q2	Q3					
	<i>\$ billions; changes exclude estimated exchange rate effects(b)</i>											
	<i>Percentage of total outstanding lending</i>											
Lending:												
Total	+ 28.1	+ 23.9	+ 25.1	+ 12.3	+ 3.9	+ 7.7	+ 1.2	169.2	44.1	44.9	16.4	13.1
of which, to:												
Argentina	+ 8.2	+ 3.4	+ 0.8	+ 1.2	+ 0.5	- 0.5	- 0.4	22.5	51.4	51.8	13.8	10.5
Brazil	+ 6.5	+ 4.5	+ 9.5	+ 3.9	+ 0.8	+ 2.0	+ 2.8	55.1	33.1	33.8	13.3	11.7
Mexico(c)	+ 8.7	+ 12.9	+ 10.1	+ 5.4	+ 2.8	+ 3.7	- 1.8	60.0	47.1	50.0	15.6	11.8
Deposits:												
Total	- 0.8	-	+ 2.0	+ 4.1	- 0.1	- 0.7	- 1.3	36.9				
of which, from:												
Argentina	+ 0.3	- 1.9	- 0.5	+ 0.7	+ 0.5	- 2.6	+ 0.9	5.4				
Brazil	- 4.4	+ 0.3	- 0.4	+ 0.2	- 0.8	+ 0.5	- 0.3	4.1				
Mexico(c)	+ 1.1	+ 2.2	+ 1.1	+ 2.1	- 0.2	+ 0.3	- 1.1	11.0				
Net lending:												
Total	+ 28.9	+ 23.9	+ 23.1	+ 8.2	+ 4.0	+ 8.4	+ 2.5	132.3				
of which, to:												
Argentina	+ 7.9	+ 5.3	+ 1.3	+ 0.5	-	+ 2.1	- 1.3	17.1				
Brazil	+ 10.9	+ 4.2	+ 9.9	+ 3.7	+ 1.6	+ 1.5	+ 3.1	51.0				
Mexico(c)	+ 7.6	+ 10.7	+ 9.0	+ 3.3	+ 3.0	+ 3.4	- 0.7	49.0				

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

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

(c) By convention, Mexico is included in non-oil developing countries even though an exporter of oil.

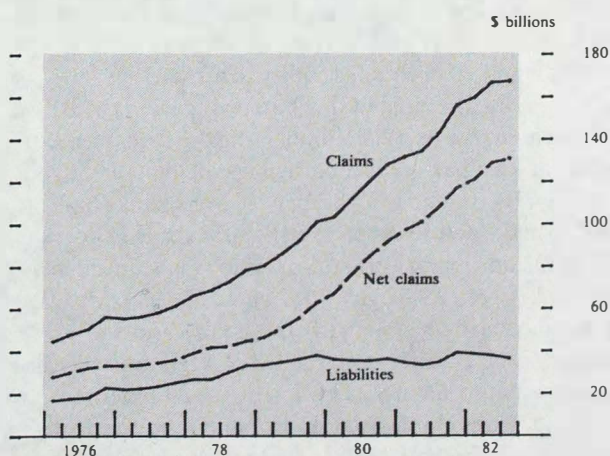
\$1 billion in the year to September 1982 compared with \$19 billion in the previous twelve-month period. This change was more than accounted for by the oil exporting countries, who switched from building up their deposits by \$30 billion in the previous year to running them down by \$16 billion. It left non-oil developing countries as the major suppliers from outside the reporting area. The proportion of lending going to countries outside the area fell, mainly in the third quarter of 1982. Developed countries outside the reporting area continued to borrow at much the same rate as in the previous year, but there was a fall in outstanding lending to Eastern Europe.

Unlike 1981, when maturities had tended to shorten, the maturity profile of outstanding lending to countries outside the area changed little in the first half of 1982; whereas in 1981 the proportion of banking debt due within one year increased from 45.5 per cent to 47.1 per cent, this proportion rose only fractionally to 47.3 per cent in the first six months of 1982. Nor was there any overall change in undisbursed commitments as a proportion of outstanding lending in the first half of 1982; during 1981 the ratio of undisbursed commitments to outstanding banking debt fell from 23.3 per cent to 21 per cent. There were, nevertheless, divergent movements between different countries. Indeed, one notable feature of 1982 was that the banks came increasingly to differentiate between countries in the terms on which they would lend and in their willingness to do so. This makes it difficult to assess developments by looking only at groups of countries.

Non-oil developing countries increased their net⁽¹⁾ borrowing by \$22 billion in the year to September 1982; this was more than accounted for by a \$24 billion increase for

Latin America. The three major Latin American borrowers (Argentina, Brazil and Mexico) were able to increase their borrowing up to the middle of 1982 by much the same amounts as in previous years (Chart 7 and Table B). Lending to Venezuela⁽²⁾ also rose in the first half of the year and at end-September 1982 these countries accounted for over 30 per cent of total lending by BIS reporting banks to countries outside the reporting area. Nevertheless, this rate of new borrowing was maintained only at the cost of a sharp increase in the spreads charged. The spread on Mexican loans rose from below $\frac{1}{2}$ per cent in the third quarter of 1981 to over 1 per cent by the second quarter of 1982; other borrowers faced similar increases (see chart on page 33). And more expensive borrowing may have contributed to the rundown in deposits by Argentina and Venezuela.

Chart 7
BIS reporting area banks' positions with Latin America^(a)



(a) Excluding oil exporting countries (Venezuela and Ecuador).

(1) After netting off changes in deposits.

(2) Although an oil exporting country Venezuela has been mentioned here to give some idea of the indebtedness of the largest Latin American borrowers as a geographic group.

Table C
Business of BIS reporting area banks with Eastern Europe

	Transactions in year to end-September			Transactions in quarter				Outstanding at end-September 1982	Outstanding lending due for repayment within one year(a)		Undisbursed credit commitments(a)	
	1980	1981	1982	1981 1982					End-June 1981	End-June 1982	End-June 1981	End-June 1982
				Q4	Q1	Q2	Q3					
	<i>\$ billions; changes exclude estimated exchange rate effects(b)</i>											
Lending:												
Total	+6.3	+5.2	-3.5	+0.7	-2.6	-0.5	-1.1	52.1	39.4	39.8	13.4	11.7
of which, to:												
German Democratic Republic(c)	+1.8	+1.5	-0.9	+0.2	-0.7	-0.3	-0.1	8.5	40.4	39.0	14.6	13.5
Hungary	+0.2	+0.4	-0.4	+0.5	-0.8	+0.1	-0.2	6.3	35.9	33.2	8.9	5.2
Poland	+2.0	+0.2	-1.4	-0.3	-0.5	-0.5	-0.1	12.9	32.3	34.3	15.5	8.1
USSR	+0.2	+4.3	-1.2	+0.3	-1.1	+0.3	-0.7	13.7	46.7	48.4	13.9	16.4
Deposits:												
Total	+1.2	-1.4	+2.0	+3.8	-3.1	+0.7	+0.6	12.2				
of which, from:												
German Democratic Republic(c)	+0.6	-0.2	-0.6	+0.2	-0.6	—	-0.2	1.2				
Hungary	—	+0.3	-0.4	+0.1	-0.4	—	-0.1	0.2				
Poland	-0.1	-0.1	+0.1	-0.1	-0.1	+0.1	+0.2	0.9				
USSR	+0.3	-1.7	+3.3	+3.8	-1.6	+0.2	+0.9	7.4				
Net lending:												
Total	+5.1	+6.6	-5.5	-3.1	+0.5	-1.2	-1.7	39.9				
of which, to:												
German Democratic Republic(c)	+1.2	+1.7	-0.3	—	-0.1	-0.3	+0.1	7.3				
Hungary	+0.2	+0.1	—	+0.4	-0.4	+0.1	-0.1	6.1				
Poland	+2.1	+0.3	-1.5	-0.2	-0.4	-0.6	-0.3	12.0				
USSR	-0.5	+6.0	-4.5	-3.5	+0.5	+0.1	-1.6	6.3				

(a) See footnote (a) to Table B.

(b) See footnote (b) to Table B.

(c) Excluding the position of banks in West Germany.

Another indication of the banks' growing unwillingness to lend to Latin America was a shortening of the maturity profile of outstanding debt.⁽¹⁾ Mexico's banking debt maturity shortened, with the proportion due for repayment within one year increasing from 47 per cent at end-June 1981 to 50 per cent a year later. The average maturity of Brazil's banking debt is considerably longer; and the proportion due for repayment within one year increased only slightly over the year to June 1982—from 33.1 per cent to 33.8 per cent. Except for Brazil, undisbursed commitments fell (as a proportion of loans outstanding) in the year to June 1982 (Table B).

