International financial developments

The main developments in the international financial markets in the third quarter are summarized in the opening section. This article goes on to describe in more detail balance of payments positions of the main country groupings, the most important developments on the international capital markets, international banking activity in the second quarter (and the London market in the third), and events affecting the foreign exchange markets in the three months to end-November.

The already massive current account deficit of the United States widened again in the third quarter of this year. Nevertheless, the dollar rose for most of the period, peaking against most currencies around the middle of October. US interest rates fell thereafter—with growth in the US economy slowing down, inflationary expectations subdued and the Federal Reserve Board appearing to ease monetary policy slightly—and the dollar showed some signs of weakness. But from the middle of November the dollar strengthened again, so that it ended the month only 0.9% below its peak in effective terms.

Developments in the United States caused the combined current account deficit of the major economies to widen in the first half of the year, while the positions of all the other country groups improved. The large world payments discrepancy[1] continues to make assessment of these changes rather tentative; in so far as the discrepancy is due to underrecording of service receipts and investment income by some OECD and OPEC countries, the size of the deficit of the major economies, and that of the United States in particular, is probably overstated.

New lending on the international capital markets in the third quarter continued its rise from the trough of a year ago, largely because of the recovery in the securities markets. Lending through spontaneous credits has stabilised after the sharp decline in 1983. Borrowers from industrialised countries have accounted for 80% of the total raised on the international capital markets so far this year, compared with only 60% as recently as 1982. With banks showing a strong preference for restricting their lending to high quality borrowers, such borrowers have been able to obtain lower spreads, and several have been able to renegotiate terms on earlier loans. Banks have also continued to expand the range of techniques and instruments available to borrowers: note issuance facilities (NIFs)[2] and zero-coupon issues have been among the fastest growing sectors of the market, and new hybrid facilities have been offered.

In the bond markets, total issues, of $27 billion in the third quarter, were almost 50% higher than the average for 1983.

World current accounts[(a)]

$ billions; *seasonally adjusted*

	1982	1983		1984		
	Year	Year	Q4	Q1	Q2(b)	Q3(b)
OECD economies:						
Canada	2	1	—	—	1	1
France	− 12	− 4	—	—	− 1	1
Germany	4	4	1	1	—	2
Italy	− 5	1	1	—	− 1	—
Japan	7	21	6	7	9	7
United Kingdom	10	4	1	1	− 1	− 1
United States	− 11	−42	−17	−20	−24	−32
Major economies	− 4	−15	− 9	−11	−16	−22
Other OECD	− 23	−12	− 2	—	1	..
Total OECD	− 27	−27	−10	−11	−15	..
Oil exporting economies	− 13	−12	—	1	—	..
Other developing economies	− 67	−41	− 9	− 6	− 6	..
Other economies(c)	—	5	1	1	1	..
World discrepancy(d)	−107	−75	−18	−15	−20	..

.. not available.

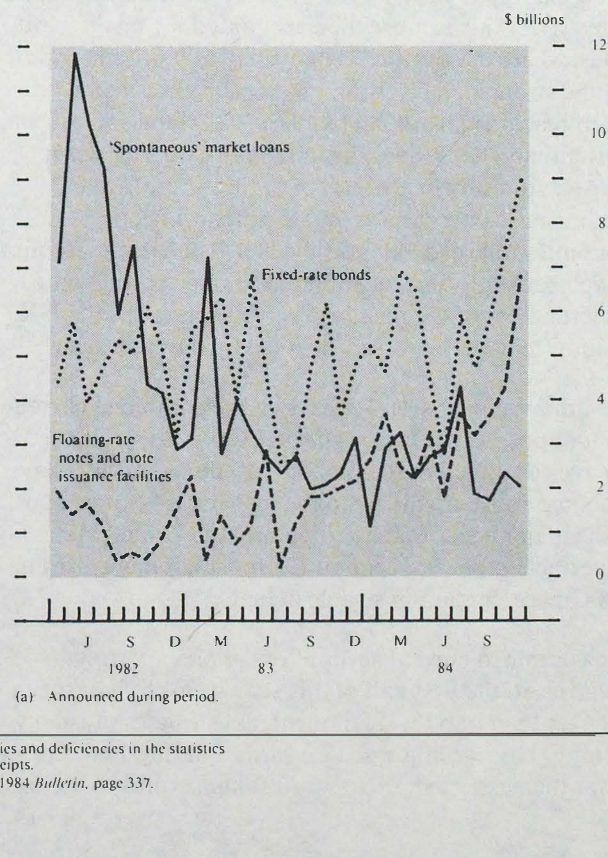
(a) Components may not sum to totals because of rounding.

(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.

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



(a) Announced during period.

(1) The current balances of all countries, added together, should in principle be nil. In practice, inconsistencies and deficiencies in the statistics have meant that total world current account payments have generally exceeded total current account receipts.

(2) Described in 'The international market in floating-rate instruments' by Ms N F E Ramsden, September 1984 *Bulletin*, page 337.

Within this total, fixed-rate bond issues continue to represent the largest part. If recent expectations of continuing falls in interest rates persist and inflationary expectations remain low, the higher rate of borrowing in this market may well persist. This market is open only to the highest quality borrowers, so a continuing high level of activity in the market would imply a further segmentation in the range of borrowers represented in the different markets.

In July, the US Treasury announced the abolition of withholding tax on foreign holdings of US securities. In a defensive response, France and the Federal Republic of Germany have announced their intentions to abolish their own withholding taxes. There was a surge of eurobond issues by US corporate borrowers in September, perhaps in anticipation of issues aimed at non-residents by the US Treasury; the first of these took place in October and the second in November.

Current account deficits of the less developed countries (LDCs) declined from $81 billion in 1981 to $41 billion in 1983, and a substantial further narrowing is expected this year (see page 465). Banks' lending to the LDCs picked up a little in the second quarter, although the amounts not forming part of special financing packages remain insignificant (and are mainly accounted for by a few Asian borrowers who have retained lenders' confidence). As in the first quarter, LDCs as a whole made net deposits of funds with BIS-area banks.

