

International banking markets in 1983

This article continues the annual series on international banking developments.

Debt servicing problems of a number of countries continued to preoccupy international banking markets in 1983. These problems were helped by favourable developments in the world economy—output began to grow and interest rates remained stable—and the adjustment by some debtor countries was impressive; but the strength of the dollar added to debt burdens. Some twenty countries rescheduled debt, with most arrangements made in conjunction with IMF programmes.

The marked slowdown in the growth of international bank lending continued in 1983, and the market became more segmented; some previously creditworthy borrowers were unable to obtain new loans. The interbank market continued to grow— but only modestly.

Gross issues of bonds and floating rate notes were a little higher than in 1982, largely the result of issues by OECD countries and international organisations. Banks increasingly purchased floating rate notes in an attempt to increase the liquidity of their international assets.

The United States ceased to be the dominant net supplier of new funds to the euromarkets. On the other hand the US share of the international market continued to grow, although London remained the largest centre for international business.

An overview of international banking markets

Developments in the international banking markets in 1983 were dominated by the debt servicing problems affecting a number of countries to which banks were heavily exposed, and by the efforts made to resolve them. During the year, some twenty borrowers⁽¹⁾ were involved in negotiations to reschedule some part of their external debts; these countries account for about half the outstanding lending by banks in the main financial centres to countries outside those centres. These debt difficulties have, however, proved more manageable, both in terms of sustaining a flow of lending to troubled borrowers and in terms of the effect on the banks themselves, than some might have expected.

In part this can be attributed to recovery in the world economy which has improved the outlook for the restoration of the debt servicing capacity of borrowers. The long-awaited upturn in the US economy eventually materialised at the beginning of 1983 and, since then, growth has been unexpectedly strong, with real GNP in the second half of the year $7\frac{1}{2}\%$ higher than a year earlier; output in the OECD as a whole is estimated to have increased by about 5% (at an annual rate) between the two halves of 1983. World trade too revived a little, although by rather less than the rise in OECD output.

At the same time, the expansion in the United States and the strength of the dollar have led to a very substantial

deterioration in the US current account, producing a deficit for the year of about \$40 billion. Much of this has had its counterpart in improved current accounts of Latin American countries. Higher commodity prices too have helped to improve many developing countries' trade positions. And interest rates, although still high in real terms, have remained fairly stable after the fall of about four percentage points in US rates towards the end of 1982. However, debt burdens have been exacerbated as the dollar has strengthened, since most of the developing countries' debt is denominated in dollars whereas their export prices are only partly set in dollar terms.

Another important factor has been the success in assembling support packages. These have included the banks agreeing to reschedule principal falling due and to provide new money to the debtors, and borrowers agreeing to pursue adjustment policies, often as part of programmes drawn up in conjunction with the IMF. Some twenty countries—from Latin America, Eastern Europe and Africa—rescheduled over \$45 billion of maturities falling due in 1983; eleven of these have also negotiated a total of \$27 billion in new loans from the banks as part of support packages. (Some of these loans relate to 1984 financing needs and have not yet been disbursed.) As part of the arrangements for Latin American countries, the IMF committed SDR 13 billion over periods of up to three years and disbursed SDR 6 billion in 1983. Of the total

(1) 'Borrower' is used to refer not only to the entities on which banks hold claims but also to the governments which are negotiating on their behalf as well as in respect of their own external debts.

Financial support by commercial banks

Since 1978 banks have participated in support packages for twenty-seven countries. Details of arrangements for the largest debtors, many of which were negotiated in 1983, are outlined in the table. Certain common features of each set of negotiations can be identified.

Moratoria

The first step has usually been a temporary suspension of capital repayments to conserve foreign exchange and prevent an uneven reduction in commercial banks' exposure to the country concerned during the negotiations. Moratoria have usually been announced for a period of ninety days but in most cases have been extended for several months to allow time for debt negotiations to be completed.

Co-ordination

Advisory groups of representatives from the major creditor banks have been set up to liaise between the banks and the borrower and to co-ordinate the responses of the large number of banks involved. They have also served as a point of contact with official bodies.

Bridging finance

In some cases relief has been granted in the form of short-term bridging loans; some have been repaid upon disbursement of IMF and medium-term commercial bank loans. Some \$3.4 billion was provided for Brazil and Argentina by their major creditor banks.

Restructuring

Debtors have negotiated the rescheduling or refinancing of a substantial portion (ranging from 60% to 100%) of their medium-term and long-term debt to commercial banks falling due in an agreed period (usually 12–24 months). In a number of cases short-term debts have also been included in agreements. Mexico restructured more than two

years' public sector maturities in one agreement—\$23 billion in all—and Poland is negotiating to restructure several years' maturities from 1984. Banks are unwilling (or, because of supervisory implications, unable) to charge less than market rates of interest on restructured loans but the first set of negotiations in 1984 suggest that, in the cases of Mexico, Brazil, Peru and Yugoslavia, the banks will agree to reduce spreads. Typical repayment periods for initial restructuring agreements are 6–8 years, including a grace period of 2½–4 years. Subsequent agreements usually provide for progressively longer maturities, partly in order to smooth the hump of future repayment obligations.

Interbank and trade facilities

While *cross-border* interbank lending has usually been formally included in restructuring packages, the treatment of the interbank claims of the international banking community on the *branches abroad* of debtor country banks, and of trade facilities, has been in a number of cases the most difficult aspect of restructuring negotiations. In practice there has often been a *de facto* locking in of these claims and they have sometimes been formally included in restructuring packages. Brazil, for instance, has sought formal assurances on short-term funds, including a request for creditors to make a firm commitment to maintain interbank exposure and trade facilities during 1984.

New money

All the banks' restructuring agreements have required interest payments to be kept current, an obligation which debtors, particularly large ones, have sometimes not been able to meet fully without new loans. New money has usually been contributed by creditor banks as a percentage of their existing exposure (although the definition of the exposure base has sometimes caused difficulties).

Arrangements for selected countries: 1982–84

\$ billions

	Estimated total external debt outstanding at end-1983	Amounts covered by restructuring negotiations with commercial banks	New bank loans
Mexico	95	23.1 public sector and 11.6 private sector debt due from August 1982 to end-1984.	5.0 in 1983 3.8 in 1984
Brazil	90	Public and private sector debts of 4.8 due in 1983 and 5.4 in 1984. Interbank lines to be maintained at 6.0 (including 0.3 from official sources) and trade facilities at 10.0 until end-1984.	4.4 in 1983 6.5 in 1984
Argentina	44	Under negotiation.	1.5 in 1983 (of which, only 0.5 so far disbursed)
Venezuela	34	Under negotiation.	
Poland	28	Medium and long-term debt of 2.1 due in 1981, 2.3 in 1982 and 1.2 in 1983.	0.4 in 1982 0.2 in 1983
Philippines	25	Under negotiation.	
Yugoslavia	19	Medium and long-term debt of 1.0 due in 1983; 1984 maturities under negotiation. 0.8 short-term facilities extended until January 1985.	0.6 in 1983
Chile	18	3.4 public and private debt due in 1983–84. Trade facilities to be maintained at 1.2.	1.3 in 1983 Under negotiation: 0.8 in 1984
Nigeria	15 (including trade arrears)	1.8 letter of credit arrears refinanced in 1983. Restructuring of insured commercial arrears under negotiation.	
Peru	13	0.4 public sector debt due March 1983 to March 1984. Under negotiation 1.5 public sector debt due March 1984 to July 1985 and proposal to maintain trade facilities at 0.9 until November 1985.	0.45 in 1983 (of which, only 0.35 so far disbursed)
Romania	9	1.9 due in 1982 (including 1981 arrears) and 0.5 (medium and long-term only) due in 1983.	
Ecuador	7	1.0 public sector and 1.1 private sector debt due in 1983. 1984 maturities under negotiation. Trade facilities to be maintained at 0.7 until end-1984.	0.43 in 1983
Uruguay	4	0.6 public sector debt due in 1983–84. Trade facilities to be maintained for one year.	0.24 in 1983

committed, SDR 9 billion was for Mexico and Brazil alone. While each country was handled case by case, and there were variations in each support package, the arrangements have had certain common features. (Details of commercial bank support packages are given on page 55.)

In parallel with these support packages, a number of borrowing countries have made impressive efforts at adjustment, to try to bring their economies onto more sustainable paths of borrowing and growth and to revive external confidence. Thus during 1983 some countries were able to achieve a considerable turnaround in their current account positions. Mexico, for example, increased its trade surplus from \$8 billion in 1982 to \$14 billion in 1983, while Brazil exceeded its ambitious \$6 billion trade surplus target for 1983. Much of the improvement, however, stemmed from reductions in imports which may not be sustainable in the longer term without adversely affecting exports and growth. Moreover, domestic targets for inflation and public expenditure have so far generally proved considerably more difficult to achieve. More generally, it is interesting that even borrowers that have not experienced difficulties servicing their debts have made considerable efforts at adjustment. For example, several OECD countries, both large and small, have made serious efforts to improve their current accounts and hence reduce their borrowing needs.

In a number of cases, further support packages for 1984 are being, or have been, negotiated. Many of these are similar in scale to those arranged for last year. As part of its 1984 package, Brazil, for example, has raised \$6.5 billion, the biggest recorded international banking loan, while Mexico is raising a \$3.8 billion loan. The terms have been eased in a number of the most recent packages—considerably so for Mexico—sometimes in recognition of the significant adjustment efforts which borrowers have undertaken, but more generally, perhaps, because of a growing feeling among bankers that it is likely to be counterproductive to impose too onerous terms on countries already experiencing debt difficulties.

