International financial developments

Among the main developments:

- *The US current account deficit widened further in the first half of this year though the deficit grew only slightly in the second quarter; discrepancies in the accounts obscure the full picture of world payments.*
- *Though reviving somewhat in recent months, the syndicated credits market has been subdued this year. Most of the 'spontaneous' lending has been to OECD countries.*
- *Uncertainties about US withholding tax (repealed in July) discouraged activity in the international bond market for a time in the second quarter.*
- *Floating-rate notes continue to thrive as a source of finance (the FRN market is described in the article on page 337).*
- *The strength of the dollar was a feature of foreign exchange markets. Sterling was weak against other currencies, too, at times in July, but subsequently recovered.*

Balance of payments positions

The widening in the combined current account deficit of the major OECD economies (mainly the United States) between the third quarter of 1983 and early this year was not reflected in any substantial narrowing of the recorded deficits of the other country groups. Although the size of the deficit in the major OECD economies may have been overstated, it is likely that the position of some other groups was stronger than the available data suggest.[1] It is nevertheless clear that the combined current account position of the OPEC members deteriorated in the face of weak demand for oil. Preliminary figures for the second quarter suggest some further widening of the combined deficit of major OECD countries.

World current accounts[a]

$ billions; *seasonally adjusted*

	1982	1983			1984	
	Year	Year	Q3	Q4	Q1(b)	Q2(b)
OECD economies:						
Canada	2	1	—	—	—	—
France	−12	−4	—	—	—	−1
Germany	4	4	—	1	1	—
Italy	−5	1	—	1	—	−1
Japan	8	21	6	5	7	9
United Kingdom	10	4	1	1	1	−1
United States	−9	−42	−12	−17	−19	−21
Major economies	−4	−15	−5	−9	−11	−14
Other OECD	−23	−11	−2	−3	−1	−2
Total OECD	−27	−26	−7	−12	−12	−16
Oil exporting economies	−14	−13	5	1	−2	..
Other developing economies	−67	−43	−9	−8	−8	..
Other economies(c)	4	8	2	1	1	..
World discrepancy(d)	−104	−74	−9	−18	−21	..

.. 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 current account deficit of the United States grew from $30 billion in the second half of 1983 to $40 billion in the first half of this year. There was only a slight increase between the first and second quarters, however, as slower domestic growth brought slower growth of imports and the terms of trade benefited from the strength of the dollar. The Japanese surplus continued to rise. The other major economies remained in broad balance on current account; in the United Kingdom and Germany the position was affected by industrial action.

Smaller OECD countries

After last year's strong improvement (in response to tight financial policies, improving competitiveness and expanding export markets) the combined current account position of the smaller OECD economies seems to have settled in small deficit, though some countries (notably New Zealand, Portugal and Spain) have continued to show improvements.

Non-oil developing countries

The current account deficit of the non-oil developing countries appears to have been unchanged in the first quarter, despite some improvement in trade. Net inflows

(1) A number of explanations have been put forward to account for the discrepancy: underrecording of service receipts and investment income by some OECD and OPEC countries appears to account for half of it.

Developing countries' balance of payments

$ billions; *not seasonally adjusted*

	1982	1983(a)				1984(a)
	Year	Year	Q2	Q3	Q4	Q1
Current account	**−67**	**−43**	**−12**	**−9**	**−8**	**−8**
Capital account	**53**	**40**	**14**	**11**	**7**	**9**
of which:						
Concessionary and other official flows	23	22	6	5	6	6
Direct investment	10	6	1	2	2	2
Borrowing from banks(b)	20	12	5	1	4	2
Borrowing via bond issues	3	2	—	1	—	1
Other capital flows(c)	− 3	− 2	2	2	−5	−2
Official financing balance	**14**	**3**	**− 2**	**−2**	**1**	**−1**
of which:						
Use of IMF credit	4	9	1	1	2	2
Liabilities to other CMIs	2	− 2	—	−2	−1	1
Reserves(b) etc (increase−)	8	− 4	− 3	−1	—	−4

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

of direct investment and concessionary and other official funds were steady, at a slightly higher rate than in 1983. Borrowing from banks has been uneven.

Oil exporting countries

Despite continued restraint on imports, the figures suggest that oil exporters remained in deficit on current account in the early months of this year.

The oil exporters reduced their assets in total by a further $1.3 billion during the first quarter, following a fall of $2.2 billion in the previous quarter. Their holdings of government paper and bank deposits in the United States fell sharply (by $2.4 billion). Their bank deposits and investments in other industrialised countries were also reduced (by $0.9 billion) but they added $1.6 billion to holdings of sterling and eurocurrency bank deposits in the United Kingdom.

Identified deployment of oil exporters' funds[a]

$ billions

	1982	1983		1984		Mar. 1984
	Year	Year	Q4	Q1	Q2(b)	levels
United Kingdom:						
Sterling bank deposits	1.2	0.4	0.2	0.2	0.5	5.5
Eurocurrency bank deposits	− 9.2	− 5.5	−2.4	1.4	1.0	51.9
British government stocks	0.1	0.2	—	−0.1	−0.3	3.2
Other investments(c)	− 0.6	− 0.5	−0.1	−0.1	−0.2	3.9
	− 8.5	− 5.4	−2.3	1.4	1.0	64.5
United States:						
Bank deposits	4.7	0.8	1.1	−1.3	2.5	16.5
Treasury bonds, notes and bills	7.3	− 6.7	−1.8	−1.1	−1.9	33.6
Other investments(c)	− 1.3	− 2.5	−0.9	−0.5	−1.0	33.0
	10.7	− 8.4	−1.6	−2.9	−0.4	83.1
Other industrialised countries:						
Bank deposits	−12.7	− 7.7	0.7	−0.4	..	51.7
Other investments(c)	6.7	− 1.3	−0.5	−0.5	..	69.8
IMF and IBRD(d)	2.1	4.2	1.6	1.1	..	22.0
Loans to developing countries	3.9	1.1	−0.1	—	..	55.1
Total identified additions(+)/reductions(−) in deployed assets	**2.2**	**−17.5**	**−2.2**	**−1.3**	..	**346.2**
Net funds available for deployment	5.9	5.1	11.9	−0.9		
of which:						
Net movements in external borrowing etc(e)	*19.8*	*18.3*	*12.1*	*1.1*		
Current balance	*−13.9*	*−13.2*	*−0.2*	*−2.0*		

