# International financial developments

- *The current account deficit of the United States increased sharply in 1983. Elsewhere, there was a corresponding strengthening in the current account positions of the main country groupings as world trade began to revive. These trends seem likely to continue during 1984.*
- *'Spontaneous' lending in the medium-term syndicated credit market remained subdued throughout 1983 and into 1984 but developing and Eastern bloc countries have been more active borrowers in recent months. Announcements of lending associated with restructuring packages, which had been substantial in 1983, were very slight in the first quarter of 1984. Credit terms for a number of borrowers have improved.*
- *New issues of bonds, and especially of floating-rate notes, continued to be buoyant in the first four months of 1984 but the market faltered in May as dollar interest rates rose and uncertainty affected US financial markets.*
- *The dollar strengthened in late April and early May as US interest rates firmed, but it subsequently eased in markets unsettled by concerns over the international banking system. Sterling's effective index moved lower.*

## Balance of payments positions

1982 had seen severe retrenchment in many countries as economic activity was reined in and world trade fell by over 1 per cent. In 1983, by contrast, an abrupt revival of demand in the United States and a sharp widening of its current account deficit enabled all the broad groupings of countries outside the United States to strengthen their current account positions against a background of resumed growth in economic activity. The US current account deficit increased by $30 billion in 1983, while the combined surplus of the other major economies increased by $20 billion. At the same time, the smaller OECD, oil exporting and non-oil developing countries all reduced their deficits, collectively by some $40 billion.[1] Preliminary indications are that this pattern was broadly maintained during the first quarter of 1984.

The upturn in world activity and, outside the United States, the strengthening of external financial positions has been quite widely but unevenly spread and for many countries these improvements may not yet be very firmly based. Prospects for 1984, and beyond, must be viewed against the current background of unsettled conditions in the United States and international financial markets. Nevertheless, with signs that domestic demand in the major OECD countries will in total grow more rapidly this year than last, and with US imports expected to continue rising strongly, the recovery in world trade and output seems likely to be sustained. The current account positions of most groups of countries should continue to strengthen.

**World current accounts**[a]

$ billions: *seasonally adjusted*

| | 1982 | 1983 | | | 1984 |
|---|---|---|---|---|---|
| | Year | Year | Q3 | Q4 | Q1(b) |
| OECD economies: | | | | | |
| Canada | 3 | 1 | — | — | — |
| France | - 12 | - 4 | — | — | - 1 |
| Germany | 4 | 4 | — | 1 | 1 |
| Italy | - 5 | 1 | — | 1 | — |
| Japan | 8 | 21 | 6 | 5 | 7 |
| United Kingdom | 10 | 4 | 1 | 1 | 1 |
| United States | - 11 | -42 | -12 | -17 | -19 |
| Major economies | - 5 | -15 | - 5 | - 9 | -12 |
| Other OECD | - 24 | - 8 | - 1 | — | — |
| Total OECD | - 29 | -23 | - 6 | - 9 | -12 |
| Oil exporting economies | - 14 | -13 | 5 | 1 | .. |
| Other developing economies | - 66 | -40 | -10 | - 6 | .. |
| Other economies(c) | — | 3 | 1 | — | .. |
| World discrepancy(d) | -109 | -73 | -10 | -14 | .. |

.. not available.

(a) Components may not sum to totals because of rounding.

(b) Includes Bank estimates/forecasts.

(c) South Africa and the centrally planned economies.

(d) Reflecting errors and omissions arising from incomplete coverage, timing differences and other statistical deficiencies.

## Major OECD countries

The US deficit on current account increased sharply to some $40 billion in 1983. This deterioration was almost entirely attributable to the deficit on external trade, which reflected the effect of the dollar's strength on US

(1) The net sum of all countries' current balances together should be nil. In practice, there is a statistical discrepancy (an apparent world deficit) which in 1983 was still substantial but appreciably below its 1982 peak. In a period when trade is growing, there tends to be a positive error associated with timing differences, and this appears to have partly offset the persistent negative element attributable in large part to the under-recording of service receipts and investment income.

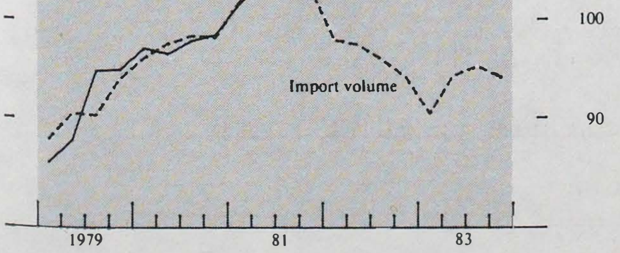
competitiveness, the recovery of domestic economic activity and the earlier contraction of markets in non-oil developing countries (especially in Latin America) whose trade surplus with the United States increased by almost $20 billion in 1983. Japan's current account surplus more than doubled in size, partly reflecting the robustness of growth and of payments positions in its markets in South East Asia and demand in North America. The current accounts of most other major countries tended to move towards balance.

In the first quarter of this year, the broad pattern among the major OECD economies was unchanged: the US deficit widened further, as imports surged ahead; Japan's surplus continued to rise, in part because of improved terms of trade which reflected the strength of the yen; and there was little change in the current account positions of the other major economies except France, which moved back into deficit as oil imports rose.

**Smaller OECD countries**
The current account position of this group strengthened markedly in 1983 as domestic demand responded to restrictive policies, export markets revived and competitiveness benefited from depreciating exchange rates and falling inflation. Several of these countries have amassed considerable external debt in recent years so the present strengthening in their current account offers a measure of relief and reassurance.

**Non-oil developing countries**
Helped by the recovery in world trade, non-oil developing countries succeeded in reducing their current account deficit further, from $66 billion to $40 billion in 1983, even though some growth in imports took place from the first quarter of the year. This improved position was almost entirely achieved on trade account; the volume of their exports rose by more than 3%, their terms of trade improved by over 2% and imports were cut in real terms by 2% in the year as a whole. In contrast, the net outflow of interest payments, profits and dividends remained very heavy. The contraction of their current account deficit accompanied a reduction in capital inflows, especially from private sources. Borrowing from banks declined from $20 billion in 1982 (most of which had been borrowed before the Latin American debt difficulties emerged in the third quarter) to $12 billion in 1983, and banks' exposure to these countries rose during the year by 4 per cent, largely as a consequence of various rescue packages. The balance for official financing, which had been strongly adverse in 1982 (when reserves fell despite substantial borrowing), was close to nil last year. Heavy use was made of IMF credit, especially by India, Brazil and Mexico; at the same time, reserves were rebuilt, notably by countries in Asia (such as Taiwan and India) but also in Latin America.