The international banking flows which underlay these developments are described in more detail later. Statistics produced by the Bank for International Settlements (BIS) indicate a sharp slowdown in the growth of cross-border bank lending in the year to end-September 1983 with new lending to developing countries remaining depressed—as it has been since the middle of 1982 (Table A). The increase in credit flowing to final users was modest, and the growth in interbank business too was very limited. This was probably a reflection of the slower growth in final lending but there were indications too that some banks, notably US owned ones, had adopted a more restrained approach to interbank lending.

The reluctance of some banks to expand their involvement in international lending contrasts sharply with the experience of the 1970s when claims grew by over 20 per cent per annum. In the 1970s about sixty more banks each year became involved in international lending; over the past year it seems that a number of banks, particularly smaller ones, are now attempting to withdraw. Many have been

very reluctant to participate in new money packages for borrowers in difficulties. More generally, banks' caution has resulted in a clear segmentation of the medium-term credit market: borrowers previously able to use the market freely have at times been unable to raise any significant spontaneous new money from any bank, while those regarded by the banks as acceptable credit risks have been able to borrow on terms that have recently become increasingly favourable.

Within the broad segmentation of the market, there are signs that banks continue to distinguish between individual borrowers. Thus a few Latin American and East European countries have been able to re-establish a presence in the market: although the amounts were small, Colombia and Czechoslovakia raised credits in the second half of 1983, and Hungary maintained its presence in the market. Banks also differentiated between the Philippines and other Asian countries—particularly South Korea, Thailand and Malaysia, which continue to have access to funds—although several of these countries scaled down their investment plans to reduce their need for funds from the markets in the more difficult borrowing environment.

Many of these developments suggest increasing sophistication both in banks' analysis of credit risks and in their relationships with borrowers. Their approach to international lending may thus perhaps be comparable with the more flexible approach to corporate difficulties that banks in several countries have adopted in the last few years. More banks have also come to recognise the importance of having the fullest possible information about borrowers; this is reflected, for example, in the support given to the newly-formed Institute of International Finance, which aims *inter alia* to provide subscribing banks with up-to-date and comprehensive statistics relevant to lending decisions.

Another facet of the banks' response to debt problems—and in particular to the inflexibility which rescheduling and unspontaneous loans introduce into their balance sheets—has been their efforts to improve their capacity for asset management. They have tried to improve the liquidity and marketability of their international claims, most notably by taking up the floating rate note issues of international borrowers. Such borrowers, in turn, were quick to respond to this demand by increasing their issues. This appears to have been a substitute for medium-term lending, the attraction for the banks being that there is an established secondary market in these notes, which therefore, in principle, provide them with more balance sheet flexibility than syndicated credits.

Increasing interest in the secondary market in syndicated credits has also been widely noted. There has been a small market in sub-participations in quality loans for some years and it seems that there was some pickup in activity during 1983. It has been suggested that loans to troubled borrowers have been swapped or traded at a discount, but there is little direct evidence for this practice; it seems likely that only a very few deals have been done and that the amounts involved are not significant at present.

Table A
International business of banks in the BIS reporting area

\$ billions; changes exclude estimated exchange rate effects

	Year to end-Sept.			1982				1983			Outstanding at end-Sept. 1983
	1981	1982	1983	Q1	Q2	Q3	Q4	Q1	Q2	Q3	
External business analysed by location											
Total external lending	+ 262.7	+ 241.1	+ 85.7	+ 43.2	+ 30.8	+ 67.2	+ 34.2	+ 17.4	+ 5.0	+ 29.1	1,707
of which:											
United Kingdom	+ 91.1	+ 59.2	+ 16.4	+ 16.2	- 2.9	+ 26.7	- 5.4	+ 10.6	- 0.6	+ 11.8	476
Other Europe	+ 65.5	+ 34.3	+ 14.1	- 7.6	- 1.4	+ 8.3	+ 24.0	- 25.5	+ 9.8	+ 4.8	527
United States	+ 46.7	+ 134.4	+ 34.2	+ 28.1	+ 39.8	+ 25.4	+ 13.8	+ 19.4	- 2.3	+ 3.3	384
Japan	+ 25.0	+ 11.7	+ 15.4	+ 8.6	- 8.3	+ 10.5	- 2.8	+ 9.0	- 3.2	+ 12.4	108
Total external deposits	+ 243.8	+ 199.1	+ 67.3	+ 44.3	+ 16.5	+ 46.8	+ 18.2	+ 7.9	+ 8.8	+ 32.4	1,644
of which:											
United Kingdom	+ 85.5	+ 71.8	+ 23.3	+ 18.8	+ 1.5	+ 28.3	- 4.6	+ 11.8	+ 0.9	+ 15.2	507
Other Europe	+ 59.1	+ 28.2	+ 9.3	- 11.4	- 4.8	+ 5.7	+ 23.0	- 21.6	+ 10.2	- 2.3	520
United States	+ 21.9	+ 87.4	+ 26.1	+ 26.3	+ 30.2	+ 7.6	+ 4.3	+ 6.2	+ 2.0	+ 13.6	268
Japan	+ 24.9	+ 9.9	+ 3.8	+ 9.9	- 10.2	+ 8.4	- 7.3	+ 8.1	- 6.9	+ 9.9	110
Net external assets (+)/liabilities (-)	+ 18.9	+ 42.0	+ 18.4	- 1.1	+ 14.3	+ 20.4	+ 16.0	+ 9.5	- 3.8	- 3.3	+ 63
of which:											
United Kingdom	+ 5.6	- 12.6	- 6.9	- 2.6	- 4.4	- 1.6	- 0.8	- 1.2	- 1.5	- 3.4	- 31
Other Europe	+ 6.4	+ 6.1	+ 4.8	+ 3.8	+ 3.4	+ 2.6	+ 1.0	- 3.9	- 0.4	+ 7.1	+ 7
United States	+ 24.8	+ 47.0	+ 8.1	+ 1.8	+ 9.6	+ 17.8	+ 9.5	+ 13.2	- 4.3	- 10.3	+ 116
Japan	+ 0.1	+ 1.8	+ 11.6	- 1.3	+ 1.9	+ 2.1	+ 4.5	+ 0.9	+ 3.7	+ 2.5	- 2
Direction of external business											
Lending within the BIS area(a)	+ 187.5	+ 177.2	+ 54.6	+ 34.6	+ 10.0	+ 57.1	+ 24.1	+ 15.3	- 3.9	+ 19.1	1,154
of which, non-banks	+ 23.8	+ 25.6	+ 7.4	+ 3.4	+ 4.4	+ 7.6	+ 2.9	+ 1.3	+ 0.4	+ 2.8	178
Lending outside the BIS area	+ 67.8	+ 55.0	+ 19.0	+ 6.5	+ 20.2	+ 4.2	+ 8.6	+ 1.1	+ 6.5	+ 2.8	493
of which:											
Latin America	+ 27.1	+ 25.5	+ 4.9	+ 4.1	+ 7.7	+ 1.3	- 0.9	+ 2.7	+ 1.4	+ 1.7	174
Other non-oil developing countries	+ 8.7	+ 6.0	+ 8.6	- 1.7	+ 5.3	- 2.0	+ 6.0	- 0.6	+ 3.2	-	79
Oil exporters	+ 6.4	+ 10.5	+ 2.8	+ 1.6	+ 3.3	+ 2.8	+ 0.5	+ 0.1	+ 0.8	+ 1.4	80
Eastern Europe	+ 5.2	- 3.5	- 2.9	- 2.6	- 0.5	- 1.1	- 0.5	- 1.4	+ 0.1	- 1.1	49
Developed countries	+ 17.8	+ 16.9	+ 5.6	+ 4.9	+ 4.3	+ 3.2	+ 3.5	+ 0.3	+ 1.0	+ 0.8	112
Deposits from within the BIS area(a)	+ 219.3	+ 182.8	+ 72.1	+ 44.3	+ 15.6	+ 43.9	+ 21.9	+ 20.0	+ 9.2	+ 21.0	1,275
of which, non-banks	+ 32.9	+ 43.4	+ 16.8	+ 9.8	+ 14.5	- 1.2	+ 4.8	+ 1.5	+ 8.8	+ 1.7	220
Deposits from outside the BIS area	+ 21.8	+ 3.4	- 11.0	- 4.1	- 1.6	- 1.3	- 4.6	- 8.4	- 4.5	+ 6.5	293
of which:											
Latin America	+ 2.8	+ 2.6	+ 4.7	-	- 0.4	- 1.2	- 0.2	- 0.5	+ 2.5	+ 2.9	42
Other non-oil developing countries	+ 0.1	+ 8.2	+ 3.8	- 0.9	+ 4.9	+ 0.4	+ 2.3	+ 0.3	+ 0.7	+ 0.5	65
Oil exporters	+ 12.5	- 13.2	- 20.9	- 0.6	- 6.0	- 3.8	- 7.9	- 8.1	- 7.1	+ 2.2	121
Eastern Europe	- 1.4	+ 2.0	+ 4.4	- 3.1	+ 0.7	+ 0.7	+ 3.7	+ 0.1	+ 0.5	+ 0.1	17
Developed countries	+ 4.6	+ 3.7	- 3.0	+ 0.4	- 0.7	+ 2.6	- 2.4	- 0.3	- 1.1	+ 0.8	47
Net supply (-)/use (+) of funds within the BIS area(a)	- 31.8	- 5.6	- 17.5	- 9.7	- 5.6	+ 13.2	+ 2.2	- 4.7	- 13.1	- 1.9	- 121
of which, non-banks	- 9.1	- 17.8	- 9.4	- 6.4	- 10.1	+ 8.8	- 1.9	- 0.2	- 8.4	+ 1.1	- 42
Net supply (-)/use (+) of funds outside the BIS area	+ 46.0	+ 51.6	+ 30.0	+ 10.6	+ 21.8	+ 5.5	+ 13.2	+ 9.5	+ 11.0	- 3.7	+ 200
of which:											
Latin America	+ 24.3	+ 22.9	+ 0.2	+ 4.1	+ 8.1	+ 2.5	- 0.7	+ 3.2	- 1.1	- 1.2	+ 132
Other non-oil developing countries	+ 8.6	- 2.2	+ 4.8	- 0.8	+ 0.4	- 2.4	+ 3.7	- 0.9	+ 2.5	- 0.5	+ 14
Oil exporters	- 6.1	+ 23.7	+ 23.7	+ 2.2	+ 9.3	+ 6.6	+ 8.4	+ 8.2	+ 7.9	- 0.8	- 41
Eastern Europe	+ 6.6	- 5.5	- 7.3	+ 0.5	- 1.2	- 1.8	- 4.2	- 1.5	- 0.4	- 1.2	+ 32
Developed countries	+ 13.2	+ 13.2	+ 8.6	+ 4.5	+ 5.0	+ 0.6	+ 5.9	+ 0.6	+ 2.1	-	+ 64
Domestic business of BIS area banks in foreign currency											
Lending to:											
Banks	+ 47	+ 46	+ 10	+ 30	- 25	- 35	- 3	+ 20	- 40	+ 33	293
Non-banks	+ 16	+ 16	+ 14	+ 2	+ 3	+ 4	+ 5	+ 3	+ 2	+ 4	154
Deposits from:											
Banks	+ 61	+ 49	+ 11	+ 29	+ 24	+ 37	- 2	+ 19	- 39	+ 33	311
Non-banks	- 3	+ 7	+ 7	+ 1	+ 2	+ 2	+ 4	- 1	+ 2	+ 2	61
Net supply (-)/use (+):											
Banks	- 14	- 3	- 1	+ 1	- 1	- 2	- 1	+ 1	- 1	-	- 18
Non-banks	+ 19	+ 9	+ 7	+ 1	+ 1	+ 2	+ 1	+ 4	-	+ 2	+ 93