Balance of payments

The combined current account deficit of the *major seven economies* continues to widen, and has been running at an annual rate of nearly $70 billion in the first nine months of this year. This is more than accounted for by the United States, where the continued buoyancy of domestic activity and the strong dollar resulted in the current account deficit reaching an annual rate of $100 billion—and substantially more than this in the third quarter when there was a resurgence of imports. Elsewhere, Japan remains in sizable surplus and the major European economies in broad balance; the German current account moved back into surplus in the third quarter following the settlement of the metalworkers' dispute, but the UK position remains adversely affected by the coal strike.

The improvement seen last year in the combined current account position of the *smaller OECD economies* appears to have continued in the first half of this year. Most have benefited substantially from the recovery of export markets in the major economies, particularly the United States. Nevertheless, several economies, most notably Australia and Greece, remain in sizable deficit.

The combined current account of the *oil exporting countries* in the first half of this year seems to have been stronger than previously thought, as estimates of energy earnings have been revised upwards and imports were lower than expected; there was a small surplus in the first quarter, and a larger one in the second. Deployed assets are estimated to have risen during the second quarter by $2.9 billion, the first increase since the third quarter of 1983. Bank deposits in the United States and to a lesser extent the United Kingdom rose sharply (by $4.1 billion) but fell slightly in other industrialised countries. Holdings of government paper and other investments continued to decline in the United States and United Kingdom (by $2.4 billion), but rose (by $1.2 billion) in other industrialised countries.

Identified deployment of oil exporters' funds[a]

$ billions

	1982 Year	1983 Year	1984 Q1	1984 Q2	1984 Q3(b)	June 1984 levels
United Kingdom:						
Sterling bank deposits	1.2	0.1	0.2	0.5	0.2	5.7
Eurocurrency bank deposits	− 9.2	− 7.0	1.4	1.0	0.2	52.5
British government stocks	0.1	0.2	−0.1	−0.3	0.1	2.7
Other investments(c)	− 0.6	− 0.5	−0.1	−0.1	−0.1	3.8
	− 8.5	− 7.2	1.4	1.1	0.4	64.7
United States:						
Bank deposits	4.7	0.8	−1.3	2.6	0.5	19.1
Treasury bonds, notes and bills	7.3	− 6.7	−1.1	−2.0	−0.9	31.7
Other investments(c)	− 1.3	− 2.5	0.5	—	−0.6	32.9
	10.7	− 8.4	−1.9	0.6	−1.0	83.7
Other industrialised countries:						
Bank deposits	−12.7	− 7.7	−0.6	−0.3	..	52.4
Other investments(c)	6.7	− 1.3	−0.5	1.2	..	72.2
IMF and IBRD(d)	2.1	4.2	1.1	−0.2	..	21.9
Loans to developing countries	3.9	1.1	—	0.5	..	55.0
Total identified additions(+)/reductions(−) in deployed assets	**2.2**	**−19.3**	**−0.5**	**2.9**	..	**349.9**
Net funds available for deployment	6.5	7.7	2.3	5.9		
of which:						
Net movements in external borrowing etc(e)	*19.8*	*19.3*	*1.3*	*1.4*		
Current balance	*−13.3*	*−11.6*	*1.0*	*4.5*		

.. 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.

Preliminary figures for the third quarter (confined to the United States and United Kingdom) indicate a continued decline in longer-term investments in the United States and a further increase in bank deposits in both countries.

The current account of the *non-oil developing countries* improved markedly in the first quarter of 1984, resulting from a strong improvement in their net trade position. Export volumes, particularly to the United States and Japan, were higher than expected while import volumes remained generally subdued. Their combined current account is estimated to have remained broadly unchanged in the second quarter as continuing strong export performances were offset by a revival of imports and higher interest payments.

Capital inflows were more than sufficient to cover the current account deficit in the first quarter of this year, allowing a buildup of reserves. Concessionary and direct investment flows are thought to have continued their

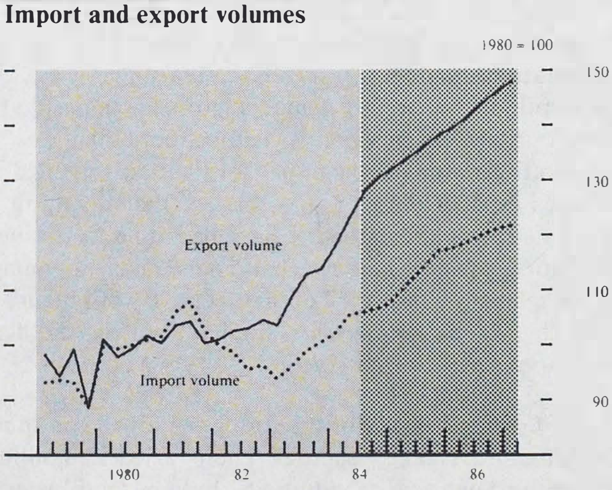
Balance of payments prospects for non-oil developing countries

Trade volumes

Exports by the less developed countries (LDCs) moved ahead throughout the recession, gathering pace during 1983, and are expected to grow by 14% in 1984. Experiences have been mixed. South-east Asian and some Latin American countries have benefited considerably from strong growth in the United States and their export growth may now slow somewhat. African countries fared worse as drought restricted supply and their markets grew only slowly: their prospects are more uncertain and performance may prove erratic.

In the 18 months to 1983 Q1 the volume of LDC imports fell almost continuously, by over 13% in total; there were much larger falls for some countries. Since then, despite continued financial constraints, increased export revenue has allowed total imports to recover steadily and this trend is expected to continue for the next two years. But again the pattern is likely to vary between countries and areas. The strongest growth in 1984 has been in Asian countries and should continue; aggregate Latin American imports may now recover from their depressed levels, while African countries' financial problems are expected to keep their import growth weak.

Import and export volumes



Current account positions

Improvements in net trade volumes and the terms of trade reduced the aggregate LDC trade deficit both in 1983 and this year—Latin American countries leading the way. But with export volumes not expected to continue to grow faster than import volumes, and terms of trade likely to weaken next year and beyond, the improvement in the LDC trade balance may be partially reversed as more normal trade patterns become re-established (especially in Asia and Latin America). Interest rates will continue to be a major influence on the aggregate LDC invisibles balance with net interest payments expected to peak next year. Putting these trends together, the LDCs' current account deficit is expected to improve further this year but thereafter to deteriorate (see table).