.. not available.

(a) The notes and definitions to Table 16.1 in the statistical annex of the March issue 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.

The June *Bulletin* noted (page 181) that there was a large discrepancy in 1983, and in the fourth quarter particularly, between the identified reduction in the oil exporters' financial assets and their estimated funds available for deployment. Although the latest data for those periods show a slight reduction in that discrepancy, it still remains unusually large. It does not, however, appear to have persisted into the first quarter of 1984.

Preliminary figures for the second quarter (confined to holdings in the United Kingdom and the United States) indicate substantial additions to oil exporters' bank deposits in both countries; longer-term placements continued to decline.

International borrowing and lending

Announcements of medium-term syndicated credits continued at a slow pace in June–August, though slightly faster than earlier in the year. A record amount was raised through fixed-interest bonds and floating-rate notes in July and August. Most of the funds have been raised by OECD borrowers.

'Spontaneous' medium-term credits

$ billions

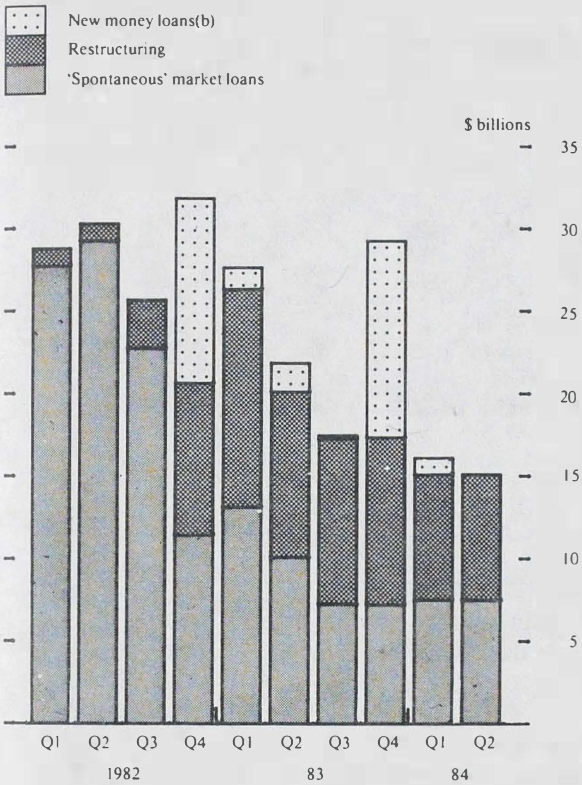
	Total	Major OECD	Minor OECD	Non-OECD	*of which:* *Latin America*	*Asia*
1982 Q1	**27.7**	6.9	5.5	15.3	*10.4*	*1.8*
Q2	**29.2**	7.2	5.0	17.0	*8.5*	*5.5*
Q3	**22.6**	7.9	4.3	10.4	*4.8*	*2.0*
Q4	**11.3**	2.4	2.5	6.4	*3.7*	*1.9*
1983 Q1	**13.1**	1.7	5.3	6.1	*0.4*	*3.9*
Q2	**10.1**	2.3	2.9	4.9	*0.4*	*1.4*
Q3	**7.3**	1.6	2.1	3.6	*0.8*	*1.6*
Q4	**7.7**	2.6	3.2	1.9	*0.2*	*0.7*
1984 Q1	**7.3**	2.0	1.5	3.8	*0.2*	*2.7*
Q2	**7.5**	3.1	1.1	3.3	—	*1.6*
July	**4.2**	2.2	1.5	0.5	—	*0.1*
Aug.	**1.7**	0.7	0.1	0.9	*0.2*	*0.6*

Medium-term syndicated bank credits

In the first eight months of 1984 credits of $20.8 billion were announced—compared with $28.4 billion during the same period in 1983—with $8.6 billion announced in the last three months. Reschedulings and associated new money loans (which are excluded from these figures) have been much smaller than in the latter part of 1983; since May the only major package signed has been the rescheduling of some $1.6 billion of Poland's bank debt maturing between 1984 and 1987.

Most of the spontaneous lending has been to OECD borrowers; these accounted for nearly 80% of funds raised in the last three months compared with just below 50% in the previous five. The bulk of the $6.6 billion raised by these countries in June–August was taken by borrowers from the major countries, particularly France, Italy and the United States. Although OECD borrowers have been able to obtain attractive terms

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.

on syndicated loans, some have taken advantage of the even finer terms available to prime borrowers on floating-rate notes and note issuance facilities (for further details see the following section and the article on page 337).

Borrowing by non-OECD countries has been sluggish in recent months. Although non-oil developing countries raised $5.5 billion in the first eight months of the year (when favoured borrowers such as Malaysia and South Korea obtained fine terms), only $1.2 billion has been raised in the past three months. Similarly, Eastern bloc countries borrowed only $150 million between June and August, after nearly $900 million had been raised in the first five months of the year.