After Mexico announced its moratorium on the repayment of certain categories of debt in mid-August 1982, very few new credits were announced for Latin American countries. There was little sign of relaxation later in the year as problems emerged in Brazil's ability to attract new borrowing; Brazil's outstanding borrowing from the BIS reporting area rose by \$2.8 billion in the third quarter, but this may at least partly reflect drawings on loans arranged previously. By the end of February 1983 the banks had agreed to make new loans of \$5 billion for six years to Mexico, in addition to a commitment to reschedule debts maturing between 23 August 1982 and end-1984. Mexico also obtained bridging finance from the BIS and an Extended Fund Facility from the IMF. Argentina was also given a bridging loan of \$1.1 billion by the commercial banks, and is seeking rescheduling of public sector debt overdue at 1 December 1982 and falling due between then and end-1983, plus a further \$1.5 billion of new money.

In addition, Argentina received a bridging loan from the BIS of \$500 million and a stand-by facility from the IMF of SDR 1.5 billion. The third major debtor, Brazil, requested a loan of \$4.4 billion new money, as well as rescheduling of 1983 (public and private sector) maturities, having already obtained a bridging loan of over \$2 billion. Short-term emergency assistance of \$1.53 billion had been provided by the US Treasury, and Brazil was granted further official assistance comprising a \$1.45 billion bridging loan from the BIS (including a contribution of \$250 million from the Saudi Arabian Monetary Agency) and an Extended Fund Facility of SDR 4.2 billion. For Mexico and Argentina the terms on this new bank lending represented a further sharp increase in spreads, from around 1 per cent earlier in 1982 to 2¼ per cent. Chile also had to seek rescheduling of its debt in late January 1983, having earlier won IMF approval for an SDR 500 million stand-by facility.

Of the other non-oil developing countries, those in South-East Asia continued to be able to raise money on terms equal to, or even better than, those obtained by OECD borrowers (see chart on page 34). The major borrowers were South Korea and the Philippines, whose net bank indebtedness rose by \$0.2 billion and \$1.5 billion respectively in the year to end-September 1982. Borrowing by the Philippines was mainly short term but other South-East Asian borrowers were able to lengthen the maturity of their debt; in the year to end-June 1982 the proportion of debt due for repayment within one year fell from 53.1 per cent to 51.5 per cent. These borrowers also obtained increases in their credit facilities; in the year to

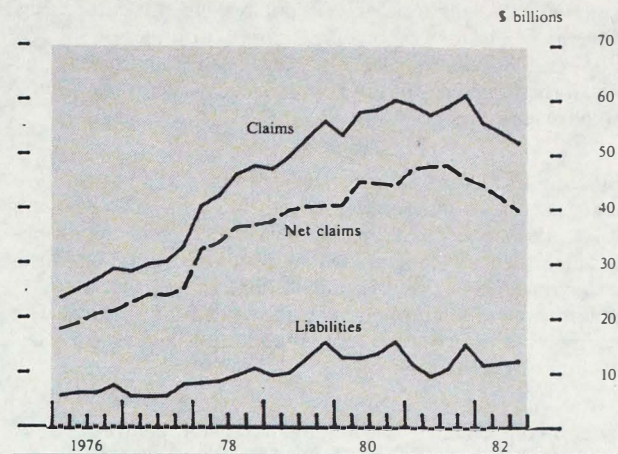
(1) The statistics analyse outstanding borrowing by residual rather than original maturity. Changes in short-term borrowing from one reporting date to the next therefore comprise loans of longer original maturity passing into the short-term bracket, as well as new short-term borrowing net of repayments.

end-June 1982 undisbursed commitments as a percentage of outstanding debt to the banks increased from 38.9 per cent to 40.1 per cent. Most announcements of new credits came in the first half of the year when market conditions generally were more favourable, but there is little evidence that terms subsequently became harder (except for credits to the Philippines).

Eastern European countries' outstanding borrowing was reduced by \$3.5 billion in the year to end-September 1982 as the evident concern about a number of them continued (Chart 8 and Table C). Lending to the USSR fell by \$1.2 billion and was accompanied by a rise in deposits of \$3.3 billion, so that net lending fell by a third; gross lending to East Germany and Poland was reduced by \$0.9 billion and \$1.4 billion respectively. In Poland's case the fall in gross lending at least partly reflects insured lending by banks being paid off by export credit agencies; it does not represent any change in that country's overall net indebtedness.

Very few syndicated credits to Eastern European countries were announced during 1982; however, Hungary was able to raise a \$260 million syndicated credit at the end of July, following a loan from the BIS (guaranteed by certain central banks) and its approach to the IMF. The maturity profile of outstanding debt to Eastern Europe lengthened during the first half of 1982. Some short-term maturities were probably not renewed as they fell due, but the analysis is complicated by the effects of moratoria declared by Romania and Poland where medium and long-term maturities were initially rolled over on a monthly basis

Chart 8
BIS reporting area banks' positions with Eastern Europe



before being rescheduled. Except for the USSR (where large, government-guaranteed, contracts for gas pipelines have been arranged), undisbursed credit commitments have also been falling, notably for Poland and Hungary where they were down to 8 per cent and 5 per cent of total lending to these countries at end-June 1982 compared with 21 per cent for all countries outside the reporting area.

Oil exporting countries increased their net borrowing by \$24 billion in the year to September 1982 as their aggregate surplus disappeared (Table D). Their deposits have been falling since the third quarter of 1981, following only slow growth since September 1980. This fall is more than can be

Table D
Business of BIS reporting area banks with oil exporting countries

	Transactions in year to end-September			Transactions in quarter				Outstanding at end-September 1982	Outstanding lending due for repayment within one year(a)		Undisbursed credit commitments(a)	
	1980	1981	1982	1981 1982					End-June 1981	End-June 1982	End-June 1981	End-June 1982
				Q4	Q1	Q2	Q3					
	<i>\$ billions; changes exclude estimated exchange rate effects(b)</i>											
Lending:												
Total	+ 3.7	+10.6	+10.5	+2.8	+1.6	+3.3	+2.8	77.2	59.1	59.7	24.5	23.2
of which, to:												
Middle East:(c)								9.7	85.6	83.3	28.1	25.4
low absorbers	- 1.0	+ 1.2	+ 1.8	+0.9	-0.1	+1.0	—	16.6	86.1	87.7	13.2	15.1
high absorbers	- 1.6	+ 0.9	+ 4.5	+0.9	+0.7	+0.4	+2.5	6.0	32.8	32.4	64.0	55.4
Nigeria	+ 0.9	+ 2.4	+ 1.8	—	+0.1	+0.9	+0.8	22.5	60.2	59.7	16.6	12.1
Venezuela	+ 4.6	+ 3.9	+ 2.1	+0.8	+0.5	+0.6	+0.2	22.4	30.1	34.9	29.3	29.9
Other	+ 0.8	+ 2.2	+ 0.3	+0.2	+0.4	+0.4	-0.7					
Deposits:												
Total	+63.2	+29.9	-13.1	-2.7	-0.5	-6.2	-3.7	140.1				
of which, from:												
Middle East:(c)								72.7				
low absorbers	+16.7	+30.6	+ 8.8	+3.7	+2.2	+0.1	+2.8	30.7				
high absorbers	+21.8	- 2.5	-15.5	-7.5	+1.5	-6.1	-3.4	1.6				
Nigeria	+ 4.8	- 3.1	- 0.9	-0.8	-0.3	+0.1	+0.1	13.8				
Venezuela	+ 6.7	+ 6.5	- 4.9	+0.3	-1.5	-1.0	-2.7	21.3				
Other	+13.2	- 1.6	- 0.6	+1.6	-2.4	+0.7	-0.5					
Net lending:												
Total	-59.5	-19.3	+23.6	+5.5	+2.1	+9.5	+6.5	-62.9				
of which, to:												
Middle East:(c)								-63.0				
low absorbers	-17.7	-29.4	- 7.0	-2.8	-2.3	+0.9	-2.8	-14.1				
high absorbers	-23.4	+ 1.6	+20.0	+8.4	-0.8	+6.5	+5.9	+ 4.4				
Nigeria	- 3.9	+ 5.5	+ 2.7	+0.8	+0.4	+0.8	+0.7	+ 8.7				
Venezuela	- 2.1	- 2.6	+ 7.0	+0.5	+2.0	+1.6	+2.9	+ 1.1				
Other	-12.4	+ 5.6	+ 0.9	-1.4	+2.8	-0.3	-0.2					

(a) See footnote (a) to Table B.

(b) See footnote (b) to Table B.

(c) For list of high and low absorbers, see Table 13.1 in the statistical annex.