**Non-oil developing countries' trade**




**Developing countries' balance of payments**
$ billions; *not seasonally adjusted*

| | 1982 Year | 1983(a) Year | Q1 | Q2 | Q3 | Q4 |
|---|---|---|---|---|---|---|
| **Current account** | **−66** | **−40** | **−12** | **−10** | **−10.** | **−8** |
| **Capital account** | **52** | **39** | **9** | **11** | **11** | **8** |
| *of which:* | | | | | | |
| Concessionary and other official flows | 25 | 24 | 6 | 6 | 6 | 6 |
| Direct investment | 10 | 8 | 2 | 2 | 2 | 2 |
| Borrowing from banks(b) | 20 | 12 | 2 | 4 | 1 | 5 |
| Borrowing via bond issues | 3 | 1 | — | — | 1 | — |
| Other capital flows(c) | − 6 | − 6 | − 1 | − 1 | 1 | −5 |
| **Official financing balance** | **14** | **1** | **3** | **− 1** | **− 1** | **—** |
| *of which:* | | | | | | |
| Use of IMF credit | 5 | 10 | 4 | 2 | 2 | 2 |
| Liabilities to other CMIs | 2 | − 2 | 1 | — | − 2 | −1 |
| Reserves(b) etc (increase−) | 7 | − 7 | − 2 | − 3 | − 1 | −1 |

(a) Includes Bank estimates/forecasts.
(b) Adjusted to exclude valuation effects.
(c) Including errors and omissions.

**Oil exporting countries**
The oil exporting countries had generally maintained their demand for imports in 1982 even though this meant they moved into deficit on current account. In 1983, however, as energy export earnings fell sharply in the first few months of the year, these countries collectively cut back their imports abruptly and their deficit narrowed a little. The deficit, however, was concentrated in the first half of the year. As energy exports revived and their imports were kept in check, the oil exporting countries' current account strengthened considerably in the second half.

As statistical information on the current and the capital accounts of oil exporting countries is incomplete, it is often not possible to match very closely the identified sources and uses of their funds. In 1983, particularly during the fourth quarter, a bigger than usual discrepancy appeared between the identified reduction in the oil exporters' financial assets and the sum of their estimated current account deficit and net external borrowing. This negative discrepancy totalled nearly $25 billion in the year and $15 billion in the fourth quarter. It could reflect an overestimate of the run-down in assets, an underestimate of the current account deficit, an overestimate of net external borrowing—or a combination of these factors. The heavy concentration of the discrepancy in the fourth quarter suggests that as more data become available for that quarter, in particular in respect of the current account position, the discrepancy may be reduced.

### Identified deployment of oil exporters' funds[a]

$ billions

| | 1982 Year | 1983 Year | 1983 Q3 | 1983 Q4 | 1984 Q1(b) | Dec. 1983 levels |
|---|---|---|---|---|---|---|
| United Kingdom: | | | | | | |
| Sterling bank deposits | 1.2 | 0.4 | -0.1 | 0.2 | 0.2 | 5.4 |
| Eurocurrency bank deposits | - 9.2 | - 5.5 | 0.6 | - 2.4 | 0.7 | 50.3 |
| British government stocks | 0.1 | 0.2 | — | — | -0.1 | 3.4 |
| Other investments(c) | - 0.6 | - 0.5 | -0.2 | - 0.1 | -0.1 | 4.0 |
| | - 8.5 | - 5.4 | 0.3 | - 2.3 | 0.7 | 63.1 |
| United States: | | | | | | |
| Bank deposits | 4.7 | 0.8 | 0.6 | 1.0 | -1.1 | 17.5 |
| Treasury bonds, notes and bills | 7.3 | - 8.2 | -1.6 | - 1.8 | -1.1 | 34.7 |
| Other investments(c) | - 1.3 | - 2.0 | 1.1 | - 0.9 | -0.6 | 34.8 |
| | 10.7 | - 9.4 | 0.1 | - 1.7 | -2.8 | 87.0 |
| Other industrialised countries: | | | | | | |
| Bank deposits | -12.7 | - 8.8 | 2.2 | - 0.2 | .. | 50.2 |
| Other investments(c) | 6.7 | - 1.3 | 0.5 | - 0.4 | .. | 70.3 |
| IMF and IBRD(d) | 2.1 | 4.2 | -0.3 | 1.6 | 1.0 | 21.1 |
| Loans to developing countries | 3.9 | 1.1 | 0.2 | - 0.1 | .. | 55.1 |
| **Total identified uses of funds** | **2.2** | **-19.6** | **3.0** | **- 3.1** | .. | **346.8** |
| External borrowing etc(e) | 19.8 | 18.3 | 0.7 | 12.1 | | |
| Current balance | -14.1 | -13.2 | 4.2 | - 0.2 | | |
| **Total identified sources of funds:** | **5.7** | **5.1** | **4.9** | **11.9** | | |

.. not available.

(a) The notes and definitions to Table 16 in the statistical annex of the March *Bulletin* gives a list of oil exporting countries.

(b) Provisional.

(c) Mainly loans and holdings of equities.

(d) Includes holdings of gold.

(e) Oil exporting countries' liabilities arising from net borrowing and inward direct investment, together with changes in credit given by them for oil exports.

Subject to this important qualification, the available information on the oil exporting countries' identified capital transactions in 1983 is in very broad terms consistent with the (seasonally adjusted) current account developments already described. The continuing and substantial current deficit in the first half of 1983 led oil exporters to draw heavily on their financial assets (especially bank deposits and US Treasury paper), reducing their identified holdings by almost $20 billion and further eroding the liquidity of their portfolio. In the second half of the year, however, when there was a marked strengthening in their current account and a resumption of external borrowing, the overall level of their identified asset holdings was largely unchanged, although there were some changes in its composition. Thus a $1.8 billion fall in eurocurrency deposits in the United Kingdom and a $3.4 billion reduction in US Treasury paper were almost exactly matched by a $3.6 billion increase in bank deposits in the United States and other countries and a $1.3 billion increase in non-foreign exchange reserves. Preliminary information for the first quarter of 1984 indicates some rise in bank deposits in the United Kingdom but more than matching falls in US bank deposits and holdings of US Treasury paper. Non-foreign exchange reserves increased further.