Three credits in recent months (two for Irish borrowers and one for Greece's public power corporation) have come with a transferable loan facility, providing for secondary market trading in them.

Bonds and notes

The amount raised through fixed-rate bonds, and floating-rate notes and note issuance facilities in the second quarter was $20.8 billion, $5 billion less than the first quarter but still higher than the average quarterly amount over the past two years. In the course of the quarter, fixed-rate issues fell sharply on investors' expectations of rising interest rates and because of uncertainty caused by the prospect of the abolition of US withholding tax; the amount raised in June was less than half that raised in April, an unusually wide fluctuation. Fixed and floating-rate new issue activity recovered towards the end of the quarter and several jumbo note issuance facilities were announced.[1] Funds raised in July were $9.5 billion, a record for a single month.

Completed international bond issues[a]

$ billions; *percentages of total for all currencies in italics*

	1981	1982	1983	1984			
	Quarterly averages			Q1(b)	Q2	July	Aug.
Borrower							
OECD countries	8.2	14.6	14.5	21.6	17.7	8.4	6.3
International institutions	2.1	2.8	3.7(c)	3.1	2.4	0.8	2.0
Other	1.0	1.1	0.7	0.9	0.7	0.3	0.2
Total	**11.3**	**18.5**	**18.9**	**25.6**	**20.8**	**9.5**	**8.5**
Currency							
US dollars	*58*	*63*	*58*	*59*	*56*	*71*	*74*
Swiss francs	*19*	*16*	*19*	*17*	*18*	*8*	*10*
Deutschemarks	*6*	*8*	*8*	*6*	*8*	*5*	*3*
Yen	*7*	*5*	*5*	*3*	*7*	*6*	*5*
Other	*10*	*8*	*10*	*15*	*11*	*10*	*8*

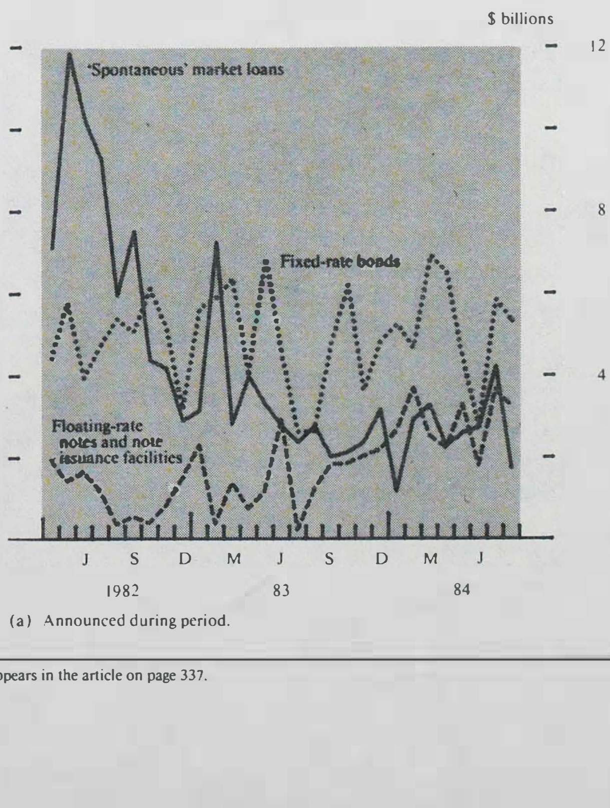
(a) Maturities of one year and over. The table includes fixed and floating rate euro and foreign issues, published private placements, and note issuance facilities. It excludes Canadian borrowing in New York.

(b) Figures for the currency composition have been revised.

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

In the *fixed-rate* sector, governments were the only category of borrowers to raise more money in the second quarter than in the first. Borrowers included New Zealand, Denmark and Canada. Issues were notable for the variety of currencies used, with only $300 million out of some $1.7 billion raised by governments during the quarter being in US dollars. Borrowing by corporations fell, particularly borrowing by US corporations which halved between the first and second quarters. In July, when borrowing (and the proportion

Medium-term credits,[a] bonds and floating-rate notes and note issuance facilities



(a) Announced during period.

(1) A description of these facilities together with a survey of recent developments in the floating-rate sector appears in the article on page 337.

of issues in US dollars) recovered, borrowing by US corporations amounted to $1.2 billion, compared with $1.9 billion in the whole of the second quarter. Japanese companies continued to borrow steadily, although convertible issues declined in May when Japanese share prices were weak. Use of the yen increased in the second quarter. After the Japanese Ministry of Finance eased its guidelines on US dollar-yen linked bonds, Japanese borrowers made two issues, each for ¥10 billion. Sterling issues declined from the unusually high level of the first quarter.

In the United States the Tax Reform Act became law on 18 July, repealing the 30% withholding tax on interest paid to foreigners on securities issued in the United States. During July, secondary market yields on prime dollar eurobonds rose relative to those on comparable US Treasury bonds. This movement was reversed in August, however, and is more likely to have been an example of yields on eurobonds lagging those on Treasury bonds when interest rates were falling than a result of the abolition of withholding tax. Continued uncertainty about the application of the regulations on backup withholding tax[(1)] in the United States meant that there were virtually no fixed-rate eurobond issues by US borrowers during August. At the beginning of September, when the rules on backup withholding tax had been clarified, issues resumed, with IBM able to raise $200 million at a rate below US Treasury bond yields.