(a) Includes branches of US banks in the offshore banking centres.

Increased uncertainty about the quality of certain assets—domestic and international—has encouraged banks in many countries to make provisions against losses and to strengthen their balance sheets by increasing their capital resources. Banks appear to have made higher provisions against international loans in 1983 than in previous years, and there seems to have been a substantial strengthening of capital ratios, particularly of the major American banks.

These improvements in capital ratios have been encouraged by supervisory authorities. Since the autumn of 1982, supervisors in major centres have jointly emphasised the need to arrest further deterioration in capital ratios. At the same time, consolidated supervision has become increasingly widespread, so that the adequacy of capital is now generally assessed by parent bank supervisors

against the aggregate balance sheet of the banking group. Supervisors are also paying close attention to provisioning policies, and the authorities in a number of countries—including Japan, Switzerland and the United States—have introduced guidelines for provisioning against certain categories of international loans. Some provisions are usually allowable against tax. But supervisors also have to take account of the case for banks acting to protect existing loans by participating in lending to borrowers experiencing debt servicing difficulties.

In addition, the Basle Supervisors' Committee, as part of its efforts to ensure that banks operating internationally are properly supervised, publicised more widely a revised version of the so-called Concordat, which sets out the principles which should govern the allocation of

supervisory responsibilities for banks operating in different international centres.

Bank failures seemed to cause the markets fewer problems in 1983 than in the previous year, perhaps because those banks concerned were not closely associated with international banking activity. Nevertheless, the number of bank failures in the United States was higher than in 1982 and problems occurred in several offshore centres—notably in the Middle and Far East. The effects of the collapse of the German bank, Schroeder, Muenchmeyer, Hengst and Co., probably the most serious failure of the year in Europe, were contained, thanks to the prompt action of the German authorities.

Prospects

The economic adjustment which the most heavily indebted countries can achieve—and hence (inversely) their need for finance—will continue to depend on the robustness of the recovery in industrialised countries, the containment of protectionist pressures and on the level of interest rates, as well as on the measures they themselves take. Developing countries' exports should benefit from continued expansion in the industrialised economies, though primary product prices may not increase as rapidly as in 1983; and the insidious increase of protectionist measures is at least becoming more widely recognised.

The growth in spontaneous international bank lending is likely to remain modest in 1984 because of caution by the banks and lack of demand from creditworthy borrowers, and also because of the continuing involvement of the banks with support packages. Banks will continue to seek ways of restoring balance sheet flexibility, although the narrowing of yields on floating rate notes might reduce the attractiveness of these instruments.

The immediate difficulties of managing debt problems of two major borrowers have eased a little with the recent signing of a loan for Brazil and the progress made in assembling a loan for Mexico. But the arrangements for a number of other borrowers—including the Philippines, Argentina, Venezuela and Nigeria—are still being negotiated. New money will continue to be needed by a number of countries; but, as long as this is proportionately less than the increase in banks' capital, the vulnerability of banks to problems in these countries will gradually fall.

It is worth recalling that banks only became the dominant providers of international finance during the 1970s, partly because of their growing awareness of the profitability of international business, partly because of their ability to respond to the inflationary conditions of the period and partly because of the preferences of the holders of financial surpluses to deposit their money with the banks. With the less inflationary conditions of the 1980s, the increasing caution of banks, and the possible development of other

sources of funds, banks seem likely to play a somewhat lesser role in the future. But for the moment the co-operation which has evolved between the banks, the international institutions—in particular the IMF—and borrowers may be expected to continue to guide developments in banking markets until a more balanced and stable pattern of financing is established and normal market relationships are restored.

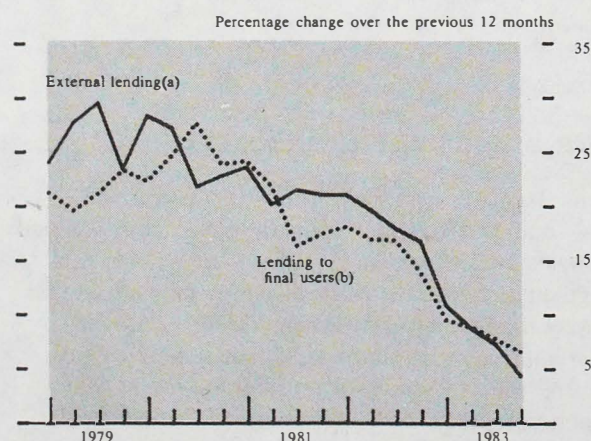
International lending: developments in the principal markets

The BIS produce comprehensive statistics on international banking activity from data supplied by the main financial centres. These cover the cross-border business of banks in domestic and foreign currencies, as well as foreign currency business with residents, and are the main source used in this article. These statistics are described on page 52 of the March 1983 *Bulletin*.⁽¹⁾ The Bank of England collects supplementary information on announcements of medium-term credits. These figures are not strictly comparable with the BIS data—announcements are on a gross basis (repayments are not deducted) and do not allow for timing or other differences between the announcement and disbursement of lending. Nevertheless, they do provide a useful indication of current market conditions. The international bond market is also discussed, since bonds provide an alternative form of financing for borrowers, and banks are active both in managing bond issues and in holding international bonds in their own right.

Bank lending

The marked slowdown in the growth of international bank lending, which began in 1981, continued throughout the twelve months to end-September 1983. BIS figures for that period show an increase in outstanding bank lending to final

Chart 1
External lending



- (a) Total external lending by banks in the BIS reporting area (including interbank) plus an estimate for non-reporting banks in the offshore centres (column 6 in Table B).
 (b) This is an estimate by the BIS of lending to final users and therefore excludes double counting resulting from the re-depositing of interbank funds—but includes lending to residents as a result of switching operations (column 12 of Table B).

(1) In January 1984, the IMF introduced a new series of figures on international banking business in *International Financial Statistics*; the geographical breakdown of the new statistics is derived mainly from the countries concerned and covers the positions of residents with all foreign banks—as well as the position of resident banks with foreign non-banks. The coverage of this series is therefore wider than that of the BIS statistics; however, it is not easy at present to derive flows from the IMF figures and some of the detailed information is not timely.

Table B
Measures of international bank lending

\$ billions

	Lending by banks in the BIS reporting area to non-residents in:		Lending by branches of US banks in the offshore centres to non-residents	Total external lending by BIS area banks(a)	Lending by other banks in offshore centres to non-residents (b)	Lending to non-residents by banks in the BIS reporting area and in offshore centres (4+5)	Total external lending(c)	Lending by banks in the BIS reporting area in foreign currencies to residents (d)	Gross size of the euro-currency banking market (1+3+5+8)	Swiss trustee accounts	Total international bank lending (6+8+10) or (2+9+10)	Lending to final users(e)
	Foreign currency	Domestic currency										
	1	2	3	4	5	6	7	8	9	10	11	12
Amount outstanding at:												
End-Sept. 1980	781	327	140	1,248	165	1,413	1,612	297	1,383	68	1,778	775
End-Sept. 1981	886	370	168	1,424	222	1,646	1,918	360	1,636	88	2,094	875
End-Sept. 1982	952	506	169	1,627	248	1,875	2,189	420	1,789	92	2,387	985
End-Sept. 1983	980	556	171	1,707	253	1,960	2,257	448	1,852	93	2,501	1,050

(a) This corresponds to the first line of Table A and represents the largest measure of cross-border lending for which a full geographic, currency and sectoral breakdown is available. These figures—derived from the BIS quarterly data—provide the basis for most of the analysis in this article.