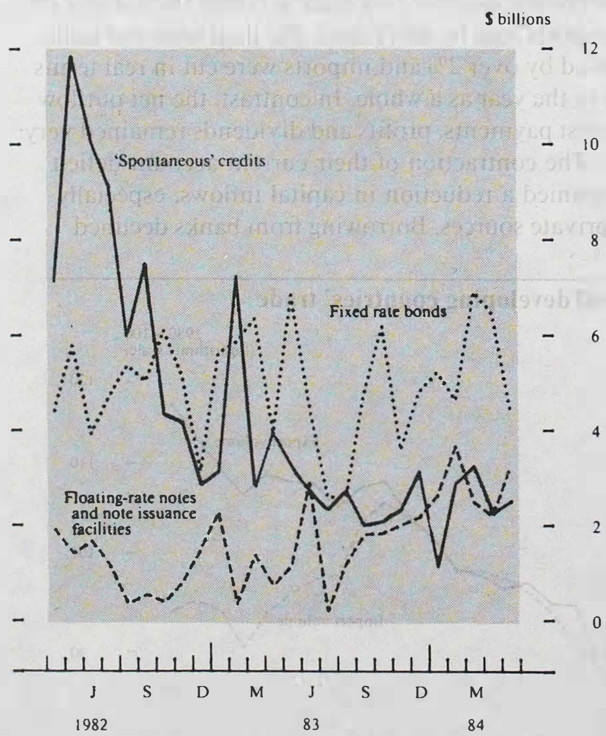
## International borrowing and lending

The increase in economic activity and the sounder current account positions of a number of countries have begun to be reflected in the international financial markets during the first five months of this year. There has been a sharp rise in new issue activity on the bond and note markets by borrowers from the major OECD countries. Lending on the medium-term syndicated bank credit market to a number of developing and Eastern bloc countries has increased; several of these, together with some of the smaller OECD and oil exporting countries, have secured an improvement in lending terms (an improvement which may be due in part to the continuing shortage of credit demand from favoured borrowers in the major OECD countries).

### Medium-term syndicated bank credits[1]

'Spontaneous' lending in the medium-term syndicated credit market, which had fallen back in the second half of 1982, remained very subdued throughout 1983. A total of $38 billion was announced during the year—less than half the 1982 figure. Borrowing was sharply down among all country groups except the minor OECD countries (and even they raised less than in 1982). This widespread fall in activity reflected not only the debt difficulties facing several individual developing countries, but also a reduced need to borrow on the part of a number of other countries whose current account positions were strengthening and, to some extent, the rival attractions of the floating-rate note market for certain developed country borrowers. In contrast to the fall in 'spontaneous' lending, the amount associated with debt restructuring packages rose to nearly $60 billion (some $30 billion more than in 1982). One quarter of this represented new money to underpin the rescheduling of existing debt and the size of this commitment may well have been acting as a restraint on 'spontaneous' lending.

**Medium-term credits, bonds and floating-rate notes and note issuance facilities**




(1) Amounts refer to credits arranged but not necessarily drawn during the period.

**'Spontaneous' medium-term credits**

$ billions

| | Major OECD | Minor OECD | Non-OECD | *of which:* *Latin America* | *Asia* |
|---|---|---|---|---|---|
| 1982 Q1 | 6.9 | 5.5 | 15.3 | *10.4* | *1.8* |
| Q2 | 7.2 | 5.0 | 17.0 | *8.5* | *5.5* |
| Q3 | 7.9 | 4.3 | 10.4 | *4.8* | *2.0* |
| Q4 | 2.4 | 2.5 | 6.4 | *3.7* | *1.9* |
| 1983 Q1 | 1.7 | 5.3 | 6.1 | *0.4* | *3.9* |
| Q2 | 2.3 | 2.9 | 4.9 | *0.4* | *1.4* |
| Q3 | 1.6 | 2.1 | 3.6 | *0.8* | *1.6* |
| Q4 | 2.5 | 3.2 | 1.9 | *0.2* | *0.7* |
| 1984 Q1 | 2.0 | 1.5 | 3.8 | *0.2* | *2.7* |
| Apr. | 0.8 | 0.5 | 1.0 | — | *0.7* |
| May | 0.5 | 0.4 | 1.6 | — | *0.5* |

Borrowing has shown no sign of picking up so far in 1984, and the demand for funds by prime names continues to be slack. In the first five months of 1984, 'spontaneous' syndicated eurocurrency credits of just $12 billion were announced—much the same rate of announcement as in the second half of 1983. Lending related to debt restructuring, however, was much lower during the first quarter of 1984 than at any time since the market first began to be affected by Latin American debt difficulties. Reschedulings amounted to $7 billion and no major 'new money' packages were announced. Since the turn of the year, credit terms have improved for selected developing country borrowers (such as South Korea and Malaysia) and for Eastern bloc borrowers, in the wake of the improvement seen in terms secured by several minor OECD and oil exporting countries towards the end of 1983.

Borrowing by *developing countries* has revived a little, totalling $3.6 billion in the first five months of the year, with South Korean borrowers by far the most active (among them the Korean Exchange Bank with a $650 million deal). The Government of Malaysia secured $500 million (at an indicated spread of just under ½% over LIBOR) and there have also been substantial borrowings by several other developing countries, mostly on improved terms.

*Eastern bloc* countries, absent from the market altogether in the fourth quarter of 1983, have been similarly well received. A credit announced for the USSR in February, and increased to $250 million, was followed by others for Hungary (including one for $350 million as part of a co-financing with the World Bank), East Germany and the Moscow-based International Investment Bank. Among *other countries* China secured $360 million for a nuclear power project.

There has been an increase in the number of deals for *OECD* borrowers, primarily from Italy, Spain and the United States but, apart from a $400 million deal for the Bank of Greece, mostly for small amounts. A number of borrowers have sought to negotiate improved terms on their existing borrowings. Aside from conventional eurocurrency credit business, international banks arranged stand-by facilities totalling $35 billion for US oil companies to finance take-over bids.