International banking statistics: a guide to sources

International banking is conventionally defined as comprising three elements: foreign (or 'euro') currency business with non-residents, domestic currency business with non-residents, and foreign currency business with residents. The table shows some magnitudes.

Since the Bank for International Settlements (BIS) began to collate statistics in the early 1960s, the reporting area has been gradually extended. At present, the BIS receives and publishes detailed quarterly data for the major banking centres and the branches of US banks in certain offshore centres; the BIS also publishes an estimate of other business in offshore centres. The centres covered are described in the additional notes to Table 13.1 of the statistical annex.

The BIS reporting area (including the offshore centres) is a useful concept, comprising centres from which the banks provide international banking services. Thus a distinction is made in this article between *outside* and *inside area* countries. Business of the reporting banks with outside area banks and non-banks can be amalgamated since the local banks are generally just acting as a channel between the reporting area banks and the local economies. On the other hand business among *inside area* banks will be inflated by transactions among banks as they intermediate between the original supplier and the final user. The BIS therefore makes an estimate of the net size of international bank lending (column 10), in which transactions among banks in the main financial and offshore centres are netted out (apart from inter-bank loans which the borrowing bank switches into domestic lending to a non-bank).

Column 5 in the table shows a wider measure which includes the external business of banks in countries for which at least a total is available to the IMF.

Bank for International Settlements

The BIS publishes a quarterly release, normally some three months after the end of the calendar quarter, which collates detailed statistics from the reporting centres and branches of US banks in certain offshore centres. It also publishes a half-yearly release, normally some six months in arrears, which gives details of the maturity distribution of lending to countries outside the reporting area and figures for total liabilities and undischarged credit commitments; the coverage is broader than the quarterly release, in particular because US banks' affiliates worldwide and other banks' affiliates in offshore centres are included. Information from these releases is reproduced in

Tables 13.1 and 13.2 in the statistical annex and used to provide regular commentary in 'International financial developments'.

United Kingdom

Summary statistics are published in the monthly money and banking statistics press release. Detailed statistics appear in Tables 14 to 16 of the statistical annex. Tables 14 and 16 comprise positions of offices located in the United Kingdom, including branches and subsidiaries of foreign banks as well as British and consortium banks. By contrast, Table 15 comprises the claims of UK registered banks only (ie, British banks plus UK-registered consortium banks and subsidiaries of foreign banks), including the consolidated worldwide business of their branches and subsidiaries; risk transfers and unused commitments are also shown.

United States

Statistics on IBFs are given in a Federal Reserve Board release. Detailed statistics of all external business appear in the *Federal Reserve and Treasury Bulletins*. The *Federal Reserve Bulletin* contains data also on the foreign branches of US banks (a geographical analysis of major branches' business is given in a separate quarterly release) and a table consolidating the claims of US offices and foreign branches of US-chartered banks; a similar *Country Exposure Lending Survey* (but with some differences in coverage) is issued half-yearly by the Federal Financial Institutions Examinations Council.

Other centres

Other major centres publish aggregate banking statistics, and the size of their external business is shown in the BIS quarterly release. A detailed geographical analysis of the business of banks in West Germany and of West German banks' branches abroad is published in supplements to the *Monthly Report of the Deutsche Bundesbank*. A detailed geographical analysis as at end-years of the business of banks in Switzerland (and a separate analysis of trustee business) is shown in the annual Swiss National Bank publication *The Swiss Banks*; end-June data are issued in a separate supplement. The Netherlands Bank's *Quarterly Statistics* gives a geographical breakdown of business of banks in the Netherlands, and the Austrian National Bank publishes a geographical analysis of the business of banks in Austria as at end-years. Among offshore centres an area and currency analysis of business of banks in Bahrain is published in the *Quarterly Statistical Bulletin* of the Bahrain Monetary Agency and a geographical analysis of business of banks in Hong Kong is published by the Census and Statistics Department in their *Monthly Digest of Statistics*.

Measures of international banking

\$ billions

	Lending by banks in the BIS reporting area to non-residents in:		Lending by banks in offshore centres to non-residents(a)	Lending to non-residents by banks in the BIS reporting area and in offshore centres (1 + 2 + 3)	Total lending to non-residents(b)	Lending by banks in the BIS reporting area in foreign currencies to residents(c)	Gross size of the eurocurrency banking market (1 + 3 + 6)	Swiss trustee accounts(d)	Total international bank lending (4 + 6 + 8) or (2 + 7 + 8)	Net lending by banks in BIS reporting area (excluding inter-bank transactions)
	Foreign currency	Domestic currency								
	1	2	3	4	5	6	7	8	9	10
Amount outstanding at:										
End-Sept. 1980	781	327	305	1,413	1,612	297	1,383	68	1,778	775
End-Sept. 1981	886	370	390	1,646	1,918	360	1,636	88	2,094	875
End-Sept. 1982	952	506	417	1,875	2,189	420	1,789	92	2,387	985

(a) Partly estimated. The business is assumed to be all in foreign currency.

(b) Based on a wider population using data from the IMF's publication *International Financial Statistics*.

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

(d) See footnote (d) to Table J.

explained simply by the change in their reported balance of payments and also reflects a shift into non-bank and longer-term assets. A similar change occurred after the first oil price rise but it has been larger this time. Furthermore, there have been marked differences between high absorbers and low absorbers within the Middle Eastern group of oil exporters. High absorbing countries, whose payments position would have been more affected by the depressed oil market, reduced their deposits by \$15.5 billion whereas the low absorbers, who remained in surplus, increased their deposits but only by \$8.8 billion; both groups increased their borrowing. Nigeria borrowed heavily from the syndicated credits market; although spreads were kept down to $\frac{7}{8}$ per cent, this was partly offset by heavier front-end fees, equivalent to as much as 1 per cent on the spread. Venezuela sought to refinance short-term debt with longer maturities, but in January 1983 had to request more formal restructuring of \$6.6 billion short-term debt falling due in 1983.

Developed countries outside the reporting area were again sizable users of funds in the year to September 1982. This reflected the balance of payments deficits of many of them, but they appeared better credit risks to the banks than borrowers in the developing countries and Eastern Europe. Banks increased their exposure to Australia by 60 per cent, lending \$4.1 billion, and to South Africa by 32 per cent, lending \$3.0 billion. In Europe, Spain (\$2.0 billion) and Portugal (\$2.2 billion) were the major borrowers. Lending to Yugoslavia was reduced by \$0.8 billion in the year to September 1982. In the face of severe balance of payments difficulties, Yugoslavia sought assistance from the banks (of \$4 billion) late in 1982, and from governments, the BIS and IBRD in support of its continuing IMF programme.

Overall, the maturity profile of lending to these countries shortened slightly in the year to end-June 1982. The proportion of undisbursed credits to total lending fell slightly, as facilities to Greece, Portugal, Spain and Yugoslavia were drawn down; nevertheless it remains well above the mid-1978 level, unlike almost all other countries outside the reporting area.

Net supply of funds from inside the reporting area (Table E) With the supply of funds from countries outside the reporting area almost drying up, countries inside the area, especially the United States, became the largest source of funds.

During the year to September 1982 funds supplied by these countries increased by \$56 billion with \$71 billion coming from the United States. Two thirds of this \$71 billion came from banks, bringing their outstanding net external assets to just over \$100 billion. The second largest net supplier of funds was Switzerland, with \$8 billion supplied, half from banks and half from the non-bank sector: some of the latter may represent trustee and other similar business, which may have originated from outside Switzerland.

Most other European countries were small net borrowers, while the United Kingdom—despite being in current account surplus—was by far the most substantial (\$14 billion). Almost all of this rise represented an increase in UK banks' net external liabilities; \$11 billion of this was in foreign currency. Around \$6 billion can be said to have financed external lending not covered by these statistics (eg bond purchases and other investment abroad by banks), and the rest was either switched by banks into sterling lending or on-lent directly in foreign currency to the UK non-bank sector.