(b) Estimated. The business is assumed to be all in foreign currency.

(c) Based on a wider population using data from the IMF's publication *International Financial Statistics* (summary table on deposit banks' foreign assets—ref. 7x d).

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

(e) A BIS estimate of lending net of interbank transactions.

users of only $6\frac{1}{2}\%$ (\$65 billion) in dollar terms, compared with 15% (\$130 billion) in the previous twelve months and over 20% per annum between 1979 and 1981 (Chart 1). This slowdown is less marked, but nevertheless still evident, when bank lending is set against measures of economic activity. Scaled by world income or world trade in dollar terms—or deflated by a dollar trade price index—international bank lending grew by less than 5% in the year to end-September 1983, compared with scaled growth of over 10% per annum in each of the previous two years. (Measures of international bank lending are described on page 557 of the December 1983 *Bulletin*.)

There was, overall, a sharp reduction in new lending to countries outside the BIS reporting area—particularly to developing countries. This continued the trend in the direction of lending which began during 1982. Meanwhile, new funds to finance lending continue to come predominantly from within the BIS reporting area. However, the United States' role as the major supplier of new funds to the international banking market has been substantially reduced in the year to end-September 1983 and in recent quarters has been reversed. Interbank business has followed the more general slowdown in the growth of international business, and even contracted in the second quarter of 1983.

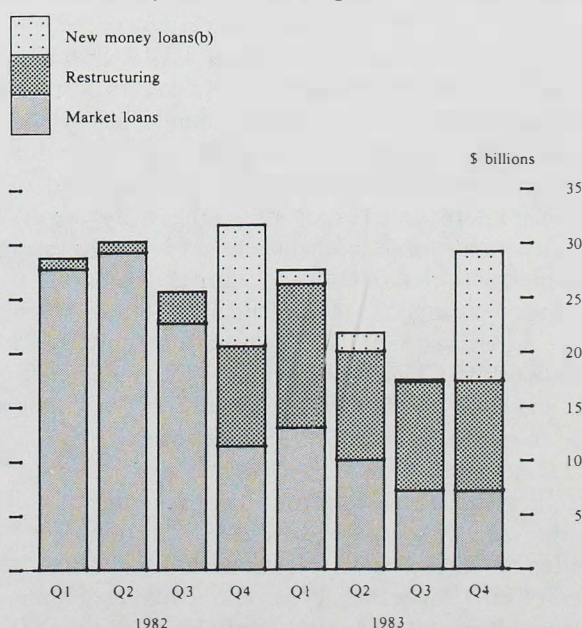
Medium-term bank credits

Both the slowdown in international bank lending, and the change in the distribution of new lending, are also evident from the medium-term credit market. Announcements of new credits in 1983—on a gross basis—totalled only \$38 billion, down from \$91 billion in 1982. Of this, the developing countries accounted for $\$8\frac{1}{2}$ billion, only one quarter of their announced borrowing in 1982, while borrowers from both the major OECD and oil exporting countries also sharply reduced their use of the market. The overall decline in announcements—and in particular those for developing countries—is less marked if account is also taken of 'unspontaneous' syndicated lending by the banks (Chart 2).

International bond and floating rate note issues (Chart 3)

In contrast to the syndicated credit market gross issues of international bonds and notes in 1983—at \$76 billion—were slightly up on 1982. The strength of this market has not benefited the developing countries however since the market is confined almost entirely to borrowers in OECD countries and to international institutions. In terms of the structure of international capital markets, the most important feature of the year was banks' growing interest in holding floating rate notes, as part of their attempts to improve the liquidity of their international assets. Banks have always been major holders of these instruments, but the proportion of new issues taken into banks' portfolios is reported to have increased, particularly in the latter part of 1983. This has enabled note issuers to obtain more

Chart 2
Announced syndicated lending^(a)

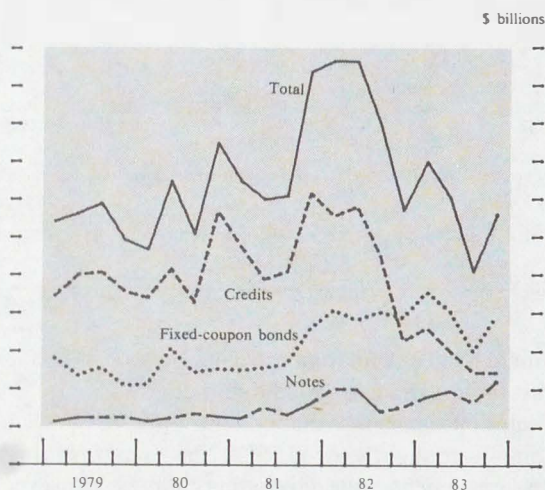


(a) Restructured loans are spread evenly over the quarters in which repayments of principal would otherwise have fallen due. New money and market loans are allocated to the quarters in which they were announced.

(b) Additional bank loans made in association with restructuring arrangements.

favourable terms, with much longer maturities, and costs for prime borrowers have been reduced to below those on syndicated credits. Note issues totalled \$18 billion in 1983, \$3 billion more than in 1982; French banks and sovereign borrowers from the minor OECD countries were the most active issuers.

Chart 3
Medium-term market credits,^(a) bonds and notes



(a) Excluding support packages.

Analysis of business by area (Table A)

BIS reporting area countries

In the years to end-September 1981 and 1982 the United States was the dominant net supplier of funds to the international banking market, providing as much as \$53 billion and \$71 billion in the two years (Table C). The United States continued to be a net provider of funds during the year to end-September 1983, but on a considerably smaller scale (\$17 billion); and during the second and third quarters of the year became a net taker of funds from the market. US banks provided some \$25 billion net to the euromarkets in 1981 and as much as \$47 billion in the following year (Table A). By contrast, this fell to \$8 billion in the year to end-September 1983. The change in position is consistent with the growing current account deficit in the United States as well as the more buoyant conditions within the economy. It may further reflect the banks' desire to reduce their international exposure and the emergence of capital constraints on additional lending, while adjustment programmes of the less developed countries may have contributed to a reduction in the demand for funds. Much the same pattern was seen in the net supply of funds by US non-banks (Table C); increases of \$25 billion and \$24 billion in 1981 and 1982 were followed by a rise of only \$9 billion in the year to end-September 1983. In spite of a sharp contraction in foreign deposits held by US money market funds following the highly successful introduction of competing bank deposits at the end of 1982, euromarket depositing by US non-banks was strong during the first two quarters of 1983. Since then, however, the supply of funds from this source has tailed off. Overall, therefore, the

United States became a net drawer of funds from the international banking markets during the course of 1983.

Offsetting the US position to some extent, banks in Japan have provided nearly \$12 billion net to the market in the year to end-September 1983—possibly reflecting slack domestic credit demand and interest rate differentials. Swiss banks have also been substantial suppliers of funds providing \$4 billion net, much as in 1982; non-banks in Switzerland—generally a large source of trustee account funds—were small net drawers from the market in 1983. Most other European centres either increased their net supply of funds during the year or reduced their net borrowing, in both cases partly reflecting improvements in current account positions. Overall, in the year to end-September 1983, France reduced the amount of its net new borrowing while Italy switched to being a net supplier of funds having previously been a net drawer. Moreover, the United Kingdom reduced its reliance on the international market as a source of funds, with net borrowing by banks falling from almost \$13 billion in the year to end-September 1982 to some \$7 billion in the following twelve months. Although UK banks remain net drawers from the market, over half of these funds have been reinvested overseas in forms not covered by these statistics.

Interbank business within the BIS reporting area

Much of the banking business within the BIS reporting area relates to interbank activity defined here to include both cross-border business and local lending in foreign currencies.⁽¹⁾ Although this market has in the main continued to function smoothly, many banks appear to have reassessed their involvement during 1983. The volume of interbank business, quarter-to-quarter, tends to be fairly volatile and hence trends are not quickly apparent. However, some evidence of the effects of this reassessment is seen in Table D. Although the market in general has continued to grow, in the year to September 1983 the stock

Table C

Net cross-border supply of funds from countries within the BIS reporting area

\$ billions; net supply of funds (+)/use (—)

	Changes (excluding estimated exchange rate effects)				Outstanding net assets (+)/liabilities (—) at end-Sept. 1983	
	Year to end-Sept. 1982	Year to end-Sept. 1983	Year to end-Sept. 1982	Year to end-Sept. 1983	Year to end-Sept. 1982	Year to end-Sept. 1983
	Banks	Non-banks	Banks	Non-banks	Banks	Non-banks
By residents of:						
Austria	+ 0.9	— 0.2	+ 1.5	— 0.2	— 0.1	— 1.8
Belgium	— 2.7		— 2.5		— 12.1	
Luxembourg	+ 0.9	— 0.6	+ 1.6	— 1.9	+ 6.6	— 3.5
Canada	+ 0.5		+ 1.0	+ 1.7	— 20.8	+ 0.7
Denmark	+ 0.2	— 0.9	— 0.5	— 1.1	—	— 10.6
France	— 1.7	— 2.5	+ 0.6	— 2.5	+ 3.8	— 9.0
Germany(a)	+ 3.5	— 4.6	— 0.5	+ 0.7	+ 2.5	— 29.6
Ireland	— 0.7	— 1.3	— 0.8	+ 0.1	— 3.2	— 3.8
Italy	+ 0.1	— 4.4	+ 0.8	+ 0.8	— 10.0	— 16.2
Japan	+ 1.8	+ 2.3	+ 11.6	—	— 2.0	— 6.7
Netherlands	+ 0.4	+ 0.2	+ 1.0	+ 1.6	+ 2.4	+ 2.0
Sweden	+ 0.6	— 2.2	— 1.1	+ 0.2	— 6.4	— 8.1
Switzerland	+ 4.4	+ 4.2	+ 4.2	— 0.2	+ 24.2	+ 13.2
United Kingdom	— 12.6	— 0.7	— 6.9	+ 0.3	— 31.5	— 0.3
United States	+47.0	+24.3	+ 8.1	+ 8.8	+115.8	+109.8
Total	+42.6	+13.7	+18.1	+ 8.2	+ 69.2	+ 36.0

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

(1) A detailed description of the working of the market is given in *BIS Economic Paper No. 8, 'The international interbank market: a descriptive study'*, published in July 1983. This is based on the work of a study group set up under the auspices of the Bank for International Settlements.