Floating-rate issues completed in July and August raised $6.9 billion, compared with $7.2 billion in the second quarter. Sovereign borrowing was particularly strong, and the July total included a $1 billion note issuance facility for Denmark, and perpetual FRNs (convertible into 4-year notes) for Sweden ($750 million) and Denmark ($600 million). Note issuance facilities, which have grown rapidly (see page 341), amounted to $1.1 billion in the second quarter and $2.0 billion (including the $1 billion facility for Denmark) in July and August.

International banking business[(2)]

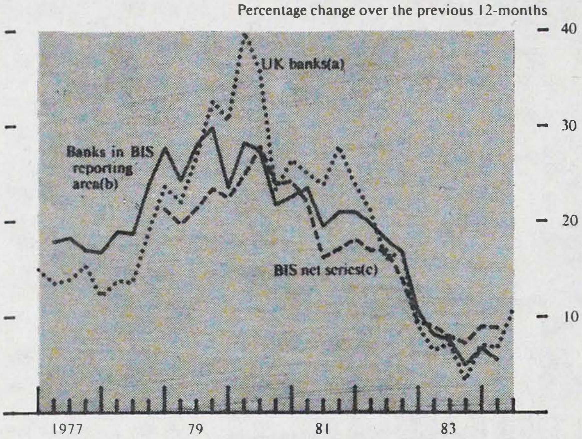
Broadly speaking, the growth of international banking business slowed in the first quarter; in particular, external lending by banks in the BIS reporting area, depressed by seasonal factors, was small.[(3)] By contrast, the external sterling business of UK banks grew strongly in the first half of this year.

Banks in the BIS reporting area *(first quarter 1984)*
In the first quarter of 1984, external *lending* by banks in the BIS area rose by only $17 billion after growth of $54 billion in the final quarter of 1983. External claims of banks in the United States fell by $1 billion after growth of $10 billion in the preceding quarter.[(4)]

Almost all of the increase in lending was to borrowers inside the reporting area. In the interbank market there was some unwinding of end-year positions by French and Italian banks, although this was largely offset by growth in the business of Japanese banks.

Outstanding loans to countries outside the BIS area rose by only $1 billion, following a rise of $24 billion in

Growth of bank lending to non-residents



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

External business of banks in the BIS reporting area
$ billions; changes exclude estimated exchange rate effects

	1982 Year	1983 Year	1983 Q4	1984 Q1	Outstanding at end-Mar. 1984
Deposits					
From outside reporting area:					
Offshore banking centres	+ 32	+ 31	+11	+ 4	288
Developed countries	—	+ 2	+ 2	+ 1	25(a)
Eastern Europe	+ 2	+ 3	+ 2	+ 2	21
Oil exporting countries	− 18	− 14	− 1	—	125
Non-oil developing countries	+ 5	+ 10	+ 4	+ 4	116
of which, Latin America	*− 2*	*+ 6*	*+ 1*	*+ 2*	*46*
Sub-total	+ 21	+ 32	+18	+11	575
From inside reporting area	+ 97	+ 76	+40	+21	1,145(a)
Unallocated	+ 8	+ 8	+ 7	—	50
Total	**+126**	**+116**	**+65**	**+32**	**1,770**
Lending					
Outside reporting area:					
Offshore banking centres	+ 32	+ 17	+ 7	− 3	283
Developed countries	+ 16	+ 7	+ 5	+ 1	74(a)
Eastern Europe	− 5	− 1	+ 1	—	51
Oil exporting countries	+ 8	+ 10	+ 7	+ 1	91
Non-oil developing countries	+ 20	+ 12	+ 4	+ 2	263
of which, Latin America	*+ 12*	*+ 8*	*+ 2*	*+ 2*	*182*
Sub-total	+ 71	+ 45	+24	+ 1	762
Inside reporting area	+ 96	+ 55	+29	+18	1,003(a)
Unallocated	+ 9	+ 8	+ 1	− 2	39
Total	**+176**	**+108**	**+54**	**+17**	**1,804**

(a) Finland, Norway and Spain became part of the reporting area from end-December 1983 and are therefore no longer members of the group of 'developed countries'. The reclassification of these countries has been excluded from the changes figures.

(1) These required non-institutional foreign investors receiving interest from the United States to provide certificates of their foreign status and so were incompatible with anonymity.
(2) All flows exclude estimated exchange rate effects, unless otherwise stated.
(3) External lending or deposit taking means business outside the country in which the reporting bank is located. An increase in lending or deposits means an increase in the stock of loans or deposits outstanding.
(4) Indeed, banks in the United States were again net takers of funds, although on a smaller scale than in the second half of 1983. Within the total change in external claims of US banks, lending under international banking facilities increased by $6 billion. These allow banks in the United States to conduct banking transactions with non-residents free of any reserve requirements and interest rate limitations, and without costs of deposit insurance.

the fourth quarter of 1983. Loans to Latin America once more grew by about $2 billion, largely as a result of new borrowing by Brazil in conjunction with an IMF adjustment programme. Claims on areas other than Latin America grew less strongly, however, and there was a marked reduction of $3 billion in claims on offshore centres.

There was also a smaller increase in external *deposits* with BIS area banks of $32 billion (half the £65 billion increase in the fourth quarter). Deposits from outside the area rose by $11 billion, of which the offshore banking centres and the non-oil developing countries each deposited $4 billion (making the latter net suppliers of $2 billion to the BIS area banks in the first quarter). Oil-exporters' deposits were unchanged overall in the first quarter.

BIS area banks' foreign currency business with residents of their own countries (not shown in the table) grew strongly during the first quarter. Most of this business is with other banks, and in large part reflected the seasonal activity of Japanese banks in London. Foreign currency claims on resident non-banks grew by $7 billion, the highest rise for two years.