Table E
Net supply of funds from countries within the BIS reporting area^(a)

\$ billions

Changes (excluding estimated exchange rate effects): increase in net assets (suppliers) + /liabilities (takers) -

	Austria	Belgium	Luxembourg	Canada	Denmark	France	Ireland	Italy	Japan	Netherlands	Sweden	Switzerland	United Kingdom	United States (b)	West Germany	Sub-total	Offshore banking centres (c)	Total (as in Table A)
1981 Q4																		
Banks	-0.4	-0.4	-0.3	-2.0	-0.1	-4.5	-0.4	-0.9	-0.9	-0.4	+0.1	-1.1	-4.3	+18.3	+4.2	+7.1	-0.1	+7
Non-banks	-0.2	+0.2		+0.4	+0.1	-0.5		-2.1	+0.6	+0.5	-0.6	+3.1	-0.9	+6.0	-0.4	+6.2	-1.2	+5
1982 Q1																		
Banks	+0.7	-0.8	+0.2	-0.4	-0.3	+0.7	-0.4	+1.1	-1.3	-0.1	+0.1	+2.9	-2.8	+0.7	-0.2	+0.1	+1.9	+2
Non-banks	+0.3	+0.1		-0.1	-0.1	-0.8	-0.4	-1.0	-0.5	-0.3	-0.3	-1.1	-0.2	+11.4	-0.8	+6.2	-0.2	+6
1982 Q2																		
Banks	-0.3	-0.4	+0.4	+2.0	+0.1	+0.9	-0.1	-0.1	+1.9	+0.7	+0.8	+0.7	-4.4	+10.8	+0.6	+13.6	+0.4	+14
Non-banks	-0.2		-1.2	-0.3	-0.1	-0.1	-0.4	-0.3	+1.3	+0.3	-0.4	+0.8	-0.1	+11.9	-1.3	+9.9	-2.9	+7
1982 Q3																		
Banks	+1.1	-1.1	+0.7	+1.0	+0.3	+1.1	+0.2	+0.3	+2.1	+0.2	-0.2	+1.7	-1.9	+16.7	-1.1	+21.1	-2.1	+19
Non-banks	-0.1	+0.2		+0.1	-0.8	-1.1	-0.5	-0.9	+0.9	-0.3	-0.8	+1.3	+0.6	-5.3	-2.0	-8.7	+1.7	-7
Year to September 1982																		
Banks	+1.1	-2.7	+1.0	+0.6	+0.2	-1.8	-0.7	+0.4	+1.8	+0.4	+0.8	+4.2	-13.4	+46.5	+3.5	+41.9	+0.1	+42
Non-banks	-0.2	-0.7		+0.1	-0.9	-2.5	-1.3	-4.3	+2.3	+0.2	-2.1	+4.1	-0.6	+24.0	-4.5	+13.6	-2.6	+11
Amounts outstanding at end-September 1982: net assets (+)/liabilities (-)																		
Banks	-1.2	-10.2	+5.5	-21.7	+0.4	+4.9	-2.7	-10.6	-14.4	+1.6	-5.3	+19.7	-23.9	+107.2	+3.2	+52.5	+7.5	+60
Non-banks	-1.7	-1.3		-0.8	-9.8	-6.5	-3.9	-16.8	-6.3		-8.1	+13.4	-0.3	+100.7	-30.3	+28.3	+8.7	+37
Total	-2.9	-6.0		-22.5	-9.4	-1.6	-6.6	-27.4	-20.7	+1.6	-13.4	+33.1	-24.2	+207.9	-27.1	+80.8	+16.2	+97

(a) The figures for banks give the net external lending by banks of the countries shown (ie total lending to non-residents net of deposits from non-residents in Table A). The figures for non-banks give the net external deposits of non-bank residents of these countries with the BIS reporting banks (ie deposits from non-banks inside the reporting area net of lending to non-banks inside the reporting area in Table A); business in Swiss francs at banks in Switzerland is excluded.

(b) The figures for non-banks include deposits with, but not borrowing from, the branches of US banks in offshore banking centres. See also footnote (c) on Table A.

(c) The figures involve a considerable degree of estimation.

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

\$ billions; changes exclude estimated exchange rate effects

	Year to end-Sept.		1981				Outstanding end-Sept. 1982
	1981	1982	Q4	Q1	Q2	Q3	
Deposits by residents of:							
Belgium/Luxembourg(b)	+ 4.7	+ 3.5	+ 1.3	+ 1.1	- 0.2	+ 1.3	15.6
Canada	- 0.4	+ 3.3	+ 1.7	+ 0.6	+ 1.1	- 0.1	13.9
France	+ 0.8	+ 1.0	+ 0.1	+ 0.9	+ 0.1	- 0.1	6.3
Italy	—	+ 0.5	+ 0.5	- 0.3	+ 0.1	+ 0.2	3.7
Japan(c)	+ 1.6	+ 1.0	+ 0.4	+ 0.4	- 0.3	+ 0.5	8.2
Netherlands	+ 2.1	+ 5.9	+ 4.0	- 0.7	+ 0.8	+ 1.8	23.4
Switzerland	+ 9.0	+ 0.8	- 1.2	- 1.4	+ 1.7	+ 1.7	28.5
United Kingdom	+ 29.9	+ 24.6	+ 7.1	+ 9.6	+ 12.3	- 4.4	119.8
United States(d)	+ 3.1	- 0.3	- 0.4	+ 0.8	- 0.1	- 0.6	7.9
West Germany	+ 1.0	+ 0.4	+ 0.2	- 0.1	+ 0.2	+ 0.1	1.1
Other BIS reporting area countries	+ 0.3	+ 0.8	+ 0.2	+ 0.4	- 0.1	+ 0.3	4.6
Total	+ 52.1	+ 41.5	+ 13.9	+ 11.3	+ 15.6	+ 0.7	233.0
Borrowing by residents of:							
Belgium/Luxembourg(b)	+ 6.2	+ 5.6	+ 1.3	+ 1.4	+ 1.7	+ 1.2	21.6
Canada	+ 10.0	+ 5.0	+ 2.6	+ 1.2	+ 2.2	- 1.0	30.8
France	+ 2.9	+ 4.7	+ 1.2	+ 1.3	+ 0.6	+ 1.6	19.8
Italy	+ 7.1	+ 4.1	+ 3.3	- 0.4	—	+ 1.2	31.7
Japan(c)	+ 0.4	+ 1.8	+ 0.3	+ 0.8	- 0.1	+ 0.8	8.3
Netherlands	+ 0.4	+ 1.3	+ 0.3	+ 0.2	+ 0.3	+ 0.5	9.7
Switzerland	+ 0.5	+ 9.0	+ 5.0	+ 0.4	+ 2.2	+ 1.4	34.6
United Kingdom	+ 4.5	+ 0.6	+ 1.1	- 1.8	+ 0.4	+ 0.9	19.1
United States(d)	+ 8.2	+ 4.5	+ 0.1	+ 1.7	+ 1.3	+ 1.4	38.6
West Germany	- 1.0	- 1.9	- 0.4	+ 0.6	- 1.1	- 1.0	7.4
Other BIS reporting area countries	+ 3.5	+ 5.5	+ 0.6	+ 0.8	+ 1.0	+ 3.1	36.3
Total(e)	+ 42.7	+ 40.2	+ 15.4	+ 6.2	+ 8.5	+ 10.1	257.9
Net suppliers of funds (+)/ Net receivers of funds (-)							
Belgium/Luxembourg(b)	- 1.5	- 2.1	—	- 0.3	- 1.9	+ 0.1	- 6.0
Canada	- 10.4	- 1.7	- 0.9	- 0.6	- 1.1	+ 0.9	- 16.9
France	- 2.1	- 3.7	- 1.1	- 0.4	- 0.5	- 1.7	- 13.5
Italy	- 7.1	- 3.6	- 2.8	+ 0.1	+ 0.1	- 1.0	- 28.0
Japan(c)	+ 1.2	- 0.8	+ 0.1	- 0.4	- 0.2	- 0.3	- 0.1
Netherlands	+ 1.7	+ 4.6	+ 3.7	- 0.9	+ 0.5	+ 1.3	+ 13.7
Switzerland	+ 8.5	- 8.2	- 6.2	- 1.8	- 0.5	+ 0.3	- 6.1
United Kingdom	+ 25.4	+ 24.0	+ 6.0	+ 11.4	+ 11.9	- 5.3	+ 100.7
United States(d)	- 5.1	- 4.8	- 0.5	- 0.9	- 1.4	- 2.0	+ 30.7
West Germany	+ 2.0	+ 2.3	+ 0.6	- 0.7	+ 1.3	+ 1.1	- 6.3
Other BIS reporting area countries	- 3.2	- 4.7	- 0.4	- 0.4	- 1.1	- 2.8	- 31.7
Total	+ 9.4	+ 1.3	- 1.5	+ 5.1	+ 7.1	- 9.4	- 24.9

(a) Business with banks abroad, and with local banks in foreign currency. Based on data from banks in the BIS reporting area; some of the data are incomplete or estimated.

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

(c) Excludes foreign currency business with local banks.

(d) The data shown for the United States include deposits with, but not borrowing from, the branches of US banks in offshore banking centres. See also footnote (c) on Table A.

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

Other large net users of funds were France and Italy, both countries with large current account deficits. Indeed, France's current account deficit in 1982 reached a record level of \$12.5 billion. Much of the French borrowing was by state entities through the credit and bond markets, while the government raised a \$4 billion syndicated credit from the banks in September, all of which had been drawn down by the end of January. Net borrowing of \$4 billion by German non-banks mainly took place on the eurodeutschmark market.