Table D
Interbank lending

\$ billions; figures in italics are percentages

	Transactions in year to end-Sept.			Outstanding at end-Sept. 1983
	1981	1982	1983	
Cross-border lending				
Foreign currency(a)	75	44	18	711
Domestic currency:				
US offices	39	90	19	259
Offices elsewhere	1	4	8	97
Total	115	138	45	1,067
<i>Interbank lending as a percentage of all cross-border lending</i>	78.2	67.6	58.4	69.5
Lending to resident banks in foreign currency	47	46	11	293
Total international interbank lending	162	184	56	1,360
<i>of which, London market</i>	82	48	6	468
<i>Interbank lending as a percentage of all international lending</i>	77.1	69.4	53.9	68.5

(a) Excludes lending by banks in the United States

of outstanding interbank deposits increased by only \$56 billion, compared with growth of \$184 billion in the previous year. This slowdown is more marked than for international lending as a whole, with the result that interbank deposits accounted for only 54% of total market growth compared with 69% and 77% in the years to end-September 1982 and 1981. Even so, by end-September 1983 the stock of interbank business as a proportion of total outstanding lending remained near to 70% where it has been for a number of years.

Cross-border interbank lending increased by \$45 billion in the year to end-September 1983—a growth rate of only 4½% compared with 15½% in the previous twelve months. The UK share of this business showed only modest growth—\$8½ billion—during the year (see page 66). Nevertheless, at end-September 1983 the United Kingdom still accounted for nearly one third of all such business. Much of the increase—some \$22 billion—was in the activity of international banking facilities which were established at the end of 1981; other US business remained flat. *Interbank lending in foreign currencies within the main financial centres* followed the same pattern as the cross-border business with growth of only \$11 billion or 4% compared with 20% in the previous year. The increase was entirely accounted for by the growth of the Japanese market; some of the European centres—including London—showed a small contraction in business.

Developed countries outside the BIS area (Table E)

In the year to end-September these countries were net borrowers of nearly \$9 billion, rather less than in 1982. Some of the borrowers were cautious in approaching the market for new syndicated credits; this may explain both the small increase in borrowing—\$5½ billion—by these countries and the reduction in their deposits of \$3 billion during the year. While they may have been uncertain about their reception in the market, and while spreads on new borrowing drifted upwards in the first half of the year, the

second half of 1983 saw a changed perception of these countries. By the end of the year both Spanish and Portuguese borrowers had, for example, been well received by the market, with strong competition for the mandates to syndicate such loans.

Australian borrowers announced few new syndicated credits during 1983, although by drawing on previously arranged lines of credit (including substantial project finance loans) their long-term borrowing increased by around \$3 billion in the year to June 1983. Nevertheless, unused credits for Australian borrowers remain at around 50% of their outstanding borrowing. Overall, the unused credits of developed countries fell from 27% of lending in June 1982 to 23% a year later. Undisbursed credit commitments to Greece, Spain and Portugal dropped sharply during the same period.

Non-oil developing countries

These countries increased their net borrowing by only \$5 billion in the year to end-September 1983, after a rise of \$21 billion in the previous year. In addition, the pattern of net borrowing changed; Latin America—having more than accounted for the entire net borrowing by non-oil developing countries in the year to September 1982—made net drawings of only \$¼ billion. The three major borrowers in Latin America (Mexico, Brazil and Argentina) together increased their outstanding debt to the BIS area banks by over \$4 billion (Table F), compared with rises of around \$20 billion in each of the last three years; at the same time they managed to increase their deposits by over \$5 billion. The increase in deposits, particularly towards the end of the period, seems to have resulted from the rapid improvement in current account positions. Lending to other Latin American countries, many of whom were also involved in rescheduling their debts during this period, also showed a pronounced slowdown.

Table E
Business of BIS reporting area banks with developed countries outside the BIS area

\$ billions; changes exclude estimated exchange rate effects

	Transactions in year to end-Sept.			Transactions in half-year ending		Outstanding at end-Sept. 1983
	1981	1982	1983	Mar. 1983	Sept. 1983	
Total lending	+17.8	+16.9	+5.6	+3.8	+1.8	111.7
<i>of which, to:</i>						
Greece	+1.8	+0.8	+0.9	+0.9	—	9.8
Norway	+0.1	+0.8	—0.8	—0.7	—0.1	10.1
Portugal	+2.2	+2.3	+0.8	+1.0	—0.2	9.8
Spain	+3.6	+2.4	—0.5	—0.6	+0.1	22.2
Australia	+1.5	+4.2	+1.7	+1.3	+0.4	12.5
South Africa	+2.9	+3.2	+1.7	+1.3	+0.4	14.1
Total deposits	+4.6	+3.7	—3.0	—2.7	—0.3	47.4
<i>of which, from:</i>						
Greece	—	—0.1	—	—0.2	+0.2	5.2
Norway	+0.5	+1.5	—2.0	—1.3	—0.7	4.7
Portugal	—0.5	+0.2	—0.1	—0.2	+0.1	2.0
Spain	+0.6	—0.3	—2.7	—3.2	+0.5	14.1
Australia	+0.1	+0.5	—0.4	—0.4	—	1.4
South Africa	—0.2	—0.1	+0.3	+0.8	—0.5	1.7
Total net lending	+13.2	+13.2	+8.6	+6.5	+2.1	+64.3
<i>of which, to:</i>						
Greece	+1.8	+0.9	+0.9	+1.1	—0.2	+4.6
Norway	—0.4	—0.7	+1.2	+0.6	+0.6	+5.4
Portugal	+2.7	+2.1	+0.9	+1.2	—0.3	+7.8
Spain	+3.0	+2.7	+2.2	+2.6	—0.4	+8.1
Australia	+1.4	+3.7	+2.1	+1.7	+0.4	+11.1
South Africa	+3.1	+3.3	+1.4	+0.5	+0.9	+12.4

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

\$ billions; changes exclude estimated exchange rate effects

	Transactions in year to end-Sept.			Transactions in half-year ending		Outstanding at end-Sept. 1983
	1981	1982	1983	Mar. 1983	Sept. 1983	
Total lending	+27.1	+25.5	+4.9	+1.8	+3.1	174.0
of which, to:						
Argentina	+3.3	+0.8	+0.6	+0.2	+0.4	23.0
Brazil	+4.2	+9.5	+2.1	+1.9	+0.2	57.2
Mexico	+12.6	+10.1	+1.5	—	+1.5	61.5
Total deposits	+2.8	+2.6	+4.7	-0.7	+5.4	42.0
of which, from:						
Argentina	-2.0	-0.5	+0.7	+0.6	+0.1	6.1
Brazil	+0.2	-0.4	+1.5	—	+1.5	5.5
Mexico	+2.0	+1.1	+3.2	+0.2	+3.0	14.2
Total net lending	+24.3	+22.9	+0.2	+2.5	-2.3	+132.0
of which, to:						
Argentina	+5.3	+1.3	-0.1	-0.4	+0.3	+16.9
Brazil	+4.0	+9.9	+0.6	+1.9	-1.3	+51.7
Mexico	+10.6	+9.0	-1.7	-0.2	-1.5	+47.3

The small recorded rise in lending to Mexico, Brazil and Argentina may seem surprising in view of the large amounts of new money provided by the banks. There are several reasons why the outstanding debt of these three countries to the BIS area banks over this twelve-month period has grown less than the announced amounts of their new borrowing.⁽¹⁾ First, while announcements of new money from banks in 1983 totalled some \$15 billion the disbursement of these loans has been in tranches and by end-September 1983 only around half had been drawn down by the borrowers (Table G). Second, there has been some reduction in banks' short-term lending—not always formally included in the rescheduling agreements—to these countries. Finally, in cases where countries' interest arrears have been added to loans, the new money may have been used to repay such arrears, leaving the total amount of loans outstanding unchanged.