Eurosterling

In the first quarter of 1984, sterling liabilities of banks in the BIS reporting area (but outside the United Kingdom) grew by £1.2 billion, most of the funds being placed by other banks, nearly half by banks in the United Kingdom.

Eurosterling market
£ billions

	1982	1983			1984
	31 Dec.	30 June	30 Sept.	31 Dec.	31 Mar.
Deposits by:					
UK banks	3.3	3.4	3.1	3.3	3.8
UK non-banks	1.2	1.1	1.2	1.2	1.2
Other banks in BIS area	4.7	5.1	4.4	4.2	4.8
Other non-banks in BIS area	0.7	0.8	0.7	0.9	1.0
Oil exporting countries	0.6	0.5	0.5	0.4	0.4
Other	1.5	1.8	1.8	2.0	2.0
Total	**12.0**	**12.7**	**11.7**	**12.0**	**13.2**
of which, CMIs	*0.3*	*0.5*	*0.3*	*0.3*	*0.5*
Lending to:					
UK banks	4.0	4.9	4.6	4.8	5.2
UK non-banks	0.6	0.7	0.8	0.6	0.7
Other banks in BIS area	3.6	3.5	3.0	3.1	3.4
Other non-banks in BIS area	1.6	1.6	1.5	1.7	2.0
Other	0.8	0.8	0.7	1.0	1.0
Total	**10.6**	**11.5**	**10.6**	**11.2**	**12.3**

Source: Bank for International Settlements.

Eurosterling claims rose by £1.1 billion. BIS area banks increased their sterling lending to banks in the United Kingdom by £0.4 billion and to both banks and non-banks in the rest of the BIS reporting area by similar amounts.

BIS half-yearly maturity analysis of lending to individual countries *(second half of 1983)*

The overall maturity profile of bank lending was unchanged in the second half of 1983. There was a marked shortening in the maturities of loans to

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

	1981	1982		1983	
	31 Dec.	30 June	31 Dec.	30 June	31 Dec.
Western Europe(b)	39.9	39.5	41.1	41.0	41.5
Eastern Europe	42.0	39.7	38.5	38.0	38.6
Australia, New Zealand and South Africa	46.3	49.7	45.0	43.9	49.5
Major oil exporting countries	58.4	58.9	58.3	57.0	58.2
Non-oil developing countries	47.0	47.1	46.7	45.7	44.2
of which:					
Middle East and North Africa	*69.6*	*70.5*	*66.6*	*65.3*	*66.9*
Other Africa	*34.8*	*33.8*	*33.3*	*30.5*	*34.4*
Asia	*55.2*	*53.4*	*53.8*	*51.9*	*52.7*
Latin America	*44.1*	*44.9*	*44.2*	*43.5*	*40.4*
All countries	**47.1**	**47.2**	**46.8**	**46.0**	**46.0**

(a) Debt due for repayment within one year as a percentage of total outstanding lending in each group of countries based on the series in Table 13.2 in the statistical annex.

(b) Except BIS area. At the dates shown, Finland, Norway and Spain were not part of the area and are therefore classified as 'Western Europe' throughout.

Australia, New Zealand and South Africa, and some shortening in loans to most other groups, but this was offset by lengthening in loans to Latin America. The proportion of claims on Latin America with a maturity of less than one year fell from 43.5% to 40.4% (compared with 46% for all lending to countries outside the BIS reporting area), for the most part reflecting the rescheduling agreements for Brazil and Mexico. Undisbursed commitments to all areas, as a proportion of total assets, rose slightly from 16.6% to 16.8%. This was the first rise since the first half of 1978 and was more than accounted for by new commitments to Mexico and the Soviet Union.

London market *(second quarter 1984)*

The *external sterling* business of UK banks continued to show substantial growth in the second quarter of 1984. Deposit liabilities rose by £2.1 billion, twice the quarterly average in 1983 and more than the increase in the first quarter; within the total, deposits from

External business of banks in the United Kingdom by area(a)
$ billions; flows adjusted to exclude estimated exchange rate effects

	1983			1984	
	Q2	Q3	Q4	Q1	Q2
Deposits from					
BIS reporting area(b)	—	+11.9	+ 8.3	+ 9.4	+ 7.4
Offshore banking centres	+4.4	+ 1.2	− 3.3	+ 4.6	− 0.9
Other Western Europe(b)	−0.7	+ 1.5	+ 0.9	− 0.2	+ 0.8
Australia, New Zealand and South Africa	−0.7	− 0.2	+ 0.1	+ 0.1	—
Eastern Europe	—	− 0.5	+ 0.8	+ 0.4	− 0.1
Oil exporting countries	−1.7	+ 0.5	− 2.3	+ 1.5	+ 1.5
Non-oil developing countries	+1.4	+ 0.3	+ 1.6	+ 2.5	+ 2.7
Others(c)	—	+ 0.3	+ 0.1	+ 0.6	− 0.5
Total	**+2.7**	**+15.0**	**+ 6.2**	**+18.9**	**+10.9**
Lending to					
BIS reporting area	−5.7	+ 9.2	+ 3.5	+14.4	− 0.3
Offshore banking centres	+3.7	+ 2.6	+ 1.5	− 0.7	+ 8.7
Other Western Europe	+0.6	− 0.2	− 0.2	+ 0.1	+ 0.6
Australia, New Zealand and South Africa	−0.2	+ 0.4	+ 1.5	+ 0.2	+ 0.5
Eastern Europe	−0.4	− 0.3	+ 0.3	− 0.1	− 0.2
Oil exporting countries	+0.1	+ 1.2	+ 2.6	+ 0.7	+ 0.8
Non-oil developing countries	+0.5	− 1.4	+ 0.8	+ 0.7	+ 1.0
Others(c)	+0.1	+ 0.2	+ 0.2	− 0.1	+ 0.1
Total	**−1.3**	**+11.7**	**+10.2**	**+15.2**	**+11.2**

(a) Amounts outstanding are shown in Table 14.1 of the statistical annex.