**Completed international bond issues**[(a)]

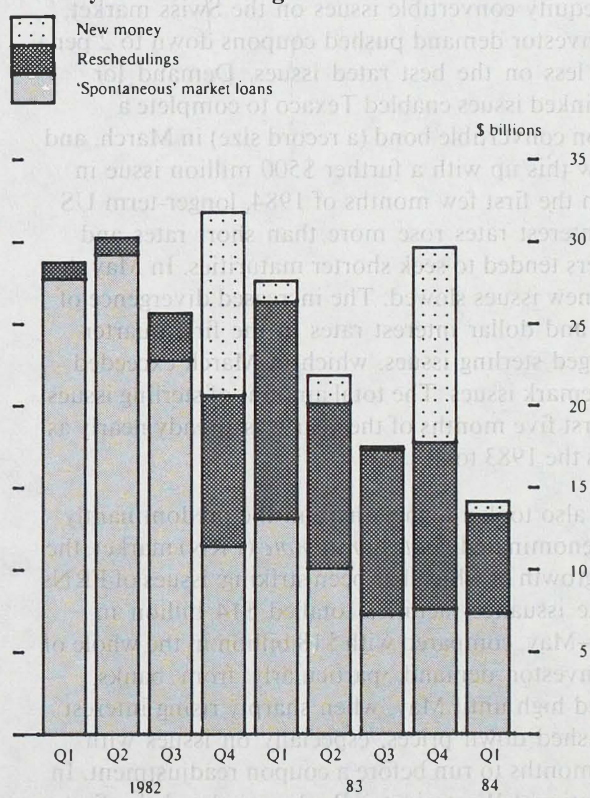
$ billions

| | 1981 | 1982 | 1983 | 1984 Q1 | 1984 Apr. | 1984 May |
|---|---|---|---|---|---|---|
| | Quarterly averages | | | | | |
| By borrower: | | | | | | |
| OECD countries | 8.2 | 14.6 | 14.5 | 21.6 | 7.1 | 6.9 |
| *of which, United States* | *1.8* | *3.9* | *2.0* | *4.3* | *1.7* | *0.7* |
| International institutions | 2.1 | 2.8 | 3.7(b) | 3.1 | 1.2 | 0.5 |
| Other | 1.0 | 1.1 | 0.7 | 0.9 | 0.4 | 0.3 |
| **Total** | **11.3** | **18.5** | **18.9** | **25.6** | **8.7** | **7.7** |
| By currency: | | | | | | |
| US dollars | 6.6 | 11.6 | 10.9 | 15.9 | 4.4 | 4.8 |
| Swiss francs | 2.1 | 2.9 | 3.5 | 4.1 | 1.8 | 1.0 |
| Deutschemarks | 0.7 | 1.4 | 1.6 | 1.6 | 0.7 | 0.5 |
| Other | 1.9 | 2.6 | 2.9 | 4.0 | 1.8 | 1.4 |

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

(b) Annual total includes $2.4 billion raised by the European Community on behalf of France.

**Total syndicated lending**[(a)]




(a) Announced during period.

**Bonds and notes**

The new issue market for international bonds and notes remained buoyant during most of 1983, when issues exceeded $75 billion—almost twice as much as in the medium-term syndicated eurocredit market. A pronounced fall in the amount raised by US borrowers was largely offset by an increase in the amounts issued for borrowers from Japan and the smaller OECD countries and by international institutions. There was also some shift towards currencies other than the US dollar, notably the Swiss franc, the deutschemark and currency composites.

New issue activity forged ahead in the first four months of this year, when considerably more money was raised by borrowers from the United States, Japan and other major OECD countries, and interest in non-dollar currencies was sustained. Over $25 billion was raised through fixed and floating-rate issues in the first quarter of 1984, and a further $8.7 billion in April. In May, however, new issues in the fixed-rate sector fell as dollar interest rates rose; even in the more resilient floating-rate sector, prices weakened and almost half the total of floating-rate notes completed in May was accounted for by a single $1.5 billion Swedish issue on the US domestic market.

In the *fixed-rate* sector, much of the borrowing in the first quarter was by non-bank corporations, partly in connection with merger activities in the United States. US companies were also encouraged to tap the euromarkets by lower yields than at home. Japanese companies raised almost half as much in the first quarter as they did in the whole of 1983; as usual, much of this was in equity convertible issues on the Swiss market, where investor demand pushed coupons down to 2 per cent or less on the best rated issues. Demand for equity-linked issues enabled Texaco to complete a $1 billion convertible bond (a record size) in March, and to follow this up with a further $500 million issue in April. In the first few months of 1984, longer-term US dollar interest rates rose more than short rates and borrowers tended to seek shorter maturities. In May the pace of new issues slowed. The increased divergence of sterling and dollar interest rates in the first quarter encouraged sterling issues, which in March exceeded deutschemark issues. The total amount of sterling issues in the first five months of the year was already nearly as much as the 1983 total.

Sterling also took a higher share in the predominantly dollar denominated *floating-rate note* (FRN) market, the overall growth of which has been striking: issues of FRNs and note issuance facilities totalled $14 billion in January–May, compared with $18 billion in the whole of 1983. Investor demand, particularly from banks, remained high until May, when sharply rising interest rates pushed down prices, especially on issues with several months to run before a coupon readjustment. In May, National Westminster Bank completed the first perpetual FRN without put options; carrying a coupon of ⅜% over LIBOR, it attracted strong demand. An issue by Bankers Trust, redeemable in the company's shares, was permitted to count as primary capital by the US supervisory authorities. Reductions in fees and margins since the second half of 1983 have enabled this market to offer, for some borrowers, a cheaper alternative to the syndicated credits market. Sweden in particular has taken advantage of this to restructure its debt; its $1.5 billion US issue was intended to refinance other debt.

## International banking business

The generally subdued level of international bank borrowing and lending during much of 1983, with some revival of activity around the turn of the year, is also illustrated in some detail in the international banking statistics.