Non-bank direct participation (Table F)⁽¹⁾

In the year to end-September 1982, there was some falling off (at least in nominal terms) in the flow of international banking business done by the non-bank sectors of BIS reporting area countries. In particular, their deposits rose by only \$41.5 billion, compared with \$52.1 billion in the previous year, and their borrowing rose by \$40.2 billion compared with \$42.7 billion. In net terms, therefore,

non-banks were suppliers of \$1.3 billion in the year to September 1982 in contrast to \$9.4 billion the previous year. Gross flows will have been affected by the generally depressed state of world trade. The supply of funds may also have been reduced because non-bank, longer-term assets (eg bonds) became more attractive, and perhaps by the increased uncertainty of international banking. However, a prominent contribution to the change between the two years came from a swing in foreign currency transactions of UK non-banks.

The largest increase in deposits during the year came once again from US non-banks,⁽²⁾ with Switzerland, Belgium/Luxembourg and Canada also showing quite large rises; these are the non-bank sectors most involved in the eurodeposits market. Borrowing by non-banks was much more evenly spread between countries.

In the United Kingdom, recent data show some substantial fluctuations. Non-banks changed from being substantial net

(1) The data on which this section is based include not only cross-border banking business (as described in the previous section and Table E) but also foreign currency business with local banks. The data may include some public sector business.

(2) Non-banks include money market mutual funds, whose identified holdings (largely in London dollar certificates of deposit) account for about a fifth of all US non-banks' eurodollar deposits.

suppliers of funds in the year to September 1981 to equally large net receivers in the year to September 1982. Much of this movement was in foreign currency (mainly US dollar) transactions with domestic banks. Deposits rose sharply in the year to September 1981 perhaps partly because delayed tax payments increased the private sector's liquidity; but also dollar interest rates were, usually, higher than sterling rates and sterling was generally falling against the dollar.⁽¹⁾

Thereafter deposits were run down and borrowing increased as delayed tax payments were made; and, for a short time, sterling interest rates exceeded dollar rates. In the second and third quarters of 1982 deposits and borrowing both rose moderately.

A possibly more significant movement was the sizable third quarter fall (\$4 billion) in deposits of US non-banks, traditionally consistent and substantial suppliers of funds to the euromarkets. This may have been partly because yields were expected to fall further, making fixed-rate bonds more attractive; but it may also reflect a 'flight to quality' from bank debt into government debt. Subsequently, greater competition in US financial markets may also have begun to have an effect with banks winning back business from the money market mutual funds, themselves substantial depositors in the eurodollar market. Indeed, in the fourth quarter of 1982 US non-banks' eurodollar deposits in London fell by a further \$2 billion.

The international inter-bank market (Table G)

The inter-bank market facilitates the banking sector's role in transferring funds from depositors to borrowers. It not only enables individual banks to operate without precisely matching the deposits they attract from non-banks to their lending opportunities, but it also provides a ready means of adjusting the volume and nature (eg maturity or currency denomination) of their assets and liabilities.⁽²⁾

Outstanding inter-bank claims are substantial, forming some two thirds of the gross measures of international banking, and quarterly movements in these gross measures can often be largely explained by movements—particularly seasonal ones—in the inter-bank business. It should also be remembered that a sizable proportion (between a quarter and a half for banks in the United Kingdom and considerably more for banks in the United States) of business with banks abroad is with offices of the same bank; while such positions represent international transfers of funds in the same way as other inter-bank positions, the credit risk involved is internalised within the bank concerned.

All the measures of inter-bank business in Table G show a fairly stable ratio between the stock of lending to banks and total lending. However, there appears to be a marked seasonal pattern in inter-bank transactions: lending is usually reduced in the first half of the calendar year after the

Table G
The international inter-bank market^(a)

Percentages; inter-bank lending as a proportion of total lending outstanding in each category

	Lending to non-residents				Lending to residents in foreign currency ^(a)	Total (columns 4 + 5)	
	Foreign currency ^(b)	Domestic currency					
	by US ^(c) offices	By offices elsewhere ^(c)	Total ^(d)				
	1	2	3	4	5	6	
1980 Q3	73.8	67.4	50.8	69.4	62.1	63.7	68.2
1981 Q3	73.6	70.2	53.7	70.5	63.8	65.6	69.4
Q4	73.6	68.6	54.4	70.2	64.0	63.9	68.8
1982 Q1	74.2	69.0	54.2	70.8	64.0	67.2	70.0
Q2	73.2	69.2	54.3	70.0	63.3	64.5	68.8
Q3	73.0	70.5	53.4	70.2	63.5	66.8	69.4

Inter-bank lending: amount outstanding

\$ billions							
End-Sept.	1	2	3	4	5	6	
1982	695	89	244	1,028	930	280	1,309

- (a) Flows, both cross-border between banks in the BIS reporting area (and the offshore centres) and between banks within reporting area centres, can be seen in Table A.
 (b) Excludes lending by banks in the United States.
 (c) Domestic currency lending by offices in the United States is shown separately from that by offices elsewhere because it is in the major eurocurrency.
 (d) Data in italics are for lending to banks in the BIS reporting area and offshore centres only (as a percentage of lending to all non-residents). This forms a major share of total inter-bank lending, and perhaps best represents the inter-bank market narrowly defined (eg much of the reporting banks' final lending to Eastern Europe is done through Eastern European banks).

end of the banks' accounting year (generally December for the American and European banks and March for the Japanese) and then built up again during the second half of the year (for Japanese banks, particularly in the third quarter up to the end of their accounting half-year).

Inter-bank business fell particularly sharply in the second quarter of 1982, and probably more than could be accounted for by the seasonal fall in business by Japanese banks. A rise in the third quarter broadly offset this, so that—perhaps surprisingly in the light of the strains in the market—inter-bank business still maintained much the same share of total business at end-September as in the past.

Nonetheless, the growth in inter-bank business in the year to end-September 1982 was essentially between banks in the United States and in other centres; some of this growth may have related to the introduction of IBFs and was possibly a once-for-all adjustment. Another factor which may have boosted inter-bank business between the United States and other centres, particularly in the September quarter, was that some US banks faced unusually high costs in issuing domestic CDs and may have sought funds by borrowing in the inter-bank market abroad instead.

UK banks' foreign currency inter-bank business (Table H)

Just as the United Kingdom is the leading centre for international banking business in total, so it is the largest centre for international inter-bank business.⁽³⁾ Inter-bank positions of UK banks in aggregate have remained a fairly constant share of their total business. Their inter-bank lending exceeds their inter-bank borrowing, so they are net suppliers of funds to banks abroad, especially to their own offices.

(1) See page 24 of the March 1982 *Bulletin*.

(2) There is a fuller description of the international inter-bank market in the September 1981 *Bulletin*, pages 351-64.

(3) Only foreign currency business is discussed here. Although sterling business with banks abroad is likewise international it is probably more appropriately discussed with domestic sterling business.

Table H
UK banks' foreign currency business

	Total deposits			Proportion of total deposits			Total lending	Proportion of total lending		
	\$ billions	Percentages	Percentages	Total inter-bank(a) borrowing	Borrowing from own offices abroad	Other inter-bank borrowing		Total inter-bank(a) lending	Lending to own offices abroad	Other inter-bank lending
				Percentages	Percentages	Percentages		Percentages	Percentages	Percentages
All banks										
End-Dec. 1980	481	57.2	11.7	45.5	481	62.2	22.0	40.2		
End-Sept. 1981	549	55.5	11.2	44.3	538	62.6	22.7	39.9		
End-Dec. 1981	567	54.9	11.5	43.4	567	61.4	22.5	38.9		
End-Mar. 1982	596	55.3	11.2	44.1	596	62.5	22.3	40.2		
End-June 1982	573	53.7	11.1	42.6	573	60.4	22.6	37.8		
End-Sept. 1982	618	56.6	11.6	45.0	617	61.9	23.2	38.7		
End-Dec. 1982	616	56.8	12.6	44.2	614	60.9	23.1	37.8		
British banks										
End-Dec. 1980	103	54.5	3.4	51.1	105	52.2	8.6	43.6		
End-Sept. 1981	118	50.8	3.2	47.6	120	53.7	8.1	45.6		
End-Dec. 1981	119	52.4	3.4	49.0	121	51.7	8.3	43.4		
End-Mar. 1982	123	49.9	2.9	47.0	125	51.5	7.8	43.7		
End-June 1982	122	54.4	3.5	50.9	123	50.4	8.3	42.1		
End-Sept. 1982	129	55.0	3.0	52.0	130	50.5	8.2	42.3		
End-Dec. 1982	127	53.1	3.7	49.4	127	49.0	7.5	41.5		
American banks										
End-Dec. 1980	124	42.8	13.0	29.8	122	64.5	32.2	32.3		
End-Sept. 1981	135	36.5	11.4	25.1	134	63.4	32.8	30.6		
End-Dec. 1981	131	35.3	11.0	24.3	129	62.8	33.7	29.1		
End-Mar. 1982	136	33.9	11.0	22.9	134	62.5	35.3	27.2		
End-June 1982	134	33.6	11.6	22.0	132	62.9	37.6	25.3		
End-Sept. 1982	142	37.1	14.2	22.9	140	63.3	40.8	22.5		
End-Dec. 1982	138	41.4	16.3	25.1	135	63.3	40.8	22.5		
Japanese banks										
End-Dec. 1980	100	72.7	16.5	56.2	100	74.6	32.7	41.9		
End-Sept. 1981	133	74.4	16.9	57.5	133	76.5	29.3	47.2		
End-Dec. 1981	135	72.9	17.1	55.8	135	74.0	29.0	45.0		
End-Mar. 1982	155	75.4	15.9	59.5	155	76.6	26.1	50.5		
End-June 1982	136	72.0	14.2	57.8	136	71.4	24.1	47.3		
End-Sept. 1982	163	74.9	12.9	62.0	163	75.4	22.3	53.1		
End-Dec. 1982	162	73.0	13.2	59.8	162	73.3	21.8	51.5		