Table G
Drawings on new money loans in support packages
 \$ billions

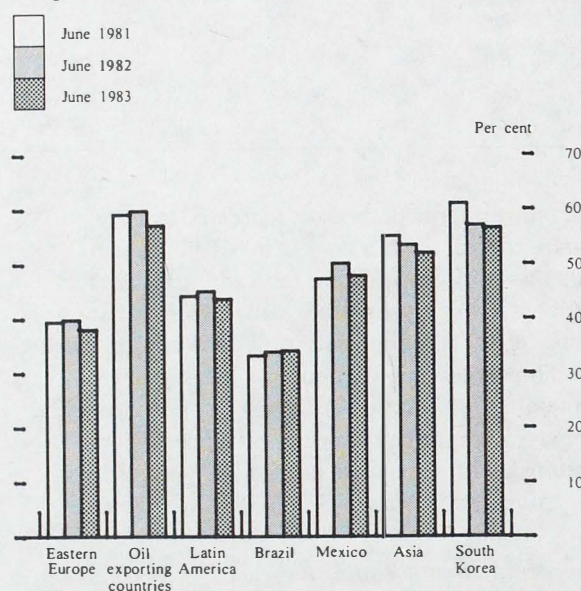
	1982	1983			Year to end Sept. 1983
	Q4	Q1	Q2	Q3	
Argentina	—	0.8	—	0.3	1.1
Brazil	2.3	1.5	—	—	3.8
Mexico	—	1.7	—	1.7	3.4
Total	2.3	4.0	—	2.0	8.3

To reflect the nature of the special arrangements, and the increased credit risk to the banks, these borrowers initially conceded margins averaging some 2% or more over LIBOR, on both rescheduled loans and new money. Although this was double the margin some borrowers had been paying before the debt crisis, it was in line with the margins Brazil had been paying since 1981. Maturities on rescheduled loans and new money loans were roughly comparable to those prevailing on medium-term credits to the same or similar borrowers before the payments difficulties emerged. More recent negotiations have led to new money agreements for 1984 being negotiated on easier terms either in response to the encouraging progress of the

borrower, as in the case of Mexico, or to a changed perception of the needs of the borrower, as for Brazil.

The maturity structure of lending to Latin American countries has lengthened during the year to June 1983 (Chart 4); much of this reflects the effects of rescheduling arrangements. Undisbursed credit commitments to Latin American countries (Chart 5) declined during the period to only 7.6% of total outstanding lending compared with 13.1% in June 1982; heavy drawings on these commitments by Brazil, Argentina and Mexico were largely responsible for this decline.

Chart 4
Proportion of short-term loans^(a)



Source: BIS half-yearly maturity survey.

(a) Loans with a residual maturity of one year or under as a percentage of total claims.

Non-oil developing countries outside Latin America increased their total borrowing by \$8½ billion (Table H). Countries in Asia accounted for most of the new borrowing and were far larger drawers of funds than countries in Latin America. The majority of new lending to Asian countries occurred in the final quarter of 1982; the largest overall increases in borrowing were by South Korea (+ \$2½ billion) and Malaysia (+ \$2¼ billion). These countries also markedly reduced their unused credit facilities.

In October the Philippines announced a ninety-day moratorium (subsequently extended for a further ninety days) on repayments of both short and long-term debt. Nevertheless, reaction in the syndicated credits market suggests that this has not affected the access of other Asian borrowers. Indeed, South Korea and Malaysia announced borrowings in the fourth quarter of 1983 on terms better than those prevailing earlier in the year.

Eastern European countries (Table J)

The recorded net indebtedness of East European countries to BIS area banks fell by over \$7 billion, having fallen by

(1) The agreements on new money from banks in the year to September 1983 totalled \$5 billion for Mexico, \$4.4 billion for Brazil and \$1.5 billion for Argentina and were signed in March, February and August respectively.

Table H
Business of BIS reporting area banks with non-oil developing countries other than Latin America

\$ billions; changes exclude estimated exchange rate effects

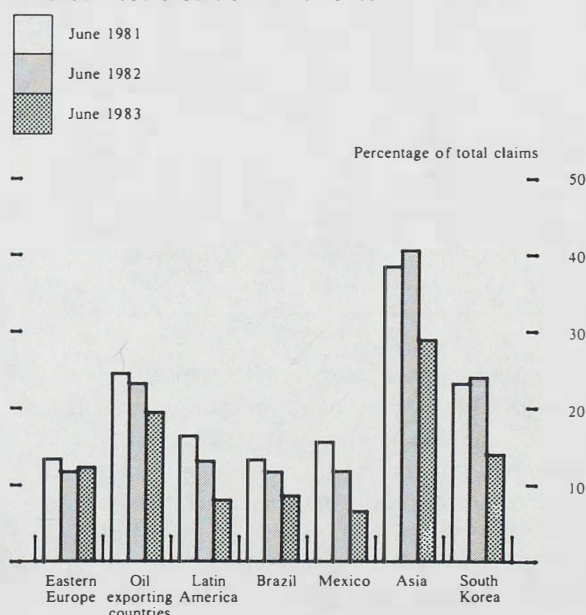
	Transactions in year to end-Sept.			Transactions in half-year ending		Outstanding at end-Sept. 1983
	1981	1982	1983	Mar. 1983	Sept. 1983	
Total lending	+8.7	+6.0	+8.6	+5.4	+3.2	78.9
of which, to:						
Asia:						
Malaysia	+0.7	+1.2	+2.2	+1.5	+0.7	5.9
Philippines	+0.6	+1.5	+0.1	-0.1	+0.2	8.4
South Korea	+2.4	+0.9	+2.4	+1.9	+0.5	18.8
Other	+0.8	-1.8	+3.4	+2.2	+1.2	16.1
Total Asia	+4.5	+1.8	+8.1	+5.5	+2.6	49.2
Middle East	+2.1	+2.4	-1.7	-1.2	-0.5	11.9
Africa	+2.1	+1.8	+2.2	+1.1	+1.1	17.8
Total deposits	+0.1	+8.2	+3.8	+2.6	+1.2	65.3
of which, from:						
Asia:						
Malaysia	-0.7	+1.2	-0.4	-0.3	-0.1	3.8
Philippines	+0.2	—	-0.4	-0.7	+0.3	2.8
South Korea	-0.6	+0.7	-0.1	-0.6	+0.5	3.3
Other	-0.2	+4.0	+5.8	+3.8	+2.0	27.8
Total Asia	-1.3	+5.9	+4.9	+2.2	+2.7	37.7
Middle East	+2.1	+2.7	-1.2	+0.5	-1.7	18.9
Africa	-0.7	-0.4	+0.1	-0.1	+0.2	8.7
Total net lending	+8.6	-2.2	+4.8	+2.8	+2.0	+13.6
of which, to:						
Asia:						
Malaysia	+1.4	—	+2.6	+1.8	+0.8	+2.1
Philippines	+0.4	+1.5	+0.5	+0.6	-0.1	+5.6
South Korea	+3.0	+0.2	+2.5	+2.5	—	+15.5
Other	+1.0	-5.8	-2.4	-1.6	-0.8	-11.7
Total Asia	+5.8	-4.1	+3.2	+3.3	-0.1	+11.5
Middle East	—	-0.3	-0.5	-1.7	+1.2	-7.0
Africa	+2.8	+2.2	+2.1	+1.2	+0.9	+9.1

\$5½ billion in the year to end-September 1982 (Chart 6). In contrast to the previous year, this was more a result of an increase in their deposits (+ \$4½ billion) than of a fall in their borrowing. Within this group of countries East Germany, the Soviet Union and Poland all showed sharp increases in deposits or reductions in borrowing. However, the BIS statistics include, indistinguishably, loans guaranteed by export credit agencies and some of the decrease in the amount of outstanding debt may simply reflect the transfer of claims to the guarantor rather than payment by the debtor country. This was the case for Poland, whose recorded net borrowing from the banking

system fell by just under \$2 billion, since new lending associated with successive rescheduling agreements was more than offset by such transfers of guaranteed claims. The reduction in net indebtedness generally may also reflect to some extent the depositing with BIS banks of funds borrowed from other sources.

There was some further rescheduling of Eastern European debt during 1983, although the amounts involved were considerably less than for countries in Latin America. As a consequence of the rescheduling, the maturity structure of lending to the Eastern European countries lengthened slightly. Undisbursed credit commitments to this group also rose, almost entirely from commitments to the Soviet Union in connection with large capital projects, many of which carried the guarantee of export credit agencies.

Chart 5
Undisbursed credit commitments



Source: BIS half-yearly maturity survey.

Table J
Business of BIS reporting area banks with Eastern Europe

\$ billions; changes exclude estimated exchange rate effects

	Transactions in year to end-Sept.			Transactions in half-year ending		Outstanding at end-Sept. 1983
	1981	1982	1983	Mar. 1983	Sept. 1983	
Total lending	+5.2	-3.5	-2.9	-1.9	-1.0	48.6
of which, to:						
German Democratic Republic(a)	+1.5	-0.9	-0.6	-0.5	-0.1	7.9
Poland	+0.2	-1.4	-1.8	-0.8	-1.0	11.1
USSR	+4.3	-1.2	+0.3	+0.2	+0.1	13.9
Total deposits	-1.4	+2.0	+4.4	+3.8	+0.6	16.5
of which, from:						
German Democratic Republic(a)	-0.2	-0.6	+1.7	+0.6	+1.1	2.8
Poland	-0.1	+0.1	+0.1	-0.1	+0.2	1.1
USSR	-1.7	+3.3	+1.2	+2.5	-1.3	8.5
Total net lending	+6.6	-5.5	-7.3	-5.7	-1.6	+32.1
of which, to:						
German Democratic Republic(a)	+1.7	-0.3	-2.3	-1.1	-1.2	+5.1
Poland	+0.3	-1.5	-1.9	-0.7	-1.2	+10.0
USSR	+6.0	-4.5	-0.9	-2.3	+1.4	+5.4

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

Oil exporting countries (Table K)