**External business of banks in the BIS reporting area**

$ billions; changes exclude estimated exchange rate effects

| | 1982 | 1983 | | | Outstanding at end-Dec. 1983 |
|---|---|---|---|---|---|
| | Year | Year | Q3 | Q4 | |
| **Deposits from:** | | | | | |
| Outside reporting area | | | | | |
| Offshore banking centres | + 32 | + 34 | + 7 | +13 | 283 |
| Developed countries | — | + 2 | + 1 | + 2 | 49 |
| Eastern Europe | + 2 | + 3 | — | + 2 | 19 |
| Oil exporting countries | − 18 | − 14 | + 2 | − 1 | 120 |
| Non-oil developing countries | + 5 | + 10 | + 3 | + 4 | 111 |
| *of which, Latin America* | *+ 2* | + 6 | *+ 3* | *+ 1* | *43* |
| Sub-total | + 21 | + 35 | +13 | +20 | 582 |
| Inside reporting area | + 97 | + 74 | +17 | +39 | 1,073 |
| Unallocated | + 8 | + 8 | + 3 | + 8 | 47 |
| **Total** | **+126** | **+117** | **+33** | **+67** | **1,702** |
| **Lending to:** | | | | | |
| Outside reporting area | | | | | |
| Offshore banking centres | + 32 | + 17 | + 2 | + 7 | 284 |
| Developed countries | + 16 | + 7 | + 1 | + 5 | 116 |
| Eastern Europe | − 5 | − 1 | − 1 | + 1 | 49 |
| Oil exporting countries | + 8 | + 9 | + 1 | + 7 | 87 |
| Non-oil developing countries | + 20 | + 13 | + 1 | + 5 | 256 |
| *of which, Latin America* | *+ 12* | + 9 | *+ 2* | *+ 3* | *176* |
| Sub-total | + 71 | + 45 | + 4 | +25 | 792 |
| Inside reporting area | + 96 | + 56 | +21 | +30 | 923 |
| Unallocated | + 9 | + 7 | + 3 | + 2 | 39 |
| **Total** | **+176** | **+108** | **+28** | **+57** | **1,754** |

### External business of banks in the BIS reporting area[1] *(fourth quarter 1983)*

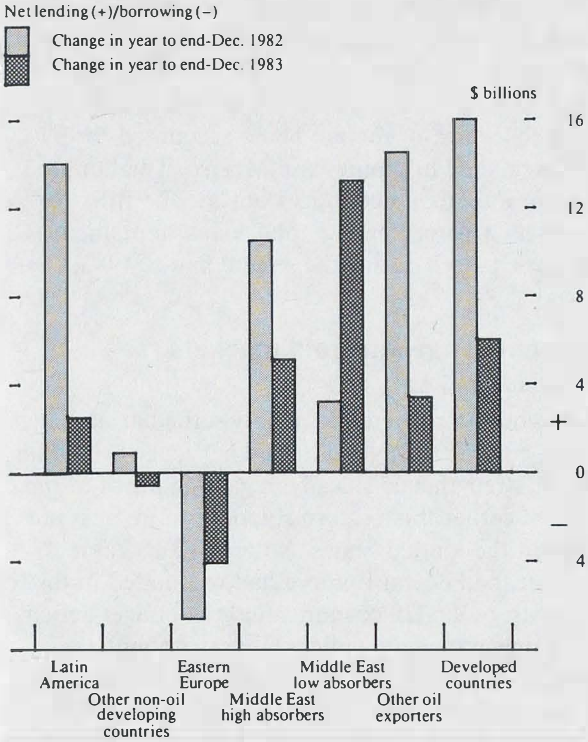
Despite a more than seasonally-strong increase, of $57 billion, in the fourth quarter, total external lending by banks in the BIS reporting area during 1983 as a whole expanded by just over $100 billion (6½%), not much more than half the rate recorded in 1982. Over half of the new cross-border lending in the fourth quarter of 1983, as in the year as a whole, was to countries within the BIS reporting area, mostly in the form of interbank lending. Cross-border deposits increased by $117 billion (7%) during 1983, only slightly less than in the previous year. Here, too, growth was concentrated in the second half of 1983, with a rise of $67 billion in the fourth quarter.

Lending to countries outside the BIS area expanded by $25 billion in the fourth quarter of 1983 to give an increase of $45 billion for the whole of 1983. The growth in the fourth quarter was spread among all the broad country groups. Developed countries outside the BIS area (+ $5 billion) and oil exporting countries (+ $7 billion) borrowed heavily, each having taken only $2 billion in the previous nine months. Lending to Eastern Europe rose by some $1 billion (having fallen during the previous two years as bank debt was transferred to national export credit agencies). Lending to non-oil developing countries rose by $5 billion in the fourth quarter, bringing total new bank lending to them in 1983 to $13 billion: during the year Latin American countries borrowed $9 billion ($3 billion in the fourth quarter), almost all being new money advanced to underpin debt rescheduling agreements with the three largest debtors—Argentina, Brazil and Mexico.

Deposits from countries outside the BIS area grew rapidly, by $20 billion, in the fourth quarter of 1983, contributing to an increase of £35 billion in the year as a whole after

(1) Excluding business within the same country but including business between countries within the BIS reporting area.

**Banks' net positions with countries outside the BIS reporting area**




very little growth in the first half. Most country groups recorded some increase in their deposits and even the reduction in the oil exporting countries' holdings (of $1 billion) was very slight compared with the reduction of $15 billion in the first half of 1983. In total, countries outside the BIS area borrowed $5 billion more than they deposited in the fourth quarter, having (uncharacteristically) been net suppliers of funds to the banks in the third quarter. In 1983 as a whole their net use of bank funds was only $10 billion, compared with $50 billion in 1982.

Banks in the United States provided $13 billion of new external lending during the fourth quarter of 1983, and $33 billion in 1983 as a whole (30% of all new lending by banks in the reporting area). On the other hand, they also increased their take-up of funds in the fourth quarter, taking $50 billion of additional deposits in the year as a whole. Consequently, they emerged as net takers of funds from the international banking market, a reversal of their earlier role. High domestic interest rates and increasing corporate demand in the United States contributed to this inflow of funds which helped to finance the widening US current account deficit.

**Eurosterling** *(fourth quarter 1983)*

Some of the activity reported in the BIS statistics relates to changes in the sterling business of banks operating outside the United Kingdom. In the fourth quarter of 1983 eurosterling deposits declined slightly and in the year as a whole were down by £0.5 billion. Eurosterling lending hardly changed. In broad terms this market has not expanded, even in nominal amount, during the past two years. However, within the aggregate figures, UK banks' net borrowing from the eurosterling market has continued to show some increase (from only £0.1 billion at end-1981 to £0.9 billion at mid-1982 and £1.6 billion at end-1983).