Financing the deficit

Concessionary and other official flows are expected to remain the major source of finance for LDCs but to increase only slowly. Direct investment, having fallen sharply between 1980 and 1983, may show a slightly firmer recovery, though it may still only amount to about half of concessionary and

Balance of payments forecasts for LDCs

	1982	1983	1984	1985	1986
	percentage change on previous year				
Export markets	−1.6	1.8	11.4	5.7	4.7
Export volume	0.7	6.7	13.9	7.5	5.5
Import volume	−6.7	−0.2	8.0	7.0	5.9
Terms of trade	−1.1	1.9	4.6	−3.3	−1.0
					$ billions
Trade account	− 37	− 16	8	—	− 4
Invisibles account	− 30	− 25	−30	−33	−34
Current account	− 67	− 41	−21	−33	−38
Capital account *(+=inflow)*	49	29	34	46	46
Balance for official finance *(+=need for borrowing or use of reserves)*	18	12	−13	−14	− 9

Because of rounding, components may not sum to totals.

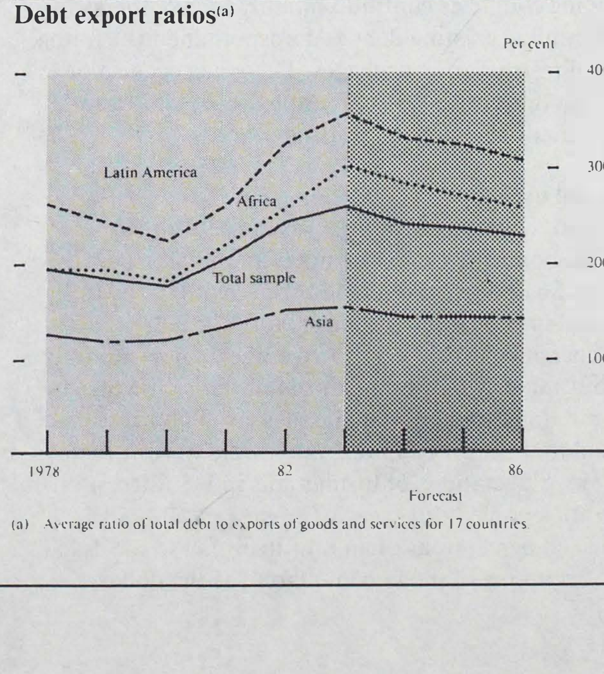
other official flows by 1986. The exposure of BIS area banks to LDCs is expected to increase by about 5% per annum in 1984 and beyond, far less than up to 1982, much of this lending being conditional on IMF packages.

The net increase in the new use of IMF credit by LDCs reached a peak of $9 billion last year as many rescue packages came into operation. Disbursements to some countries have been delayed this year by problems on existing programmes but may total $6 billion in 1984 as a whole. Use of Fund credit is expected to fall, and repayments to increase, by 1986 when net flows may have dropped to $2 billion.

The improvements on current account, combined with the forecast capital inflows, should enable reserves to be rebuilt this year. By the end of 1985 they may be sufficient to cover nearly a third of a year's imports, though this is still low by historical standards. In many African countries prospects are again worse and reserves there may remain at critically low levels.

Despite higher interest rates, debt prospects seem generally to have improved somewhat compared with forecasts made earlier this year, mainly because of unexpectedly high growth in world trade. With continued adherence to adjustment policies in the debtor countries, debt ratios should decline, but only gently, from the high levels of 1982–83.

Debt export ratios[a]



(a) Average ratio of total debt to exports of goods and services for 17 countries.

Developing countries' balance of payments

$ billions; *not seasonally adjusted*

	1982 Year	1983 Year	1983 Q3	1983 Q4	1984(a) Q1	1984(a) Q2
Current account	**−67**	**−41**	**−10**	**−10**	**−5**	**−6**
Capital account	**49**	**29**	**8**	**5**	**6**	**4**
of which:						
Concessionary and other official flows	23	22	5	6	6	6
Direct investment	10	8	2	2	2	3
Borrowing from banks(b)	20	12	1	4	1	5
Borrowing via bond issues	3	2	1	1	1	—
Other capital flows(c)	− 8	−15	− 1	− 7	−3	−9
Official finance balance	**18**	**12**	**1**	**4**	**−2**	**2**
of which:						
Use of IMF credit	4	9	2	2	1	2
Liabilities to other CMIs	4	4	− 1	2	—	1
Reserves(b) etc (increase−)	9	− 2	—	—	−3	—

(a) Includes Bank estimates/forecasts.

(b) Adjusted to exclude valuation effects.

(c) Including net errors and omissions.

gradual recovery in the second quarter, and borrowing from the banks revived. These increases were outweighed by a large outflow of other capital—thought to be associated with an increase in LDC deposits with banks in the BIS reporting area.

International capital markets

New borrowing in the international capital markets in the third quarter continued its recovery from the trough a year ago; at $35 billion, it was 13% higher than the rate in the first half of the year and 70% higher than in the third quarter of 1983. This growth accelerated in the fourth quarter, concentrated—as earlier—in securities: the credits market remained at levels well below those seen in the early 1980s.

International capital markets are increasingly dominated by borrowers from the industrial countries. Borrowers from the OECD countries took nearly 80% of the funds raised this year, compared with 70% last year and 60% in 1982. Although some developing countries in Asia—notably South Korea and Malaysia—are able to borrow, both through syndicated credits and in the bond markets, the provision of private sector funding to many developing countries continues mainly to take the form of rescheduling existing debt and unspontaneous lending as part of restructuring packages. There has been some borrowing this year by Hungary, the Soviet Union and East Germany through the credit market.

Bonds and notes

In the third quarter $27 billion was raised through fixed-rate bonds, floating-rate notes and note issuance facilities, $6 billion more than in the second. Growth continued into the fourth quarter with $12 billion raised in October and $16 billion in November, a new monthly record. A major factor in the third quarter's growth was a surge in dollar-denominated issues, as US borrowers returned to the market. Foreign investors were attracted in part by expectations of further falls in US interest rates, apparently coupled—at the start of the period—with diminished perceptions of an imminent fall in the dollar. By the beginning of the fourth quarter, as the dollar weakened, bond warrants and delayed payment became—at least for a time—attractive to investors, allowing them to hedge against currency falls.