(a) Inter-bank is defined here as business with other banks in the United Kingdom and banks (including the reporting banks' own offices) in the BIS reporting area and offshore centres. See footnote (d) to Table G. Excludes certificates of deposit.

Table J
International banking analysed by centre

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

	Gross lending(a)	Of which:																	
		United Kingdom	United States	Japan	France	Bahamas	Singapore	Luxembourg (b)	Swiss trustee accounts	Belgium (b)	Netherlands	Switzerland	West Germany	Canada	Bahrain	Cayman Islands (c)	Hong Kong	Italy	Panama
End-Sept. 1980																			
Foreign currency lending to non-residents	1,086	309	3	45	104	126	89	..	50	50	31	22	32	..	..	31	19	..	..
Domestic currency lending to non-residents	327	21	162	15	25	..	2	..	3	11	30	50	1	..	..	2	1	..	33
Foreign currency lending to residents	297	129	..	47	31	..	18	..	17	6	6	2	12	..	..	..	17	..	..
Total(d)	1,778	459	165	107	160	126	51	108	68	70	66	67	74	45	34	32	33	37	33
		25.8	9.3	6.0	9.0	7.1	2.9	6.1	3.8	3.9	3.7	3.8	4.2	2.5	1.9	1.8	1.9	2.1	1.9
End-Sept. 1981																			
Foreign currency lending to non-residents	1,276	379	4	64	110	155	84	..	56	52	29	21	37	..	..	39	23	..	..
Domestic currency lending to non-residents	370	21	210	19	23	..	1	..	3	12	29	44	1	..	..	2	1	..	38
Foreign currency lending to residents	360	159	..	67	33	..	16	..	18	7	5	2	21	..	..	..	17	..	..
Total(d)	2,094	559	214	149	165	155	77	101	88	77	71	63	66	59	46	39	41	41	38
		26.7	10.2	7.1	7.9	7.4	3.7	4.8	4.2	3.7	3.4	3.0	3.2	2.8	2.2	1.9	2.0	2.0	1.8
End-Sept. 1982																			
Foreign currency lending to non-residents	1,369	434	7	70	113	134	84	..	55	49	30	20	36	..	..	41	24	..	..
Domestic currency lending to non-residents	506	25	339	21	21	..	1	..	2	12	31	43	2	..	..	2	1	..	39(e)
Foreign currency lending to residents	420	183	..	90	37	..	17	..	21	8	6	2	25	..	..	..	16	..	..
Total(d)	2,387	642	346	180	172	134	103	102	92	78	69	67	66	63	60	45	43	40	39(e)
		26.9	14.5	7.5	7.2	5.6	4.3	4.3	3.9	3.3	2.9	2.8	2.8	2.6	2.5	1.9	1.8	1.7	1.6

Sources: BIS, IMF, and various national sources.

.. not available.

(a) See column 9 of the table on page 52.

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

(c) Foreign assets of US banks only.

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

(e) Data for end-March 1982.

A breakdown by groups of banks shows that Japanese banks have a comparatively high ratio of inter-bank to total business, even when business with their own offices is excluded; after allowing for the seasonal peaks in business with other banks at end-March and end-September, the ratio has increased during the last year.

American banks have been reducing their inter-bank business with unrelated banks in the last few years, particularly their lending; this doubtless reflects the importance they now attach to a higher return on total assets rather than—as previously—to balance sheet growth. While all the three nationality groups shown in Table H are net suppliers of funds to their offices abroad, the American banks are particularly prominent; in the year to September 1982 they supplied an extra \$8 billion, with a particularly large rise in their gross lending in the September quarter. In both the third and fourth quarters of 1982 there were strong rises in American banks' gross inter-bank borrowing which may have reflected the funding needs of themselves and of their parent banks in a period when CD issues were expensive and low.

Analysis of business by centre (Table J)

International business booked in the United States increased from 10.2 per cent of the total at end-September 1981 to 14.5 per cent at end-September 1982. This rise represents an increase in lending of over \$100 billion, and reflects the introduction of IBFs in December 1981. The Caribbean offshore banking centres do not seem to have been as much affected by the advent of IBFs as expected; only the Bahamas, whose share of gross business fell from 7.4 per cent to 5.7 per cent during the year, showed much impact, whereas the share of business conducted from the Cayman Islands rose slightly.⁽¹⁾ Singapore and Bahrain continued to grow strongly.

Business in London fell in the second quarter of 1982, but this can be attributed largely to special factors such as the freeze on Argentine assets and uncertainty over the extent and impact of prospective tax changes: a revival in the third quarter meant that the United Kingdom maintained its position as much the largest centre with over a quarter of the market (Chart 9).

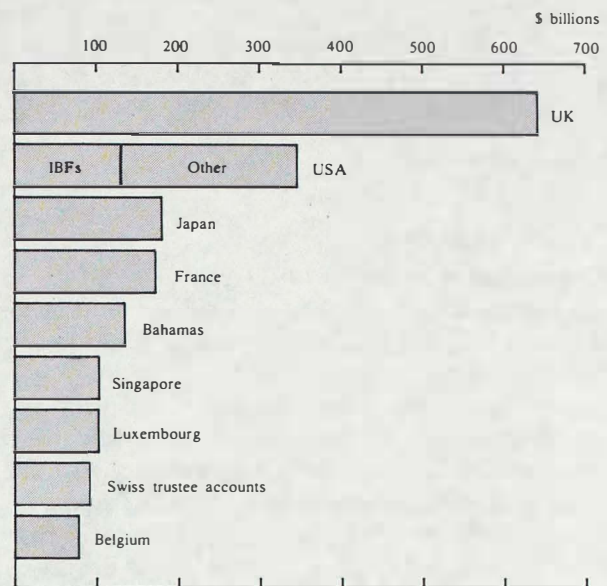
International banking facilities⁽²⁾

From early December 1981 the Federal Reserve Board allowed IBFs to be established in the United States. The purpose was to allow banks to take deposits from, and make loans to, overseas residents without being subject to reserve requirements or interest rate ceilings. Thus an onshore market was created which had a regulatory environment broadly similar to the eurocurrency markets, and the interest rates on IBFs' business have been generally similar to eurodollar rates.

Chart 9

International banking analysed by centre^(a)

Gross lending at end-September 1982



(a) See Table J for further details.

Within ten months of their inception IBFs' external assets amounted to \$133 billion, roughly 7 per cent of all eurocurrency lending (Table K). Half this rise occurred in the initial month, which suggests that much of the early growth represented transfers of business (especially rebooking of loans) from other centres: since June 1982 growth has slowed and these initial transfers to IBFs may have dried up.

The general reassessment of lending to Latin America may also have contributed to a slowdown in external lending from IBFs in the second half of 1982. At end-September, 70 per cent of outstanding dollar lending booked by banks in the United States (including IBFs) to countries outside the BIS reporting area and offshore centres was to Latin America, whereas for banks in other BIS reporting centres the proportion was only a quarter.

Table K
Lending to non-residents

\$ billions; percentages in italics

	Banks in the whole BIS reporting area(a)	Of which, IBFs	
		\$ billions	Percentage
End-Dec. 1981	1,788	62	3.5
End-Mar. 1982	1,807	92	5.1
End-June 1982	1,819	116	6.4
End-Sept. 1982	1,875	133	7.1
9 Feb. 1983	..	146(b)	..