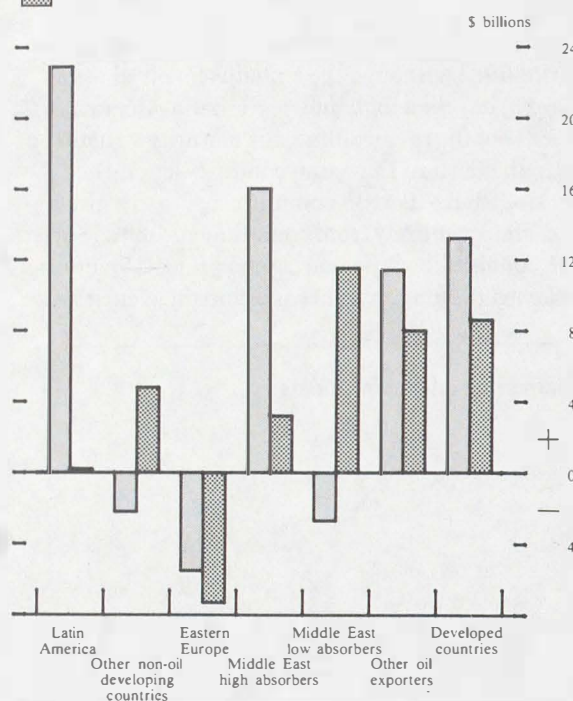
Oil exporting countries reduced their net deposits by \$23½ billion in the year to end-September 1983. The outstanding net supply of funds to the BIS reporting banks by oil exporting countries has fallen from a peak of \$95 billion at end-March 1981 to \$41 billion at end-September 1983. As depressed oil prices have affected their current accounts, these countries have reduced their bank deposits rather than increasing their borrowing. In the year to end-September 1983 low absorbing countries (as classified in the BIS statistics) reduced their deposits by \$11 billion. In the previous year they had increased deposits by \$9 billion and as a group were net providers of funds. This contrasts with the high absorbers whose deposits were reduced more immediately in response to lower import receipts, falling by \$15½ billion in 1982, and \$5 billion in the year to end-September 1983.

Oil exporters outside the Middle East, in particular Nigeria and Venezuela, have mostly been net drawers from the market for the last few years and at end-September 1983

Chart 6
Banks' net positions with countries outside the BIS reporting area

Net lending (+)/borrowing (—)

Change in year to end-Sept. 1982
Change in year to end-Sept. 1983



had outstanding net borrowing from the reporting banks of \$21 billion (of which, Nigeria \$6½ billion and Venezuela \$8½ billion). Venezuela imposed a moratorium in March 1983 on the repayment of medium and long-term public sector debt; this moratorium has been extended four times during negotiations with the banks on rescheduling. The absence of an agreement with the IMF has hampered these negotiations which remain unresolved. Meanwhile, Nigeria has substantial commercial debt arrears, despite

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

\$ billions; changes exclude estimated exchange rate effects

	Transactions in year to end-Sept.			Transactions in half-year ending		Outstanding at end-Sept. 1983
	1981	1982	1983	Mar. 1983	Sept. 1983	
Total lending	+ 6.4	+10.5	+ 2.8	+ 0.6	+2.2	80.0
of which, to:						
Middle East						
Low absorbers	+ 1.2	+ 1.8	+ 0.9	+ 0.1	+0.8	10.1
High absorbers	+ 0.9	+ 4.5	- 1.5	- 3.3	+1.8	14.9
Nigeria	+ 2.4	+ 1.8	+ 1.7	+ 1.5	+0.2	7.9
Venezuela	+ 3.9	+ 2.1	- 1.0	- 0.3	-0.7	21.5
Total deposits	+12.5	-13.2	-20.9	-16.0	-4.9	121.4
of which, from:						
Middle East						
Low absorbers	+30.6	+ 8.8	-11.0	- 6.0	-5.0	61.6
High absorbers	- 2.5	-15.5	- 4.8	- 2.9	-1.9	25.8
Nigeria	- 3.1	- 0.9	- 0.1	- 0.2	+0.1	1.5
Venezuela	+ 6.5	- 4.9	- 0.9	- 2.0	+1.1	12.9
Total net lending	- 6.1	+23.7	+23.7	+16.6	+7.1	-41.4
of which, to:						
Middle East						
Low absorbers	-29.4	- 7.0	+11.9	+ 6.1	+5.8	-51.5
High absorbers	+ 3.4	+20.0	+ 3.3	- 0.4	+3.7	-10.9
Nigeria	+ 5.5	+ 2.7	+ 1.8	+ 1.7	+0.1	+ 6.4
Venezuela	- 2.6	+ 7.0	- 0.1	+ 1.7	-1.8	+ 8.6

Table L
International banking analysed by centre

	End-September 1983			Total(a) \$ billions	Percentage share of total market		
	Foreign currency lending to:		Domestic currency lending to non-residents		1980	1982	1983
	Residents	Non-residents			Percentages		
Gross lending	448	1,404	556	2,492			
of which:							
United Kingdom	186	450	26	662	25.8	26.9	26.6
United States	..	8	376	384	9.3	14.5	15.4
Japan	107	79	29	215	6.0	7.5	8.6
France	39	114	22	175	9.0	7.2	7.0
Bahamas	..	131	..	131	7.1	5.6	5.3
Singapore	..	..	..	112	2.9	4.3	4.5
Luxembourg	16	86	2	104	6.1	4.3	4.2
Swiss trustee accounts	..	..	..	84	3.8	3.9	3.4
Belgium	22	56	3	81	3.9	3.3	3.3
Netherlands	8	46	12	66	3.7	2.9	2.6
Switzerland	6	30	33	69	3.8	2.8	2.8
Germany, Federal Republic	2	19	42	63	4.2	2.8	2.5
Canada	25	39	2	66	2.5	2.6	2.6
Bahrain	..	..	..	58	1.9	2.5	2.3
Cayman Islands(b)	..	46	..	46	1.8	1.9	1.8
Hong Kong	..	62	2	64	1.9	1.8	2.6
Italy	16	24	1	40	2.1	1.7	1.6
Panama	..	41	..	41(c)	1.9	1.6	1.6

Sources: BIS, IMF, and various national statistics.

.. not available.

(a) The three components do not sum to the total because of the inclusion of Swiss trustee accounts.

(b) Foreign assets of US banks only.

(c) Data are not yet available for end-September; the figures shown are for end-June.

refinancing \$1.8 billion of letter of credit arrears as medium-term loans in July and September 1983.

Analysis of business by centre (Table L)

Despite the change in the activity of banks in the United States, from being net suppliers to net takers of funds during the year to end-September 1983, international bank lending booked through the United States grew more strongly than business in the other main centres. The main reason for this development appears to be the continued growth in international banking facilities, which started operations in December 1981. As a result of the substantial growth, the US share of the market grew from 14½% to 15½% during the year; since 1980 it has risen by 6 percentage points. Banks in Japan also recorded a sizable increase in business—concentrated in the interbank market—and now account for approximately 8½% of total international business. Their market share has been growing for several years although the extent of the growth may be exaggerated by the amount of end-September interbank activity undertaken by Japanese banks. As a result of these developments, the UK market share fell back very slightly, but London remains the dominant centre with over a quarter of all international lending passing through the books of banks in the United Kingdom.

The London market (Table M)

International lending through the London market—including local foreign currency business—rose by \$25 billion or almost 4% in the year to end-September 1983. Nevertheless, the level of outstanding borrowing from

International banking in sterling

While exchange controls were in force the role of sterling in international banking was constrained. Sterling lending abroad had, broadly, to be associated with UK trade, and flows were small; the growth of such sterling lending averaged only £0.4 billion in the three years to September 1979 and sterling business accounted for only about 3% of the international activities of banks. Most (about 75%) of the stock of lending related to export credit. By contrast, in the four years following the removal of exchange controls sterling lending overseas rose sharply averaging £2.4 billion a year and now accounts for 6% of the international business of banks in the United Kingdom.

External sterling business of UK banks

£ billions

	Level at end-Sept. 1976	Average annual transactions		Level at end-Sept. 1983
		1976 Q4- 1979 Q3	1979 Q4- 1983 Q3	
UK bank's sterling deposits from overseas	4.3	+1.0	+3.4	22.1
of which, from banks	1.1	+0.3	+1.8	9.6
UK banks' sterling lending to overseas	5.9	+0.4	+2.4	17.3
of which, to banks	0.7	—	+0.8	4.2
UK banks' net sterling deposits from overseas (+)/net sterling lending overseas (-)	-1.6	+0.6	+1.0	4.8
of which, from banks	0.4	+0.3	+1.0	5.4

Roughly a third of the increase in lending and half the rise in deposits since 1979 represented business with banks overseas and reflected the closer integration of the domestic interbank market with the eurosterling market—both involve largely wholesale money, generally at short maturity.

Another factor which may have affected the growth of sterling business at much the same time was the removal in June 1980 of the supplementary special deposits (SSD) scheme. This scheme penalised growth above set limits of sterling business in the United Kingdom.

Sterling interbank claims on overseas built up rapidly from a level of £0.7 billion at end-September 1979 to £2.1 billion a year later and £4.1 billion by end-September 1981. Since then, however, growth in such lending has been modest.

In contrast to the sharp rise in interbank activity after 1979, growth in lending to overseas non-banks remained muted until mid-1980. In the following two years growth was more rapid as sterling began to be used rather more in international finance (annual rates of 14% and 40% were recorded) and it has continued to be strong (20%) in the year to end-September 1983. Around half this lending remains trade related, so it has been concentrated on traditional trading partners and, in the last few years, on some European Community countries.