In the *fixed-rate* sector, the rules on US back-up withholding tax were clarified at the end of August and there was a surge in borrowing by US corporations anxious to tap the eurobond market before the US Treasury were to make a foreign-targeted issue. Twenty-three dollar eurobond issues for US corporations, raising $3 billion, were announced during September, but only sixteen, raising $1.8 billion, during October and November. The largest of these was of $600 million for Chevron in September. Top rated borrowers at one time were able to borrow at yields almost one percentage point below those on comparable US Treasury bonds. The US Treasury auctioned $1 billion of foreign-targeted 4-year notes on 24 October. Bids totalling $4 billion were received, and the average yield on the issue was 30 basis points less than on the domestic 4-year notes auctioned at the same time, but this differential was eroded by the time a second issue was made at the end of November.

There was particularly strong growth in *zero-coupon issues* during the third quarter and October. US corporations made seven such issues, raising $660 million, apparently using the proceeds in part to buy matching US Treasury bonds yielding more than the corporations were having to pay for their borrowing. In most cases, 30% of each of these issues (the maximum permitted) was understood to have been sold to Japanese investors. Japanese borrowers also have taken advantage of the relaxation last April of their Ministry of Finance's guidelines on currency swaps, and have borrowed dollars to swap the proceeds into yen.

In the *floating-rate* sector the strongest growth continued to be in note issuance facilities. These raised $2.4 billion in the third quarter (including a $1 billion stand-by facility for the Kingdom of Denmark)—almost double the total for the second quarter—and a further $2.4 billion in October and November alone. Conventional FRNs raised $8.1 billion in the third quarter and $8.6 billion in October and November. Sovereign borrowers and banks continue

Completed international bond issues[a]

	1981	1982	1983	1984 Q1	1984 Q2	1984 Q3	1984 Oct.	1984 Nov.
	Quarterly averages							
Borrower							$ billions	
OECD countries	8.2	14.6	14.5	21.6	17.7	22.9	10.2	14.3
of which:								
United States	*1.8*	*3.9*	*2.0*	*4.3*	*2.5*	*5.9*	*3.7*	*4.5*
Japan	*1.2*	*1.5*	*3.0*	*4.7*	*4.1*	*3.7*	*0.9*	*1.3*
International institutions	2.1	2.8	3.7(b)	3.1	2.4	3.0	1.4	1.1
Other	1.0	1.1	0.7	0.9	0.7	1.2	0.1	0.4
Total	**11.3**	**18.5**	**18.9**	**25.6**	**20.8**	**27.1**	**11.7**	**15.8**
Currency							Percentages	
US dollars	58	63	58	59	56	69	70	74
Swiss francs	19	16	19	17	18	10	7	7
Deutschemarks	6	8	8	6	8	5	5	5
Yen	7	5	5	3	7	5	3	4
Other	10	8	10	15	11	11	15	10

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

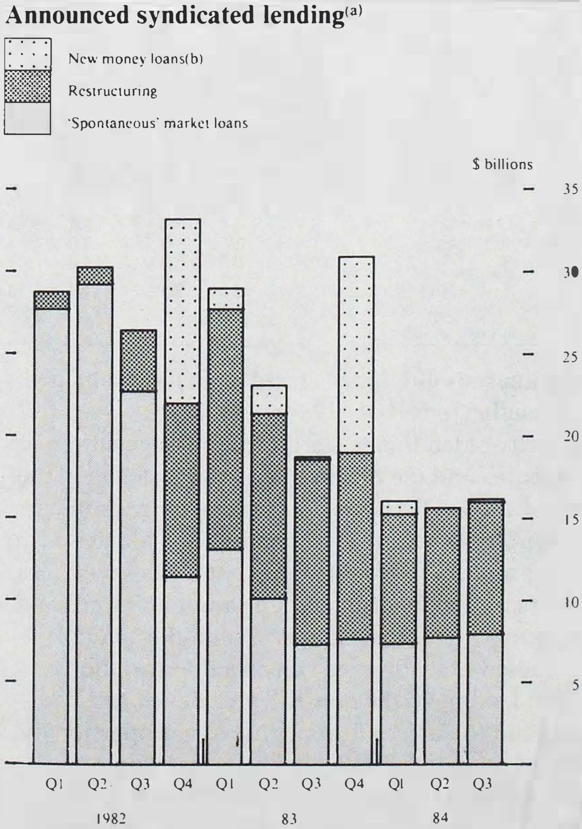
(b) Annual total includes $2.4 billion raised by the European Community on behalf of France.

to dominate the market. The Republic of Italy raised \$1.5 billion and the Kingdom of Belgium \$1 billion, in each case through two issues. Borrowers continued to obtain finer terms: Italy's \$1 billion issue carried fees of only fourteen basis points, while a \$0.5 billion issue for the Kingdom of Sweden, sold by tender, had an effective yield of only six basis points over Libor. Further perpetual FRNs were issued for banks, including one of \$0.6 billion for Barclays.

Banks' syndicated lending
Announcements of 'spontaneous' medium-term credits have stabilised at around \$7–7½ billion per quarter for five quarters. OECD borrowers seeking new funds have increasingly favoured the bond and note markets; a \$300 million facility for Greece—one of eight fund-raising exercises this year that have been structured as transferable loans—and two ECU300 million loans for Italy are the only major credits for OECD borrowers announced in the last three months. In the light of the increasingly good terms available for top-quality borrowers, a number (including many Italian borrowers) have been seeking to renegotiate the terms of existing loans.

Three eastern bloc countries—the Soviet Union, East Germany and Hungary—remain active borrowers, and raised \$1.1 billion between September and November,

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.

'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	**7.6**	3.2	1.1	3.3	—	*1.6*
Q3	**8.0**	3.1	1.9	3.0	*0.2*	*1.6*
Oct.	**2.7**	0.3	0.7	1.7	*0.1*	*1.1*
Nov.	**2.1**	0.6	0.1	1.4	—	*0.3*

much of it in non-dollar currencies (ECUs, deutschemarks and Swiss francs). In the first eleven months of the year they have announced borrowings of over \$2 billion, compared with only \$0.5 billion during the whole of 1983.