(b) Finland, Norway and Spain joined the BIS reporting area from end-December 1983; they were previously classified under 'Other Western Europe'. The flows for 1984 Q1 and Q2 reflect these compositional changes in the area groups.

(c) Includes international organisations, certain unallocated items and effects of rounding in area groups.

External sterling liabilities and assets of banks in the United Kingdom by customer[(a)]

£ billions

	1983				1984	
	31 Mar.	30 June	30 Sept.	31 Dec.	31 Mar.	30 June
Liabilities						
Overseas central monetary institutions(b)	1.8	1.7	2.1	2.3	2.6	2.7
Own offices overseas	2.6	2.6	2.9	3.0	2.9	3.2
Other banks overseas	6.5	6.9	6.7	7.2	8.1	9.5
Other non-residents	9.9	10.1	10.4	11.1	11.5	11.8
Total liabilities	**20.8**	**21.3**	**22.1**	**23.6**	**25.1**	**27.2**
Assets						
Loans and advances to:						
Own offices overseas	1.6	1.6	1.5	1.6	1.7	2.1
Other banks overseas	3.1	3.0	2.8	3.0	3.6	4.2
Other non-residents	4.1	4.1	4.3	4.6	4.9	5.2
Bills	5.6	5.7	5.8	6.0	6.1	6.1
Acceptances	2.9	2.7	2.9	3.0	3.6	3.4
Total assets	**17.3**	**17.1**	**17.3**	**18.2**	**19.9**	**21.0**

(a) The reporting population is broader than the UK monetary sector (see notes and definitions to Table 16 in the statistical annex of the March *Bulletin*).

(b) Includes international organisations.

unrelated banks overseas increased by £1.4 billion. Sterling lending overseas rose by £1.1 billion and in the first six months of 1984 was substantially greater than in the whole of 1983.

Foreign currency loans at home and abroad by banks in the United Kingdom increased by $9 billion in the second quarter of 1984, after the large rise of $24 billion in the first quarter. An increase in claims on unrelated banks overseas of $10 billion was partly offset by a fall in claims on the UK interbank market. The aggregate position comprises an unusually large rise in the balance sheet of British banks, a contraction in the foreign currency business of American banks in London (after three consecutive quarters of balance sheet growth), but virtually no fall in the balance sheet of Japanese banks, in contrast to the usual second quarter pattern.

Foreign currency liabilities and assets of banks in the United Kingdom by customer[(a)]

$ billions; changes adjusted to exclude estimated exchange rate effects

	1983		1984		Outstanding at end-June
	Q3	Q4	Q1	Q2	1984
Foreign currency deposit liabilities of UK banks to:					
Other UK banks	+11.0	−11.2	+ 8.5	− 6.0	146.8
Other UK residents	+ 0.9	+ 2.7	+ 0.9	− 2.0	22.2
Overseas central monetary institutions	+ 3.5	− 1.0	− 1.0	+ 1.5	44.5
Own offices overseas	+ 9.2	− 1.0	+ 8.8	+ 6.3	103.7
Other banks overseas	− 1.0	+ 5.1	+ 6.0	+ 7.3	222.5
Other non-residents	− 0.8	+ 6.1	+ 4.8	− 0.9	133.5
Other liabilities(b)	+ 3.0	+ 1.4	− 3.1	+ 3.3	12.4
Total liabilities	**+25.8**	**+ 2.1**	**+24.9**	**+ 9.5**	**685.7**
Foreign currency assets of UK banks with:					
Other UK banks	+12.1	−12.5	+ 9.2	− 3.7	145.7
Other UK residents	+ 2.1	+ 0.4	+ 1.3	+ 0.7	33.6
Own offices overseas	+ 8.2	+ 4.9	+ 7.0	+ 0.2	162.2
Other banks overseas	+ 0.8	+ 3.8	+ 2.2	+10.4	182.6
Other non-residents	+ 2.2	+ 0.5	+ 1.9	+ 0.1	129.5
Other assets(b)	+ 2.9	+ 2.9	+ 2.8	+ 1.1	30.0
Total assets	**+23.3**	**—**	**+24.4**	**+ 8.8**	**683.6**

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

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

In the three months to mid-May, about two-thirds ($13.7 billion) of the total increase in the foreign currency liabilities of banks in the United Kingdom was in the 8 days–3 months maturity band and was mainly to overseas residents.[(1)] However, the proportion of the balance sheet funded at under three months (71%) was practically unchanged from mid-February. Long-term (over 3 years) assets continued to rise (by $2.4 billion) as banks increased their holdings of floating-rate notes and bonds.

UK banks' external lending in foreign currency and sterling altogether rose by $11.2 billion in the second quarter of 1984. The increase was dominated by a large rise in lending to offshore banking centres, principally to Singapore and Hong Kong. Claims on other countries in the BIS area, which accounted for almost all of the increase in total lending in the first quarter, fell in the second. Lending to other areas was slightly stronger than in the preceding quarter, and a year earlier, although well below the pace of growth in the final quarter of 1983. BIS countries provided over two thirds of the overall increase in deposits. Non-oil developing countries continued their build-up of deposits in London—the cumulative increase since the second quarter of 1983 is $8.5 billion.