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

£ billions

| | 1982 | 1983 | | | | | 1984 |
|---|---|---|---|---|---|---|---|
| | 31 Dec. | 31 Mar.(b) | | 30 June | 30 Sept. | 31 Dec. | 31 Mar. |
| **UK banks' sterling liabilities to:** | | | | | | | |
| Overseas central monetary institutions(c) | 1.5 | 1.7 | 1.8 | 1.7 | 2.1 | 2.3 | 2.6 |
| Own offices overseas | 2.2 | 2.6 | 2.6 | 2.6 | 2.9 | 3.0 | 2.9 |
| Other banks overseas | 6.4 | 6.4 | 6.5 | 6.9 | 6.7 | 7.2 | 8.1 |
| Other non-residents | 9.0 | 9.7 | 9.9 | 10.1 | 10.4 | 11.1 | 11.5 |
| **Total liabilities** | **19.1** | **20.4** | **20.8** | **21.3** | **22.1** | **23.6** | **25.1** |
| **UK banks' sterling assets:** | | | | | | | |
| Loans and advances to: | | | | | | | |
| Own offices overseas | 1.4 | 1.6 | 1.6 | 1.6 | 1.5 | 1.6 | 1.7 |
| Other banks overseas | 3.0 | 3.0 | 3.1 | 3.0 | 2.8 | 3.0 | 3.6 |
| Other non-residents | 3.7 | 4.1 | 4.1 | 4.1 | 4.3 | 4.6 | 4.9 |
| Bills | 5.4 | 5.6 | 5.6 | 5.7 | 5.8 | 6.0 | 6.1 |
| Acceptances | 2.5 | 2.9 | 2.9 | 2.7 | 2.9 | 3.0 | 3.6 |
| **Total assets** | **16.0** | **17.2** | **17.3** | **17.1** | **17.3** | **18.2** | **19.9** |

(a) The reporting population is broader than the UK monetary sector (see notes and definitions to Table 16 in the statistical annex in the March 1984 *Bulletin*).
(b) For details of break in series at 31 March 1983, see notes and definitions to Table 16 in the March 1984 *Bulletin*.
(c) Includes international organisations.

**Foreign currency and external sterling business of banks in the United Kingdom** *(first quarter 1984)*

The *external sterling business* of UK banks continued to grow in the first quarter of 1984. Deposit liabilities rose by £1.5 billion—slightly more than the average quarterly growth seen in 1983—the increase being fairly evenly spread between deposits from unrelated banks overseas and from non-bank customers abroad. Sterling lending overseas rose by £1.7 billion, more than double the quarterly rate at which it had been growing last year, as acceptance credits increased by £0.6 billion and lending to unrelated banks continued to rise.

*Foreign currency lending* at home and abroad by banks in the United Kingdom increased by $29 billion in the first quarter of 1984, after a fall of $3 billion in the fourth

**Eurosterling market**

£ billions

| | 1981 | 1982 | 1983 | | |
|---|---|---|---|---|---|
| | 31 Dec. | 31 Dec. | 30 June | 30 Sept. | 31 Dec. |
| **Deposits by:** | | | | | |
| UK banks | 3.3 | 3.3 | 3.4 | 3.1 | 3.2 |
| UK non-banks | 1.0 | 1.2 | 1.1 | 1.2 | 1.2 |
| Other banks in BIS area | 5.2 | 4.7 | 5.1 | 4.4 | 4.1 |
| Other non-banks in BIS area | 0.6 | 0.7 | 0.8 | 0.7 | 0.8 |
| Oil exporting countries | 0.8 | 0.6 | 0.5 | 0.5 | 0.4 |
| Other | 1.4 | 1.5 | 1.8 | 1.8 | 1.8 |
| **Total** | **12.3** | **12.0** | **12.7** | **11.7** | **11.5** |
| *of which, CMIs* | *0.6* | *0.3* | *0.5* | *0.3* | *0.3* |
| **Lending to:** | | | | | |
| UK banks | 3.4 | 4.0 | 4.9 | 4.6 | 4.8 |
| UK non-banks | 0.7 | 0.6 | 0.7 | 0.8 | 0.6 |
| Other banks in BIS area | 3.8 | 3.6 | 3.5 | 3.0 | 3.0 |
| Other non-banks in BIS area | 1.5 | 1.6 | 1.6 | 1.5 | 1.5 |
| Other | 0.9 | 0.8 | 0.8 | 0.7 | 0.8 |
| **Total** | **10.3** | **10.6** | **11.5** | **10.6** | **10.7** |

Source: Bank for International Settlements.

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

$ billions

| | 1983 | | | | 1984 |
|---|---|---|---|---|---|
| | 31 Mar. | 30 June | 30 Sept. | 31 Dec. | 31 Mar. |
| Foreign currency deposit liabilities of UK banks to: | | | | | |
| Other UK banks | 172.2 | 147.4 | 157.7 | 145.8 | 155.8 |
| Other UK residents | 20.3 | 20.2 | 21.0 | 23.6 | 24.5 |
| Overseas central monetary institutions | 44.6 | 42.4 | 45.7 | 44.4 | 43.6 |
| Own offices overseas | 83.5 | 80.7 | 89.4 | 87.3 | 96.2 |
| Other banks overseas | 209.2 | 210.1 | 208.3 | 212.8 | 217.6 |
| Other non-residents | 123.3 | 126.6 | 125.2 | 130.6 | 131.7 |
| Other liabilities(b) | 9.2 | 7.8 | 10.7 | 12.1 | 17.3 |
| **Total liabilities** | **662.3** | **635.2** | **658.0** | **656.6** | **686.7** |
| Foreign currency assets of UK banks with: | | | | | |
| Other UK banks | 168.9 | 143.5 | 154.9 | 141.7 | 152.1 |
| Other UK residents | 28.6 | 29.5 | 31.5 | 31.8 | 33.2 |
| Own offices overseas | 147.4 | 145.1 | 152.1 | 155.0 | 162.6 |
| Other banks overseas | 168.5 | 168.0 | 168.6 | 172.5 | 176.5 |
| Other non-residents | 127.1 | 127.0 | 128.6 | 128.4 | 131.4 |
| Other assets(b) | 21.0 | 20.7 | 23.5 | 26.3 | 29.5 |
| **Total assets** | **661.5** | **633.8** | **659.2** | **655.7** | **685.3** |

(a) The reporting population is broader than the UK monetary sector (see notes and definitions to Table 14.1 in the March *Bulletin*) although data on 'own offices overseas' are available for the UK monetary sector only.

(b) Mainly capital and other internal funds on the liabilities side and investments on the assets side.

quarter of 1983. Most of the growth represented increased interbank activity, both within the London market and with banks abroad, and reflects particularly the seasonal activities of Japanese banks at the end of their accounting year. Lending to non-banks abroad rose by $3 billion, the largest quarterly increase since the fourth quarter of 1982. *Maturity statistics*[1] show that, in the slightly earlier three-month period to mid-February 1984, the proportion of very short-term foreign currency business rose a little; within a $15 billion increase in the total balance sheet there was a rise of $11 billion in both short-term (less than eight days) liabilities and short-term assets, much of this being in the interbank market. Net assets with more than one year to maturity grew by about $3 billion as the banks continued to purchase bonds and floating-rate notes issued by non-residents.