The value of 'spontaneous' syndicated credits raised by developing countries in 1984 (\$6.9 billion in the first eleven months) looks unlikely to reach even the depressed 1983 level (\$8.7 billion). Almost half the funds raised this year (\$3.0 billion) have gone to South Korea, including \$600 million for the Korea Development Bank in September. There have also been substantial loans in the past three months for India (\$300 million) and Thailand (\$300 million).

No major rescheduling and new money packages have been signed in recent months, although both Mexico and Venezuela have reached agreements in principle with their respective advisory committees of banks for substantial multi-year reschedulings. Total syndicated lending—adding the lending implicit in packages signed earlier to the total raised in the free market—has been fairly constant each quarter this year, at \$15–16 billion per quarter.

International banking business[1]

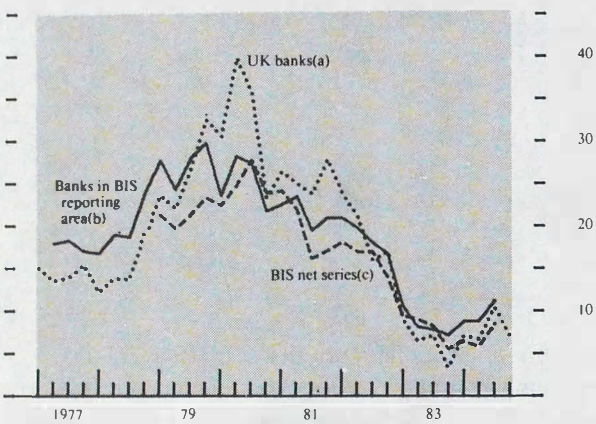
The growth of international banking business picked up in the second quarter. Much of this was an expansion of interbank business, but there was also some acceleration in lending by banks in the BIS area to countries outside the area (excluding the offshore centres).

Banks in the BIS reporting area *(second quarter 1984)*
External lending by banks in the BIS area (which includes only a small part of banks' total purchases of bonds and floating-rate instruments) rose by \$43 billion in the second quarter, after growth of only \$19 billion in the first. A sharp rise in the claims of banks in the United States on banks in other reporting countries accounted for the greater part of the rise, and was associated in some degree with the difficulties experienced by Continental Illinois. The increase more than offset the seasonal contraction in the interbank lending of Japanese banks.

(1) All flows exclude the estimated effects of movements in exchange rates between the US dollar and other currencies unless otherwise stated. This valuation adjustment has a considerable impact on the interpretation of developments in the second quarter when the dollar appreciated strongly.

Growth of bank lending to non-residents

Percentage change over the previous 12-months



(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.

Although the recovery in external lending which began in the third quarter of 1983 continues to be concentrated in the reporting area, lending to countries outside the area (excluding the offshore centres) accelerated in the second quarter. The increase of $8.5 billion compares with a $2.5 billion rise in the first quarter and average growth of $7 billion a quarter last year. Lending to Latin America rose by $2.1 billion; of this, Brazil alone drew $1.75 billion from its 'new money' package. In contrast, claims on Eastern Europe fell by $1.2 billion, partly reflecting the settlement of guaranteed claims on Poland by export credit agencies.

External deposits with BIS area banks grew by $49 billion in the second quarter, considerably stronger growth than over most of the last two years. Although much of the rise resulted from transactions between BIS area banks, there was also a pronounced acceleration in new deposits from countries outside the area. Oil exporters' deposits rose by $2.8 billion after being unchanged in the first quarter. But the most notable development was the $7.1 billion increase in the deposits of non-oil developing countries, which were net suppliers of funds to BIS area banks for the second consecutive quarter; their net supply in the first half was $5.1 billion, while Eastern European countries supplied $3.1 billion net.

External business of banks in the BIS reporting area

$ billions: changes exclude estimated exchange rate effects

	1983		1984		Outstanding at end-June
	Year	Q4	Q1	Q2	1984
Deposits					
From outside reporting area:					
Offshore banking centres	+ 31	+11	+ 5	+ 9	296
Developed countries	+ 2	+ 2	—	+ 1	25(a)
Eastern Europe	+ 3	+ 2	+ 2	—	21
Oil exporting countries	− 14	− 1	—	+ 3	126
Non-oil developing countries	+ 10	+ 4	+ 4	+ 7	122
of which, Latin America	*+ 6*	*+ 1*	*+ 2*	*+ 4*	*50*
Sub-total	+ 32	+17	+10	+21	589
From inside reporting area	+ 74	+38	+22	+23	1,151(a)
Unallocated	+ 8	+ 7	+ 1	+ 5	55
Total	**+114**	**+63**	**+33**	**+49**	**1,795**
Lending					
Outside reporting area:					
Offshore banking centres	+ 18	+ 7	− 4	+16	297
Developed countries	+ 7	+ 5	—	+ 4	76(a)
Eastern Europe	− 1	+ 1	—	− 1	48
Oil exporting countries	+ 10	+ 7	+ 1	+ 2	91
Non-oil developing countries	+ 12	+ 4	+ 1	+ 4	265
of which, Latin America	*+ 8*	*+ 2*	*+ 1*	*+ 2*	*183*
Sub-total	+ 46	+24	− 2	+25	777
Inside reporting area	+ 56	+29	+22	+18	1,008(a)
Unallocated	+ 8	+ 1	− 1	—	35
Total	**+109**	**+54**	**+19**	**+43**	**1,819**

(a) Finland, Norway and Spain became part of the reporting area from end-December 1983; they were previously classified as 'developed countries'. The changes for 1984 Q1 and Q2 reflect these compositional changes in the country groups.

Eurosterling

In the second quarter of 1984, the eurosterling liabilities of banks in the BIS area (excluding the United Kingdom) increased by £1.1 billion, entirely because of higher interbank business. Just over half the increase was a rise in deposits from banks in the United Kingdom. In the first half of the year eurosterling liabilities increased by £2.4 billion, a rise of 20%. Eurosterling lending also rose, by £1.1 billion, in the second quarter, and apart from an increase of £0.2 billion in borrowing by UK non-banks the rise was entirely interbank business. Borrowing by UK banks increased by £0.7 billion.