The rise in sterling deposits in the United Kingdom from banks abroad has come mainly from European financial centres, while the source of non-bank deposits remains widely spread. Official holdings of sterling bank deposits, which largely represent working balances, have fluctuated from year to year but have risen from about £0.8 billion in September 1976 to £2.1 billion at end-September 1983; this represents only slight growth in real terms.

As a result of the different growth rates of deposits and lending the net position of UK banks in sterling with overseas residents

has changed markedly since the mid-1970s. In the three years before 1979 banks had net sterling claims on overseas of some £1-2 billion. Since 1979 they have become net borrowers, net liabilities having risen to £4.8 billion at end-September 1983 (see chart). This inflow—along with a substantial UK current account surplus for much of the period—has helped finance the sizable outward portfolio and direct investment flows which have taken place since 1979.

The rapid increase in the external sterling business of UK banks after the removal of exchange controls had a marked effect on the amount of sterling business transacted in other financial centres. Growth in the eurosterling market was particularly evident in the months following the end of exchange controls when there was some incentive for UK banks to book domestic and external business offshore to avoid the penalties imposed by the SSD scheme. Eurosterling deposits rose from £7.7 billion at end-September 1979 to £11.0 billion a year later. However, these deposits have grown only modestly since.

It seems that overseas residents' sterling deposits have increasingly been placed in the United Kingdom rather than overseas. At end-September 1983 75% of sterling deposits by non-UK residents with banks in the BIS area were held in the United Kingdom compared with 52% at end-September 1979. This is not unexpected. Since mid-1980 the reserve and credit control costs of maintaining deposits in London have been minimal, and in London there are highly developed markets in a wide range of sterling instruments. Eurosterling lending also rose after exchange controls were removed—from £5.5 billion at end-September 1979 to £10.5 billion at end-September 1981 and to £11 billion at end-September 1983. Nearly half of this lending is now to banks in the United Kingdom, compared with only a fifth at end-September 1979.

Despite the growing use of sterling in recent years it still accounts for only a modest proportion—approximately 2%—of the international business of banks in the BIS area.

External sterling business of UK banks

Amounts outstanding at end-September

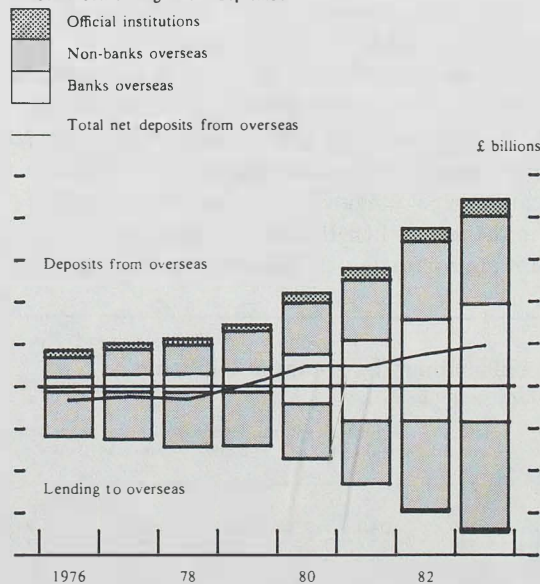


Table M
International lending by UK banks

\$ billions; percentages of total lending in italics

	Transactions during year to end-Sept.			Outstanding at end-Sept. 1983
	1981	1982	1983	
Lending to:				
Banks in United Kingdom	+ 29.9	+17.2	- 2.6	147.9
Banks overseas	+ 52.1	+30.6	+ 8.3	320.5
Total interbank	+ 82.0	+47.8	+ 5.7	468.4
	<i>80.9</i>	<i>60.4</i>	<i>23.1</i>	<i>69.6</i>
Non-banks overseas	+ 17.8	+16.0	+10.1	142.4
	<i>17.6</i>	<i>20.2</i>	<i>40.9</i>	<i>21.1</i>
Other(a)	+ 1.6	+15.3	+ 8.9	62.6
Total lending	+101.4	+79.1	+24.7	673.4

(a) Includes lending to UK non-banks and certain other unallocated items.

London by non-oil developing countries remained virtually unchanged during the year. Much of the unspontaneous lending by banks in the United Kingdom may have been booked through other centres rather than London, perhaps reflecting a preference of some foreign banks to have such lending centralised in head offices. Otherwise, lending from London followed a pattern similar to that seen elsewhere. Most new lending was to other countries within the BIS area (+ \$13 billion), to the offshore banking centres (+ \$3 billion), and to other developed countries (+ \$3½ billion). Lending to oil exporters and Eastern Europe fell back by \$½ billion and \$2 billion respectively.

Interbank business in London increased by only \$6 billion compared with growth of \$48 billion in the previous year. This business is made up of two components—cross-border interbank activity and foreign currency intra-centre business. Cross-border interbank business from London rose by \$8½ billion, rather more than the total rise, but was offset by a small contraction (— \$2½ billion) in local interbank business in foreign currencies (which had risen by \$17 billion in 1982). Developments in both parts of the market reflect the overall growth of the Japanese banks' balance sheets; they increased their interbank dealings in London by \$11 billion, while the business of other banks in the United Kingdom, particularly American banks, declined somewhat. As a result of the slow growth, interbank activity accounted for only 23% of new lending in London in the year to end-September 1983 compared with figures of 81% and 60% in 1981 and 1982 respectively. Even so the level of interbank lending booked in London at end-September 1983 remained at almost 70% of total business; in the rest of the BIS area interbank business accounts for approximately two-thirds of total lending.

Table N
International lending^(a) by groups of UK banks

Percentage share, except total

	Total outstanding (\$ billions)	British banks	American banks	Japanese banks	Other overseas banks	Consortium banks
At end-Sept.						
1980	459	24.1	25.7	19.4	25.7	5.1
1981	559	23.6	23.9	23.4	25.2	3.9
1982	642	22.7	22.2	25.6	25.5	3.9
1983	673	21.5	20.7	27.4	27.1	3.3

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

The Japanese banks increased their share of the overall London market by nearly 2% in 1983 largely because of their interbank activity (Table N). While the operations of these banks at end-September may lead to some overstatement of their market share, it is clear that their share is rising over time and that the seasonal fluctuations occur around an upward trend. On the other hand, both the British and American banks' share of the London market fell by 1%–1½% in the year to end-September 1983, also largely a result of interbank activity. Since 1980 British banks' share has fallen by 2½% while the US banks' share has dropped by 5%.

Banks' growing preference for bond and floating rate note purchases, rather than more direct lending, is reflected in the maturity of UK banks' total foreign currency loan business (Table P). In the year to November 1983 net claims with more than a year to maturity grew by \$12 billion (allowing for a break in series) to \$117 billion. This net change was concentrated in an increase in gross assets and partly reflects the effects of rescheduling on the maturity of external loans. Net liabilities with a residual maturity of under six months increased only modestly and remained roughly constant as a proportion of the total book.

Table P
Maturity transformation of UK banks' foreign currency business

\$ billions; net position (liabilities—/claims+) in each band

	November				
	1979	1980	1981	1982	1983(a)
Residual maturity:					
0–8 days	–17.0	–20.6	–23.9	–36.3	–38.4
8 days to 1 month	–13.0	–13.1	–19.3	–28.7	–24.7
1–3 months	–19.2	–25.1	–34.0	–27.0	–31.2
3–6 months	– 8.4	–15.4	–16.8	–17.5	–19.2
6 months to 1 year	– 2.0	+ 0.1	+ 1.9	+ 3.5	+ 2.0
1–3 years	+12.3	+15.6	+20.2	+23.2	+28.8
3 years and over	+43.5	+56.1	+66.0	+68.7	+87.9

(a) There was a break in series at mid-February 1983, the main effect of which was to increase the net position in the '3 years and over' band by \$12 billion.

Analysis by currency (Table Q)

The importance of the US dollar in banks' international business fell back slightly in 1983, by 1 percentage point to 72% of the total market, following two years in which the share had risen. This change in 1983 may have resulted from the reduced activity in the largely dollar-denominated interbank market. The share of the deutschemark in total BIS area business rose by half a percentage point, reversing the trend of recent years. (Despite the overall slowdown in lending, the use by banks outside the United States of their domestic currencies for international lending nevertheless grew at much the same rate as in previous years.)

Sterling's international role has changed little during the year; at end-September 1983 sterling business accounted for 2.1% of international lending. Eurosterling business showed very little growth. Sterling deposits with BIS reporting banks (excluding those in the United Kingdom) increased by only 2% in the year to September 1983, while a rise of just under 7% in claims was all accounted for by the increased lending to UK banks. Sterling business booked through London, however, grew strongly. During

Table Q
Currency shares of international bank lending

Percentages

	US \$	DM	Sw. Fcs	£	Yen	Other(a)
End-Dec. 1977	71.8	13.4	6.0	1.9	0.8	6.1
End-Sept. 1980	70.2	11.3	5.9	1.9	2.1	8.6
End-Sept. 1981	71.6	10.8	6.6	2.1	2.6	6.3
End-Sept. 1982	73.0	9.7	6.0	2.0	2.8	6.5
End-Sept. 1983	72.0	10.1	5.9	2.1	2.9	7.0

Source: Bank for International Settlements.

(a) Including unallocated items.

the year to end-September 1983 UK banks' sterling lending overseas grew by £2¼ billion (some 16%) and was mainly directed to developed countries. Overseas sterling deposits in London also rose strongly—by £3 billion (see page 65). The London market also saw some increase in the use of composite currencies, the SDR and ECU, although this remains very small compared with the major currencies. By end-September 1983 SDR claims booked in London amounted to \$¾ billion and ECU claims totalled \$1¼ billion.