Foreign exchange and gold markets

(Three months to end-August)

The dollar rose to an $11\frac{1}{2}$ year high against the deutschemark and record levels against many other currencies (including sterling) in early August. Its renewed strength chiefly reflected firm US short-term interest rates as a result of market concerns about the size of the credit demands created by the rapidly-growing US economy and the budget deficit, and about a possible tightening of monetary policy. The dollar stood just below its highest levels at the end of August.

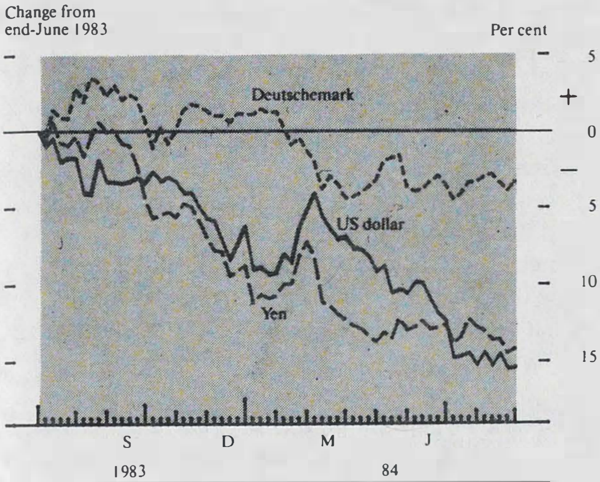
Sterling was steady against other currencies during June, despite losing ground to the strong dollar. But in early July it began to weaken against all currencies as market concern about UK industrial disputes added to the effects of the widening differential between US and UK interest rates. After two increases in base rates, by a total of $2\frac{3}{4}$ percentage points to 12% in early July, sterling began to trade more comfortably. The settlement of the first of two dock strikes during this period reinforced the firmer tone. The exchanges calmly absorbed three $\frac{1}{2}$ percentage point cuts in base rates in August. The fall of $1\frac{7}{8}$% in the effective rate index (ERI) during the three months to the end of August chiefly reflected the strength of the dollar: sterling was little changed against the Continental currencies.

Sterling

The pound opened at $1.3875, DM $3.77\frac{3}{4}$ and ERI 79.5 on 1 June, and benefited initially from firmer interbank

(1) See Table 14.2 of the statistical annex.

Sterling against selected foreign currencies



sterling rates, touching $1.4105 and ERI 79.9 on 4 June. However, sterling drifted quietly down when the likelihood of an increase in base rates receded. A spell of rather muted trading followed in which, although setting new all-time lows against the strengthening dollar, the pound moved up against the Continental currencies. Sterling began to weaken during the last week of June as market concerns about UK interest rates and the weakness of spot oil prices added to the effects of a further rise in US interest rates and a general strengthening of the dollar. The pound closed at $1.3563, DM 3.77¼ and ERI 79.1 on 29 June.

Widespread selling developed on 3 July and sterling began to lose ground against all currencies as sentiment became more affected by the miners' strike, following the settlement of the German metalworkers' dispute. Heavy selling in late business on 5 July carried over into the next morning, when the ERI opened at 77.4, and $1.3102 was seen in early trading. Some demand developed as interbank sterling rates firmed and, following the ¾ percentage point rise in base rates to 10% on 6 July, the pound improved to close at $1.3190 and ERI 77.9. News of a national dock strike then led to further heavy and widespread selling. Interbank sterling rates firmed on 10 July on news of a sharp rise in the monetary aggregates in June which encouraged expectations of another rise in base rates. But with no announcement immediately forthcoming, the pound slipped to $1.2970 in the Far East and the ERI opened at 77.1 on 11 July. Sterling came into some good demand at these lower levels and after the 2 percentage point increase in base rates to 12% later that day it began to trade more comfortably, closing at $1.3092 and ERI 77.6. The tone remained nervous as a result of the docks dispute, but sterling was able to move up quietly over the next few days. Settlement of the dock strike led to some buying interest and the pound moved to the sidelines, withstanding the dollar's further strengthening better than other major currencies for a spell; the ERI moved up to 79.2 on 25 July. Concern over the outlook for oil prices as a result of rumours that OPEC was on the verge of breaking up led to a sharp weakening of the pound overnight on 26/27 July, and subsequent reports of lower prices prompted renewed selling. Helped by the firmness of interbank rates however, sterling then began to trade more steadily, closing at $1.3110, DM 3.78½ and ERI 78.5 on 31 July.

A very sharp strengthening of the dollar in New York led to a new all-time low of $1.2956 in the Far East on 1 August, but sterling was steady against other currencies. It came into some good demand when oil prices seemed to be bottoming out, and then held up well against other currencies as the dollar again rose sharply; it fell only to $1.3036 and a noon ERI of 78.6 on 7 August as the dollar peaked against the Continental currencies. The publication of favourable provisional July money figures that afternoon led to an easing of interbank sterling rates, and the pound briefly developed a softer tone. A ½ percentage point cut in base rates on 8 August was absorbed calmly and sterling moved up quietly to close that day at $1.3107 and ERI 78.7. The reduction in the Bank of England's dealing rates for the second day running on 9 August caused the pound to lose a little ground but, with the dollar weakening, the losses were only against non-dollar currencies. Sterling traded steadily after the further ½ percentage point cut in base rates on 10 August, closing that day at $1.3115 and ERI 78.5. Although expectations of yet a further cut in base rates developed during the following week, the pound traded quietly and reasonably firmly, helped by a weakening of the dollar and further evidence of a recovery in oil prices. It closed at $1.3236 and ERI 78.5 after the third ½ percentage point cut in base rates, to 10½%, occurred on 17 August. Sterling then weakened because of the growing possibility of a national docks strike, but only modestly in view of the rather mixed response of different ports to the strike call. The pound closed at $1.3098 (−5½% over the period), DM 3.78 (unchanged) and ERI 78.1 (−1⅞%) on 31 August.