*UK banks' cross-border lending in foreign currency and sterling* increased in the first quarter of 1984 by $21.5 billion, of which more than $16 billion was to other countries in the BIS reporting area. Claims on non-oil developing countries rose by nearly $1 billion but deposits from them rose by $2.7 billion so that, collectively, they were net suppliers of funds to UK banks during the quarter. Borrowing by Eastern European countries was unchanged while their deposits rose by $0.5 billion. A small increase in lending to oil exporting countries was more than matched by a rise in their deposits.

**Maturity analysis of UK banks' lending outside the BIS reporting area** *(end-December 1983)*

The maturity of lending to countries outside the BIS area, in foreign currency and sterling, shortened slightly in the second half of 1983. At end-December 1983, short-term assets (those with less than six months remaining to maturity, including any amounts reported as overdue) accounted for nearly 44 per cent of total lending. During the second half of 1983, short-term lending to Eastern Europe and oil exporting countries rose as a percentage of total claims on these countries. By contrast, the proportion of short-term claims on non-oil developing countries fell, most of the fall being accounted for by South Korea, the Philippines and Mexico. Total unused credit commitments to countries outside the BIS area, expressed as a percentage of total loans, remained virtually unchanged during the second half of 1983.

## Foreign exchange and gold markets

*(Three months to end-May)*

Although conditions were reasonably settled at first, the exchanges became highly erratic and nervous during May. The dollar strengthened sharply, regaining much of the ground lost earlier this year, in response to interest rate increases in the United States as the markets came to believe that the Federal Reserve had responded to the rapid growth of the US economy and the budget deficit by tightening monetary policy. Concern about the widening US current account deficit lessened, and the dollar also benefited from growing industrial unrest in Germany. In the latter part of May, however, the dollar surrendered some of its gains as the market suspected that international debt problems and the difficulties rumoured to be facing some US banks would not permit a further tightening of monetary policy in the short term. With the deutschemark weakening over the three months, pressures on the European Monetary System (EMS) lessened and a period of comfortable trading within the system followed. The yen matched the dollar's gains against the European currencies.

Sterling's effective rate index (ERI) eased, on balance, as the differential between US and UK interest rates widened from $\frac{15}{16}$% to $1\frac{3}{4}$% and new all-time lows against the dollar were seen. There was a long spell during which the ERI moved fairly narrowly around 80.0 and the pound traded firmly against the Continental currencies. Sterling was for the most part a rather featureless market as the spot oil price moved little, the trade figures attracted scant attention and developments in the miners' strike affected sentiment only briefly.

### Sterling

The pound opened at $1.4867, DM $3.88\frac{1}{8}$ and ERI 83.2 on 1 March and was sold heavily during the first days of the month as concern lessened that the war between Iran and Iraq might seriously disrupt oil supplies and as interbank sterling rates eased on expectations of a cut in base rates. News that one of the clearing banks had cut its base rate by only $\frac{1}{4}$% to $8\frac{3}{4}$% on 6 March prompted a brief rally (a $\frac{1}{2}$% cut had been widely anticipated), but thereafter expectations that the other clearing banks would shortly reduce their base rates caused sterling to drift lower in fairly quiet trading. The pound reacted favourably to the

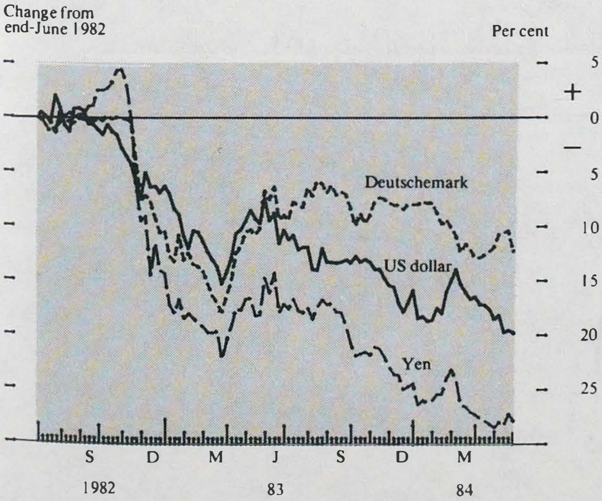
(1) Shown in Table 14.2 of the statistical annex.

Chancellor's Budget statement on 13 March, and moved ahead the next day as the dollar weakened sharply. The $\frac{1}{2}$% cuts in other clearing banks' base rates to $8\frac{1}{2}$% later on 14 March caused barely a ripple on the exchanges, and sterling closed that day at $1.4748, DM 3.76$\frac{3}{8}$ and ERI 81.1. US rates were rising at this time and the widening differential between US and UK interest rates began to attract some attention. Some sizable and widespread selling was occasionally seen, but the pound came under no real pressure. Towards the end of the month sterling traded more quietly and, although it recovered against the dollar, it failed to match the EMS currencies' gains. The market reacted favourably to the erratically good February trade figures on 27 March, and sterling closed at $1.4415, DM 3.73$\frac{3}{4}$ and ERI 80.1 on 30 March.

Sterling drifted quietly downwards in early April, with the miners' strike briefly affecting sentiment, and, as the dollar moved ahead, the ERI fell to 79.6 on 6 April. The pound moved up gradually over the next few days on some intermittent and modest buying but it then lost ground quietly to the dollar for the remainder of the month. Although initially the pound eased in line with other currencies, subsequently it did so by rather less than the Continental currencies which were affected by labour problems in Germany. Throughout April, the ERI remained very close to 80.0. Sterling closed the month at $1.3962, DM 3.79$\frac{5}{8}$ and ERI 79.7.