Eurosterling market

£ billions

	1983			1984	
	30 June	30 Sept.	31 Dec.	31 Mar.	30 June
Deposits by:					
UK banks	3.4	3.1	3.3	3.9	4.5
UK non-banks	1.1	1.2	1.2	1.2	1.2
Other banks in BIS area	5.1	4.4	4.3	4.9	5.2
Other non-banks in BIS area	0.8	0.7	0.9	1.0	1.0
Oil exporting countries	0.5	0.5	0.4	0.4	0.5
Other	1.8	1.8	1.9	1.9	2.0
Total	**12.7**	**11.7**	**12.0**	**13.3**	**14.4**
of which, CMIs	*0.5*	*0.3*	*0.3*	*0.5*	*0.5*
Lending to:					
UK banks	4.9	4.6	4.8	5.4	6.1
UK non-banks	0.7	0.8	0.7	0.7	0.9
Other banks in BIS area	3.5	3.0	3.1	3.4	3.6
Other non-banks in BIS area	1.6	1.5	1.7	2.0	2.0
Other	0.8	0.7	1.0	1.0	1.0
Total	**11.5**	**10.6**	**11.3**	**12.5**	**13.6**

Source: Bank for International Settlements.

Maturity analysis of UK-registered banks' consolidated external lending *(end-June 1984)*

The maturity of lending in sterling and foreign currency to the BIS area and the offshore centres shortened in the first half of 1984. There was no overall change in the maturity profile of lending to countries outside these two areas, the proportion of short-term assets (those with less than one year to maturity, including amounts overdue) remaining at 41% of total claims. Within this overall picture, there were, however, considerable variations; short-term lending to the non-BIS area developed countries and to Eastern Europe rose as a proportion of total claims on these areas while the proportion of short-term claims on Latin America fell (from 29% to 25%). Most of this fall reflected a marked lengthening of Mexico's debt, as rescheduling continued.

London market *(third quarter 1984)*

The *external sterling* business of banks in the United Kingdom grew at a slightly slower rate than in the second quarter, but remained well above the quarterly average

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

£ billions

	1983			1984		
	30 June	30 Sept.	31 Dec.	31 Mar.	30 June	30 Sept.
Liabilities						
Overseas central monetary institutions(b)	1.7	2.1	2.3	2.6	2.7	2.9
Own offices overseas	2.6	2.9	3.0	2.9	3.2	3.6
Other banks overseas	6.9	6.7	7.2	8.1	9.5	10.1
Other non-residents	10.1	10.4	11.1	11.5	11.8	12.3
Total liabilities	**21.3**	**22.1**	**23.6**	**25.1**	**27.2**	**28.9**
Assets						
Loans and advances to:						
Own offices overseas	1.6	1.5	1.6	1.7	2.1	2.2
Other banks overseas	3.0	2.8	3.0	3.6	4.2	4.5
Other non-residents	4.1	4.3	4.6	4.9	5.2	5.5
Bills	5.7	5.8	6.0	6.1	6.1	6.3
Acceptances	2.7	2.9	3.0	3.6	3.4	3.7
Total assets	**17.1**	**17.3**	**18.2**	**19.9**	**21.0**	**22.2**

(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.

for 1983. Deposits rose by £1.7 billion (up £5.3 billion so far this year, £2.9 billion from non-related banks); and sterling lending overseas rose by £1.2 billion (£4 billion so far this year).

Foreign currency lending at home and abroad by banks in the United Kingdom fell by $1.4 billion in the third quarter, following growth of $33 billion in the first half. A largely seasonal rise in the loans of Japanese banks was more than offset by reduced lending by other banks, particularly the Americans. The overall reduction was almost entirely in the interbank market. Deposits from non-banks abroad fell by $5 billion, and those from own offices also fell sharply; in contrast, deposits of overseas central monetary institutions rose by $4.5 billion.

In the three months to mid-August foreign currency liabilities rose, over half the rise being deposits in the 6 months to one year maturity band. The rise in assets was concentrated in the under 6 months' band. Long-term

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

$ billions: adjusted to exclude estimated exchange rate effects

	1983		1984			Outstanding at end-Sept. 1984
	Q3	Q4	Q1	Q2	Q3	
Liabilities						
Deposit liabilities to:						
Other UK banks	+11.0	−11.2	+ 8.5	− 6.2	+ 0.9	145.0
Other UK residents	+ 0.9	+ 2.7	+ 0.9	− 2.0	− 0.3	21.7
Overseas central monetary institutions	+ 3.5	− 1.0	− 1.0	+ 1.5	+ 4.5	48.2
Own offices overseas	+ 9.2	− 1.0	+ 8.8	+ 6.3	− 4.2	96.5
Other banks overseas	− 1.0	+ 5.1	+ 6.0	+ 7.6	+ 2.0	223.8
Other non-residents	− 0.8	+ 6.1	+ 4.8	− 0.9	− 5.1	126.3
Other liabilities(b)	+ 3.0	+ 1.4	− 3.1	+ 3.6	+ 0.6	12.9
Total liabilities	**+25.8**	**+ 2.1**	**+24.9**	**+ 9.7**	**− 1.6**	**674.4**
Assets						
Loans and advances to:						
Other UK banks	+12.1	−12.5	+ 9.2	− 3.7	+ 1.0	144.2
Other UK residents	+ 2.1	+ 0.4	+ 1.3	+ 0.7	+ 0.4	33.7
Own offices overseas	+ 8.2	+ 4.9	+ 7.0	− 0.2	− 5.1	153.8
Other banks overseas	+ 0.8	+ 3.8	+ 2.2	+10.7	+ 0.7	181.8
Other non-residents	+ 2.2	+ 0.5	+ 1.9	− 0.1	− 0.8	126.7
Other assets(b)	+ 2.9	+ 2.9	+ 2.8	+ 1.2	+ 2.4	32.4
Total assets	**+23.3**	**—**	**+24.4**	**+ 8.6**	**− 1.4**	**672.6**

(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.

(over 3 years) assets fell slightly, perhaps indicating a levelling-off in banks' acquisitions of floating-rate notes and bonds.