Official reserves

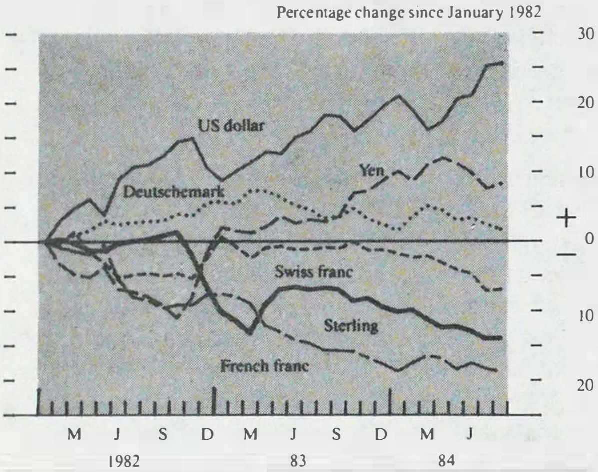
During the three months to end-August there was an underlying fall in the reserves of $474 million. Net repayments of public sector borrowing totalled $101 million. The reserves were increased by $87 million on account of the valuation adjustment arising from the quarterly roll-over of the European Monetary Co-operation Fund swap. At the end of August, the reserves totalled $15,347 million.

Changes in UK official reserves

$ millions

	1984		
	June	July	Aug.
Change in reserves	**−330**	**−131**	**−27**
of which:			
Net borrowing (+)/ repayment (−) of public debt	−195	+ 50	+44
Valuation change on roll-over of EMCF swap	—	+ 87	—
Underlying change in reserves	−135	−268	−71
Level of reserves (end of period)	**15,505**	**15,374**	**15,347**

Indices of effective exchange rates



US dollar

At the beginning of June, the dollar was some $4\frac{1}{2}$% below its highest levels so far this year against the deutschemark, and $1\frac{1}{8}$% lower in effective terms. Initially, the dollar extended its sharp decline of late May as US interest rates eased on market perceptions that the problems rumoured to be facing some US banks and their exposure to Latin American debts would inhibit the Federal Reserve from maintaining its tight monetary policy; there were also signs of a slowing of economic growth. However, sentiment towards the dollar soon changed and, by the middle of June, it had taken on a firmer tone as it became clear that the easing of US short-term interest rates was only temporary. Market concerns about the US banking system and international indebtedness gradually assumed less importance, while the second quarter GNP figures disappointed hopes of a significant slowdown of the US economy and heightened fears about the implications for interest rates of the credit demands of the rapidly-growing economy and the public sector. At times, the markets were also concerned that US monetary policy would be tightened to reduce the potential inflationary pressures. The dollar benefited from the improved outlook for US inflation which contributed to strong rallies in US capital markets accompanied by reports of substantial foreign participation. Talk of investment flows into dollar assets was also stimulated by the repeal of withholding tax. The dollar was little affected by large US trade deficits, even the record figure for July.

The dollar closed just below its highest levels at DM 2.8860 (+$5\frac{5}{8}$%) and ERI 136.5 (+$4\frac{1}{4}$%) after an $11\frac{1}{2}$ year high of DM 2.93 and record levels against several other currencies on 7 August.

EMS

Conditions within the EMS became increasingly settled in the face of the strong dollar, with the width of the narrow band diminishing from 2% to $\frac{5}{8}$% during the three months to the end of August. Although the dollar's gains were substantially at the expense of the deutschemark, the latter nevertheless remained at the top of the narrow band for most of the period. The Belgian franc remained at the bottom of the system but at no time came under pressure.

Other currencies

The yen weakened by less than the European currencies against the dollar as a result of the favourable performance of the Japanese economy. It was also affected by the changing situation in the oil market. The yen fell by $4\frac{3}{8}$% to ¥241.52, and by $1\frac{3}{4}$% in effective terms.

The Swiss franc lost ground to the EMS currencies as well as the dollar, despite $\frac{1}{2}$ percentage point increases in commercial bank three-month deposit rates on 2 July and 24 July, to $4\frac{1}{4}$%. It fell by $6\frac{1}{2}$% to Sw.Fcs 2.4052, and by $2\frac{5}{8}$% in effective terms.

Gold

The gold market became more active in June and July, and the price fell to a two-year low as the dollar strengthened and US interest rates rose. The gold price regained some ground in quieter trading conditions during August.

Gold touched \$398 on 1 June, but for a spell thereafter it moved erratically lower. Although some good demand was seen at times, gold encountered spells of aggressive selling as the dollar rose, with heavy stop-loss orders depressing the price to \$332.50 on 9 July. It then rallied to \$352.35 but selling pressure revived and the price fell to a two-year low of \$331 on 23 July. Despite a further strengthening of the dollar and expectations of weaker oil prices, gold was quite resilient over the next two weeks, deriving benefit from the improved tone of silver. As the dollar eased back from its peak in early August, gold moved up to \$356.25 by mid-month. Thereafter, the gold price weakened on balance in a quiet market. The final fixing was \$348.25, \$36 lower over the three months to the end of August.

London gold price