.. not available.

(a) As in column 4 of the table on page 52.

(b) This figure comprises data from weekly reporting banks and may not be fully comparable with the quarterly series.

(1) Data published in the *US Federal Reserve Bulletin* show that the composition of the assets of branches of American banks in the Bahamas and Cayman Islands altered: over the year to end-September 1982 there was a fall of \$30 billion in lending to (non-US) foreigners, partly offset by a rise in lending to the banks' US offices. This presumably represented a transfer of loans into the books of IBFs, financed by intra-bank lending by the Caribbean branches.

(2) For fuller descriptions of the development of IBFs see 'International Banking Facilities', Sydney J Key, *US Federal Reserve Bulletin*, October 1982, and 'International Banking Facilities and the Eurodollar Market', H S Terrell and R H Mills, *US Federal Reserve Board Staff Study* (forthcoming).

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

	Total out-standing \$ billions	Percentage share				
		British banks	American banks	Japanese banks	Other overseas banks	Con-sortium banks
End-Sept. 1980	459	24.1	25.7	19.4	25.7	5.1
End-Sept. 1981	559	23.6	23.9	23.4	25.2	3.9
End-Sept. 1982	642	22.7	22.2	25.6	25.5	3.9

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

The London market (Table L)

During the year to September 1982 Japanese banks increased their share of international lending in the London market from 23.4 per cent to 25.6 per cent, at the expense of the British and American banks, to become the group with the largest share of international lending.⁽¹⁾ A higher than average proportion—about three quarters—of the Japanese banks' business (on both sides of the balance sheet) is inter-bank (Table H). American banks have the largest share of deposits from non-banks, boosted particularly by their eurodollar certificate of deposit issues, and British banks have the largest share of lending to non-banks.

Maturity transformation (Table M)

The maturity transformation of UK banks' total foreign currency business at mid-November 1982 was modest in individual maturity bands, other than three years and over, but there was considerable cumulative transformation either side of the six-month point (Chart 10). This pattern has remained little changed over recent years. There was an increase in net borrowing at the very shortest (sight to eight-days) maturities in the autumn of 1982, but this

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

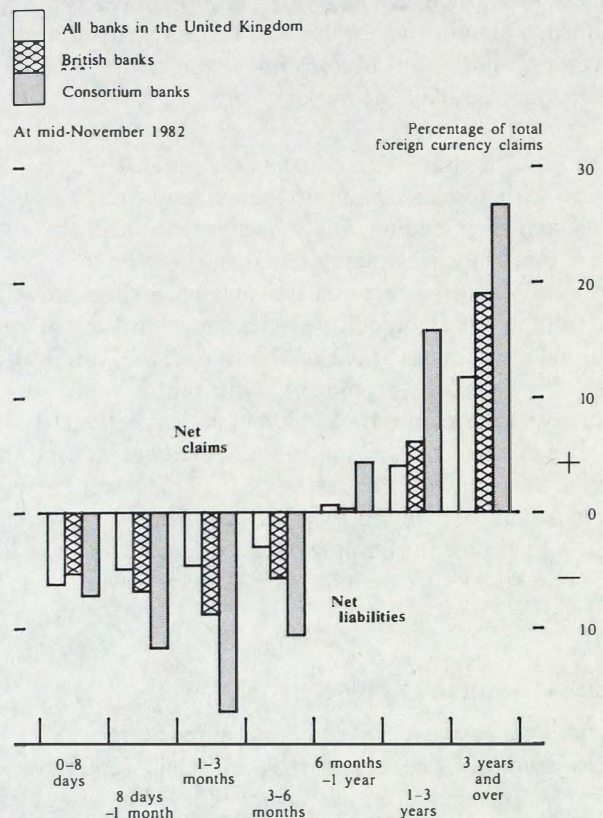
	1980		1981		1982	
	Nov.	Nov.	Feb.	May	Aug.	Nov.
Residual maturity:						
1 All banks						
0–8 days	– 4.5	– 4.8	– 4.5	– 4.9	– 4.7	– 6.2
8 days to 1 month	– 2.9	– 3.5	– 2.7	– 3.6	– 3.1	– 4.9
1–3 months	– 5.6	– 6.1	– 5.2	– 5.5	– 5.3	– 4.6
3–6 months	– 3.4	– 3.0	– 3.7	– 2.6	– 3.7	– 3.0
6 months to 1 year	—	+ 0.3	—	+ 0.2	+ 0.1	+ 0.6
1–3 years	+ 3.4	+ 3.6	+ 3.3	+ 3.3	+ 3.5	+ 4.0
3 years and over	+12.4	+11.9	+11.3	+11.5	+11.2	+11.7
2 British banks						
0–8 days	– 2.9	– 4.1	– 3.8	– 3.5	– 3.6	– 5.3
8 days to 1 month	– 5.2	– 5.1	– 5.0	– 6.6	– 6.0	– 6.3
1–3 months	– 9.1	–10.2	– 8.6	– 9.0	– 8.7	– 8.8
3–6 months	– 6.9	– 5.6	– 7.2	– 5.5	– 7.0	– 5.7
6 months to 1 year	—	+ 1.2	+ 0.5	– 0.1	—	+ 0.3
1–3 years	+ 5.9	+ 6.3	+ 6.1	+ 5.9	+ 6.0	+ 6.1
3 years and over	+18.9	+18.0	+18.4	+18.7	+18.6	+19.0
3 Consortium banks						
0–8 days	– 5.4	– 4.8	– 7.5	– 8.1	– 8.1	– 7.2
8 days to 1 month	– 8.5	–11.5	– 7.9	–10.2	– 8.6	–11.7
1–3 months	–13.8	–16.9	–15.6	–15.8	–14.9	–17.2
3–6 months	–12.3	–13.6	–11.7	–11.8	–14.5	–10.6
6 months to 1 year	+ 1.6	+ 2.8	+ 3.1	+ 2.8	+ 3.3	+ 4.3
1–3 years	+13.9	+14.5	+13.9	+14.9	+15.6	+15.8
3 years and over	+25.5	+29.2	+27.0	+28.7	+27.4	+26.7

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

(1) Some further analysis of total and foreign currency business by bank group is shown in Tables 3.2 to 3.10 and 14.2 in the statistical annex.

(2) Further detail is shown in a summary table on page 32, and in Tables 14 and 16 in the statistical annex.

Chart 10
Maturity transformation by UK banks in their foreign currency business^(a)



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

appears to reflect a fall in UK banks' gross lending to banks abroad during the period and not any shortening of business.

Geographical analysis⁽²⁾

Latin American business of London banks during the year to September 1982 reflected not only the area's debt problems but also unease caused by the Falklands crisis and the related blocking of funds. Venezuela withdrew \$7 billion from London, mostly during the June quarter, when the funds appear to have been transferred to the United States—Venezuelan deposits there rose by a similar amount.

Middle East oil exporters increased their deposits with banks in London, but other oil exporting countries drew down their deposits. During the year, oil exporting countries, particularly those in the Middle East, also borrowed substantially from London, so the net supply of funds outstanding from the oil exporters fell by over \$10 billion (over half the fall was Venezuelan withdrawals).

A more cautious attitude towards lending to Eastern Europe and developing countries was evident throughout the year, and an increasing proportion of the banking activity from London was conducted with other countries

in the BIS reporting area, principally the United States. The United States supplied a further net \$20 billion to London, and UK banks further increased their net supply of funds to the continental European countries, but their net liability to the reporting area as a whole increased by \$13 billion. There was a large increase in lending to own offices overseas, especially in the third quarter, suggesting that foreign banks in London were recycling funds to their offices overseas which may have had difficulty in attracting them locally; these movements appear to have been partly unwound in the fourth quarter. In the fourth quarter there was a small fall in total business: the only country group which increased its borrowing from London was the developed countries outside the reporting area.

Table N
International bank lending by currency^(a)

Percentages	US\$	DM	Sw. Fcs	£	Yen	Other ^(b)
Foreign currency lending to non-residents						
End-Dec. 1977	74.2	14.7	5.4	1.2	0.4	4.1
End-Sept. 1980	74.1	13.0	5.1	1.4	1.1	5.3
End-Sept. 1981	74.2	12.7	6.1	1.5	1.4	4.0
End-Sept. 1982	74.0	12.1	5.9	1.4	1.4	5.3
Foreign currency lending to residents						
End-Dec. 1977	78.3	8.9	4.5	0.6	0.3	7.4
End-Sept. 1980	74.9	8.4	5.4	1.0 ^(c)	1.5	8.7
End-Sept. 1981	76.9	7.9	6.3	1.4	2.3	5.2
End-Sept. 1982	77.6	7.4	5.7	1.1	2.8	5.5
Domestic currency lending to non-residents						
End-Dec. 1977	57.8	16.3	8.3	6.0	1.9	9.7
End-Sept. 1980	55.0	11.9	7.8	4.8	3.9	16.5
End-Sept. 1981	59.0	11.0	7.3	5.4	4.4	12.9
End-Sept. 1982	67.0	8.5	6.1	5.0	4.1	9.3

(a) The table shows percentages of total lending, with the underlying data revalued at constant end-September 1982 exchange rates to eliminate those changes which merely reflect exchange rate movements. The totals analysed are for banks in the BIS reporting area.