Total external lending of banks in the United Kingdom fell by $3.6 billion in the third quarter after strong growth in the first half of the year. Much of the turn-round was in interbank business. Lending to non-oil developing countries rose by only $0.1 billion (after a rise of $1 billion in the second quarter) largely because of reductions in loans outstanding to Israel and Egypt. Lending to Mexico rose by $0.5 billion as new money from rescheduling packages was drawn down. *Total deposits* also fell, reversing the strong rise—again largely attributable to interbank business—in the first half of the year. Deposits of the oil exporters rose for the third consecutive quarter, although at a slower rate. In contrast, deposits of non-oil developing countries fell for the first time since the first quarter of 1983, and they became net takers of funds from banks in the United Kingdom again. Within this group, the deposits of Latin American countries rose slightly.

External business of banks in the United Kingdom by area[(a)]

$ billions: changes adjusted to exclude exchange rate effects

	1983		1984		
	Q3	Q4	Q1	Q2	Q3
Lending to:					
BIS reporting area(b)	+ 9.2	+ 3.5	+14.4	− 0.3	−3.3
Offshore banking centres	+ 2.6	+ 1.5	− 0.7	+ 8.7	+0.6
Other Western Europe(b)	− 0.2	− 0.2	+ 0.1	+ 0.6	+0.4
Australia, New Zealand and South Africa	+ 0.4	+ 1.5	+ 0.2	+ 0.5	−0.1
Eastern Europe	− 0.3	+ 0.3	− 0.1	− 0.2	—
Oil exporting countries	+ 1.2	+ 2.6	+ 0.7	+ 0.8	−1.2
Non-oil developing countries	− 1.4	+ 0.8	+ 0.7	+ 1.0	+0.1
Others(c)	+ 0.2	+ 0.2	− 0.1	+ 0.1	−0.1
Total	**+11.7**	**+10.2**	**+15.2**	**+11.2**	**−3.6**
Deposits from:					
BIS reporting area(b)	+11.9	+ 8.3	+ 9.4	+ 7.4	−0.3
Offshore banking centres	+ 1.2	− 3.3	+ 4.6	− 0.9	+0.7
Other Western Europe(b)	+ 1.5	+ 0.9	− 0.2	+ 0.8	−2.2
Australia, New Zealand and South Africa	− 0.2	+ 0.1	+ 0.1	—	—
Eastern Europe	− 0.5	+ 0.8	+ 0.4	− 0.1	−0.6
Oil exporting countries	+ 0.5	− 2.3	+ 1.5	+ 1.5	+0.4
Non-oil developing countries	+ 0.3	+ 1.6	+ 2.5	+ 2.7	−1.9
Others(c)	+ 0.3	+ 0.1	+ 0.6	− 0.5	—
Total	**+15.0**	**+ 6.2**	**+18.9**	**+10.9**	**−3.9**

(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 reflect these compositional changes in the area groups.

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

Foreign exchange and gold markets

(Three months to end-November)

Trading conditions over the past three months have at times been extremely nervous, and exchange rates have moved abruptly. The dollar rose initially to an eleven year high against the deutschemark and to record levels against many other currencies, including sterling, notwithstanding downward movements in US interest rates. After mid-October, however, the dollar weakened as US interest rates fell further and a slowing of economic and monetary growth led to expectations of yet further reductions. The dollar resumed an upward path in the middle of November despite the continued easing of US interest rates and publication of indicators appearing to confirm a deceleration in economic activity in the United States. Overall, the dollar rose by almost 4¾% in effective terms.

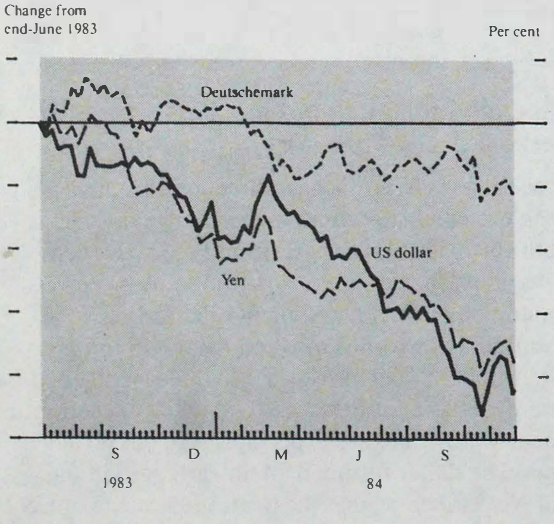
Although UK monetary figures were generally within their target ranges, sterling came under heavy selling pressure at times. The strength of the dollar and market concern about the coal strike were contributory factors for most of the period, and in mid-October lower oil prices caused sterling to fall sharply to an all-time low against the dollar and in effective terms. This fall was partially reversed after OPEC agreed to cut production in order to steady oil prices, as concern over the coal strike receded, and as the dollar began to weaken. Sterling remained firm in November until the middle of the month when it lost ground generally following the re-emergence of oil price concerns and the renewed strength of the dollar, before recovering slightly at the end of the period. Overall, the exchange rate index (ERI) fell by 4⅛%.

Sterling

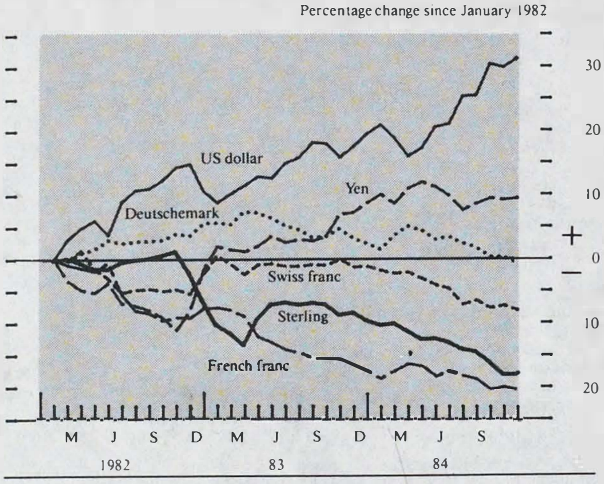
The pound opened at $1.3080, DM 3.78½ and ERI 78.2 on 3 September. Despite falling to all-time lows against a sharply strengthening dollar, sterling rose slightly against the Continental currencies during the first half of the month. But after sterling touched DM 3.85 on 17 September, sentiment changed sharply, and heavy and widespread selling developed against the background of a further sharp rise in the dollar. Sterling lost ground against all currencies, falling to $1.2164, DM 3.77½ and ERI 76.0 on 18 September. News of the settlement of the docks dispute helped to steady the market and sterling rose slowly against many currencies, although it touched $1.2070 on 21 September as the dollar peaked. For the remainder of September, the pound fluctuated against the dollar, largely reflecting the erratic movements of the latter. It closed the month at $1.2387, DM 3.79¼ and ERI 76.6.