In early May, sterling began to move ahead against all major currencies, the ERI touching 80.5 on 4 May, as higher US interest rates led to a rise in interbank sterling rates and expectations of an increase in base rates. Although the pound weakened against a sharply rising dollar following a pessimistic market forecast for US interest rates, it strengthened further against the Continental currencies to DM 3.85 on 8 May. Some selling developed in late business that day as the dollar moved higher and the pound met some profit-taking after news of the $\frac{1}{2}$%–$\frac{3}{4}$% increases in base rates (to 9%–$9\frac{1}{4}$%) on 9 May, but the pressure proved to be short-lived. Sterling closed at $1.3836, DM 3.84$\frac{3}{8}$% and ERI 80.0 on 9 May. After a spell on the sidelines, sterling came into demand in the middle of the month as attacks on shipping in the Persian Gulf led to renewed concern about the security of oil supplies and spot oil prices moved up slightly. Sterling reached DM 3.86$\frac{1}{2}$ and ERI 80.7 on 21 May, but the absence of any disruption to oil supplies and growing concern about the effects of the miners' strike on the economy led to a period of widespread and persistent selling. The pound fell rather nervously to a new all-time low of 1.3707 and ERI 79.4 (a thirteen-month low) on 24 May and to DM 3.76$\frac{7}{8}$ on 25 May. Thereafter, however, it steadied as interbank sterling rates showed renewed firmness and tensions in the Persian Gulf increased. The pound closed at $1.3865 (−7% over the period), DM 3.78$\frac{5}{8}$ (−2$\frac{1}{8}$%) and ERI 79.6 (− 4$\frac{1}{2}$%).

**Sterling against selected foreign currencies**




*Official reserves*

During the three months to end-May there was an underlying fall in the reserves of $471 million. Net repayments of public sector borrowing under the exchange cover scheme totalled $136 million and repayments of HMG foreign currency bonds amounted to $480 million. The reserves were reduced by $82 million on account of the valuation adjustment arising from the quarterly roll-over of the European Monetary Co-operation Fund swap.

The effect of the annual revaluation of the reserves at end-March was to reduce their dollar value by $979 million, comprising a fall of $442 million on gold, and a fall of $537 million on SDRs, ECUs and non-dollar currencies. At the end of May, the reserves totalled $15,835 million.

**Changes in UK official reserves**

$ millions

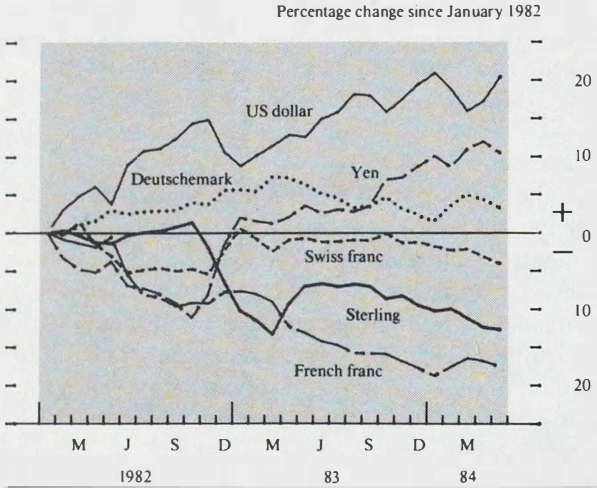
| | 1984 | | | | |
|---|---|---|---|---|---|
| | Jan. | Feb. | Mar. | Apr. | May |
| **Change in reserves** | − 44 | +210 | −255 | −808 | −106 |
| *of which:* | | | | | |
| Net borrowing (+)/ repayment (−) of public debt | + 71 | +170 | − 67 | −571 | + 22 |
| Valuation change on roll-over of EMCF swap | − 4 | — | — | − 82 | — |
| Underlying change in reserves | −111 | + 40 | −188 | −155 | −128 |
| Annual revaluation of reserves | — | — | −979 | — | — |
| **Level of reserves (end of period)** | **17,773** | **17,983** | **16,749(a)** | **15,941** | **15,835** |

(a) After the annual revaluation.

## US dollar

Expectations about the dollar changed considerably during the period. Initially, it continued to weaken as a result of concern about a possible resurgence of inflation and the large US current account deficit. In mid-March, however, although underlying sentiment towards the dollar at first remained bearish, attention began increasingly to focus on the rapid growth of the economy and the firm trend of US interest rates. Market thinking was finely balanced between these views, and the dollar traded erratically but without any clear direction during the remainder of March and the first half of April. Subsequently, as uncertainties about the direction of the dollar were resolved, it surged upwards to near its January peak. This reflected heightened fears that unexpectedly rapid economic growth in the first quarter and the long-term prospects for inflation had caused the Federal Reserve to tighten US monetary policy. In addition to a widening interest rate differential in its favour, the dollar also benefited from concern about possible strikes among

**Indices of effective exchange rates**




German engineering workers. Dollar sales by several central banks on 9–10 May helped to restrain the dollar's rise and, with the market sensing that the Federal Reserve's scope for tightening monetary policy could be inhibited by the debt position of less developed countries and the difficulties rumoured to be facing some US banks, it eased back in nervous and volatile conditions. The dollar closed at DM 2.7312 (+5$\frac{1}{4}$%) and ERI 131.0 (+3$\frac{1}{2}$%).

## EMS

The EMS was under some pressure at times during March, with the narrow band fully stretched between the deutschemark at the top and the Belgian franc at the bottom. Thereafter, the deutschemark weakened and, although it mostly remained at the top of the narrow band, conditions became more settled. The Belgian franc, although still at the bottom of the system, was under no pressure. The French franc traded comfortably in the upper half of the band throughout the period. The lira remained at the top of the system, closing 3$\frac{1}{8}$% above the Belgian franc.

## Other currencies

The yen traded quite narrowly against the dollar, and made sizable gains against the European currencies, as the exchanges reacted favourably to the large Japanese current account surplus and low inflation. The yen rose by $\frac{3}{4}$% to ¥231.50 over the period, and by 3$\frac{1}{4}$% on its effective index. Although the Swiss franc weakened sharply against the dollar, it was slightly firmer against the EMS currencies, helped by a $\frac{1}{4}$% increase to 3$\frac{1}{4}$% in commercial bank deposit rates on 9 May. The Swiss franc fell by 4$\frac{1}{4}$% to Sw.Fcs 2.2590 and by 1$\frac{1}{2}$% on its effective index.

## Gold

In narrow and thin trading, gold drifted quietly downwards for the most part in the face of the dollar's strength and increases in US interest rates. Gold moved ahead from its initial fixing at $395.25 on 1 March to $406.85 on 5 March as the dollar weakened, but had difficulty in establishing itself above $400. Thereafter, gold weakened gradually in a lightly traded market, although a variety of rumours caused the price to rise sharply but briefly to $390 in New York on 18 April. After touching $370.10 on 10 May, gold recovered somewhat in a slightly more active market on a weakening of the dollar and developments in the Persian Gulf. The final fixing was $384.25.

**London gold price**