(b) Including unallocated items.

(c) Break in series due to expanded coverage.

Analysis by currency (Table N)

The currency composition of both external and local foreign currency lending changed little during the year to September 1982. The US dollar's share of domestic currency lending to non-residents increased but this was probably related to the introduction of IBFs.

External sterling business of UK banks

External sterling business of UK banks is small compared with their foreign currency business. Nevertheless, there has recently been considerable growth in both sterling claims and sterling liabilities.

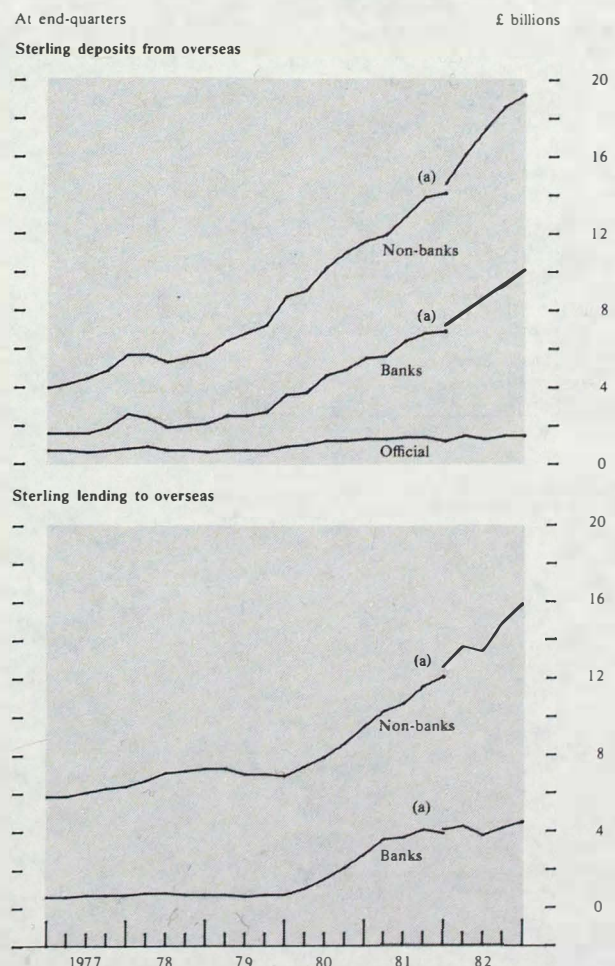
In the year to end-September 1982 external sterling deposits grew by over £4 billion (30 per cent), virtually all in private balances. Over a longer period, sterling deposits by overseas residents have more than doubled since the third quarter of 1979 (Chart 11), with the growth rate quickening considerably after the supplementary special deposits scheme ended in mid-June 1980; this scheme may have deterred the banks from bidding actively for deposits. The strongest growth since 1979 has been in deposits from banks in the BIS reporting area and offshore banking centres, and from non-banks in oil exporting countries. These areas have

been responsible for over 80 per cent of the growth since 1979. This increase may have been partly attracted by high interest rates, and by some expectation in certain periods that sterling might appreciate, and also perhaps by some continuing perception of balance of payments strength derived from North Sea energy. It may also be linked with an expansion in sterling lending.

External lending by UK banks in sterling was limited to financing UK exports and trade of other scheduled territories while exchange controls were in force. But since October 1979 it has grown substantially (Chart 11). The growth has been principally in lending to banks in other European countries, suggesting that the London inter-bank market and the eurosterling market have become more integrated. Lending to banks has grown less fast from the latter part of 1981, but the rise in lending to non-banks continued in 1982, much of it in acceptance credits.

Acceptance finance, for both domestic and overseas drawers, has grown rapidly since mid-1981 when changes were introduced in the system of monetary control and the list of banks whose bills are eligible for discount at the Bank of England was extended. Between mid-August 1981 and end-September 1982, acceptance credits outstanding for

Chart 11
UK banks' sterling business with overseas

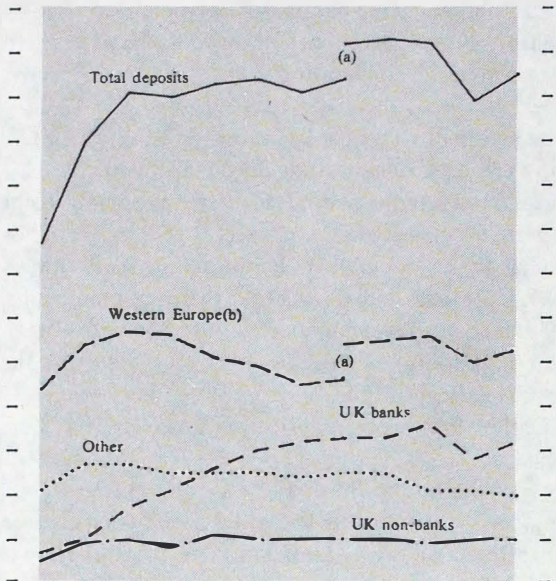


(a) Break in series at end-December 1981.

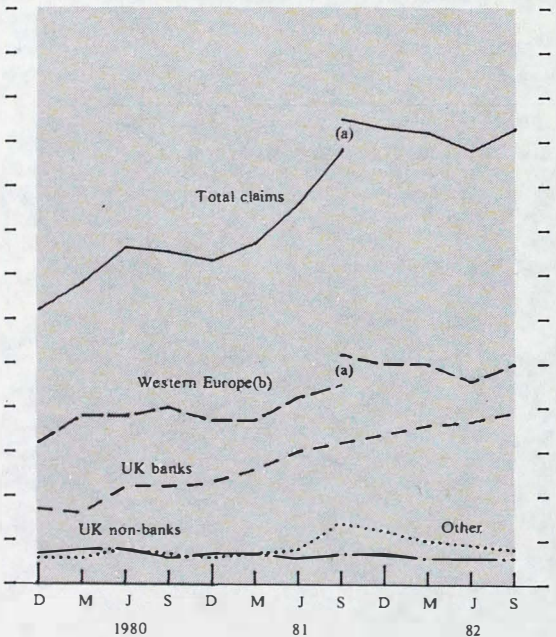
Chart 12
Eurosterling market

At end-quarters £ billions

Deposits by:



Claims on:



(a) Break in series at end-September 1981.
(b) Excluding the United Kingdom.

overseas residents rose from £0.5 billion to £2.5 billion, while acceptances for UK residents rose from £4.6 billion to £10.1 billion. During most of this period a favourable differential between bill yields and money-market rates encouraged the use of bills wherever the underlying transactions were suitable. The sterling finance of third country trade, prohibited by exchange control until October 1979, has accounted for a substantial volume of such transactions.

A consequence of these trends in sterling deposits and lending has been that overseas residents (excluding central monetary institutions and international organisations) changed from being net borrowers during the 1970s to become net depositors of just over £1 billion at end-March 1982. These net deposits rose sharply during the June quarter to £2.9 billion, fell slightly to £2.5 billion in the third quarter, and fell again to £2.0 billion in the fourth quarter.

Eurosterling

The eurosterling market was discussed in some detail in the March 1982 *Bulletin* (pages 50-51). Since then the market has contracted slightly (Chart 12). UK banks' involvement has tended to grow, except in the second quarter of 1982 when their lending to the market fell for the first time since the end of exchange controls in 1979. The only other movement of any size during the year to September 1982 was a gradual fall in business between the reporting banks and banks (including central monetary institutions) outside the BIS reporting area; on the deposits side this may be linked with the fall in the oil exporters' surplus. Thus at end-September 1982 only 40 per cent of non-UK residents' sterling bank deposits were in eurosterling, compared with 55 per cent one year earlier. UK non-banks' eurosterling deposits and eurosterling borrowing are much lower—only about 1 per cent of the corresponding domestic sterling business. Stagnation of the eurosterling market is not surprising: there is no significant price differential between it and the domestic market for sterling, since the cost of intermediation is virtually the same in both markets (mainly because the interest cost of reserve requirements on domestic currency business in the United Kingdom is very low—which is not so in some other countries such as the United States and West Germany).