The pound traded narrowly and quietly during the first half of October. Markets generally expected a cut in base rates, but when these expectations were dampened

Sterling against selected foreign currencies



Indices of effective exchange rates



following the publication of provisional September money figures on 9 October, sterling took on a slightly firmer tone against the Continental currencies. Sterling closed at $1.2285 and ERI 76.6 on 12 October. With the dollar subsequently moving sharply higher, however, news that Norway was cutting its official oil prices and renewed anxieties about the coal strike, following the further breakdown of talks, led to heavy selling of sterling. The pound fell quickly, opening at $1.1987 and ERI 75.3 on 16 October; some profit-taking, and an easing of the dollar, relieved the pressure on sterling briefly, but news of oil price reductions by BNOC and Nigeria intensified concern about the oil price outlook, and the pound fell to all-time lows of $1.1830 on 18 October and ERI 74.0 on 19 October. For the remainder of the month sterling traded more quietly and comfortably, supported by news of OPEC's agreement to cut production, by the decision of the supervisory staff in the coal mines to call off their planned strike, and by a further easing of the dollar. Sterling closed at $1.2167, DM 3.69¼ and ERI 74.9 on 31 October.

Sterling rose gradually at the start of November, and reached $1.2720 and ERI 76.5 early on 6 November. The pound eased later in the day, although a cut in base rates by a half percentage point to 10% apparently had little effect, to close at $1.2625 and ERI 76.3. It recovered the next day to close at $1.2750 and ERI 76.6, but lost ground again to the dollar to finish the week at $1.2650 and ERI 76.3. In the succeeding week, sterling benefited from good demand following the Chancellor's Autumn Statement and the growing return to work reported from the collieries, to close on 13 November at $1.2768 and ERI 76.8: thereafter, it eased as the dollar resumed its upward path to close at $1.2613 and ERI 76.5 on 15 November. Some modest demand for sterling was seen after the price of the British Telecom share flotation was published on 16 November. The ¼% cut in base rate by a clearing bank on 19 November and ½% cuts by the others announced on 22 November were absorbed without difficulty. But sterling weakened as the dollar continued to firm and, following renewed concerns over oil price weakness, the previous record ERI low of 74.0 was equalled on 26 November. Trading conditions then became volatile and erratic, but growing demand helped sterling recover to close the month on a firmer note at $1.2037 (down 8.10% over the period), DM 3.72¾ (– 1.52%) and ERI 74.9 (– 4.14%).

Official reserves

Over the three months to end-November, there was an underlying fall in the reserves of $96 million. Net public sector borrowing totalled $218 million. The reserves rose by $27 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 November, the reserves stood at $15,496 million.

Changes in UK official reserves

$ millions

	1984		
	Sept.	Oct.	Nov.
Change in reserves	**–87**	**+93**	**+143**
of which:			
Net borrowing (+)/ repayment (–) of public debt	–11	+98	+131
Valuation change on roll-over of EMCF swap	—	+27	—
Underlying change in reserves	–76	–32	+ 12
Level of reserves (end of period)	**15,260**	**15,353**	**15,496**

US dollar

The dollar continued its rise, reaching the psychological DM 3 barrier on 10 September, and thereafter rising sharply to an eleven year high of DM 3.1760 on 21 September. Earlier in the year, markets had associated a more rapid pace of US economic growth with a further tightening of monetary policy and a rise in the dollar; conversely, initial signs of easing in the rate of economic growth, and continuing low inflation, seemed to encourage demand for the dollar as foreign investors expected capital gains from the effects of falling interest rates in US securities markets. Sentiment in favour of the dollar benefited also from reports that the US Treasury was taking steps to increase the attractiveness of US government bonds to foreigners, and from expectations that President Reagan would be re-elected. The dollar fell back quickly, however, during the latter part of September against a background of market perceptions of central bank intervention, and thereafter it moved abruptly, in both directions in nervous trading conditions. As the exchanges became more settled again in mid-October, the dollar moved up to fresh peaks against some currencies. Reductions in US interest rates, however, and expectations that slower economic and monetary growth might permit further reductions, led to a weakening of the dollar. This was not maintained, and the dollar resumed its previous advance. Underlying sentiment was such that the dollar was restrained only briefly by cuts in the Federal Reserve's discount rate and US banks' prime rates, and by perceived central bank intervention, and notwithstanding publication of a number of indicators suggesting a slowdown in economic growth (including third quarter GNP figures revised from +2.7% to +1.9%).

The dollar closed at DM 3.0962 (+7.28% over the period) and ERI 142.9 (+4.69% over the period).

EMS

Conditions within the EMS remained settled. Although the narrow band widened from just over ⅝% at the end of August to 1⅛% at the end of November, it traded within its margin throughout this period. The deutschemark had been replaced at the top of the narrow band by the Danish krone by the end of the period. The Belgian franc was at the bottom of the system continuously, but at no time came under pressure.

Other currencies

The yen was less affected by the dollar's fluctuations than the European currencies and traded within a narrow range. It rose by 2.43% to ¥247.40 and by 0.71% in effective terms.

The Swiss franc fell almost 6% to Sw.Fcs 2.5482 and by 1.75% in effective terms.

Gold

The gold market was generally quiet until the end of the period and the price traded narrowly in spite of the dollar's sharp fluctuations. The price moved down from $348.25 at the end of August to $333.50 on 31 October, but recovered slightly thereafter as the dollar eased before falling in the second half of November. The final fixing was $329.00, down $19.25 over the period.

London gold price