Developments in international banking and capital markets in 1984

This article continues the annual series on international banking developments. It concentrates on wider market developments to reflect the recent blurring of boundaries between capital markets and more traditional banking markets.

The article is in three parts: an overview, followed by an analysis of individual market sectors (based on data compiled by the Bank of England), and of developments in banks' international lending (based mainly on figures published by the Bank for International Settlements). The statistical sources are described on page 64.

- *The form and direction of international capital flows in 1984 were strongly influenced by developments in the US economy.*
- *The debt problems of major borrowing countries had a somewhat less severe impact on markets than in 1983 as the current account position of developing countries continued to improve.*
- *There was a modest recovery in banks' international lending in 1984. The trend continued towards intermediation of international flows through marketable instruments rather than traditional bank lending. Greater competition and innovation also contributed to even more favourable market conditions for creditworthy borrowers than in 1983.*
- *As in 1982, a number of banking problems emerged during the year and unsettled international markets for a time. Banks, encouraged by supervisory authorities, continued their efforts to improve capital ratios and build up provisions.*

Overview

During 1984 a major influence on the international capital markets was the strong growth of the US economy, accompanied by very large US budget and current account deficits. The dollar continued to strengthen and real interest rates in the United States remained high, although nominal rates declined after a sharp rise in the early part of the year. US entities were net takers of funds from banks in the BIS reporting area(1) and the largest borrowers from international bond markets. The strength of the US economy contributed to a pickup in growth and improved current account positions in most other OECD countries, which were able to obtain increasingly fine terms on their borrowings. Japan, with a strong current account position, was a major capital exporter. These developments, and the change in composition of borrowers and investors, produced a preference for marketable paper rather than traditional bank lending.

Helped by these economic developments, solid progress was made with international debt problems, which had a less severe impact on markets in 1984 than in the previous year. Most debtor countries succeeded in improving their external positions and some became net suppliers of funds to BIS-area banks, although in many cases the need for further internal adjustment remained. During the year preliminary agreement was reached on a multi-year rescheduling of Mexican debt covering maturities in 1985–90. This agreement allows banks to convert up to 50% of eligible exposure to certain specified domestic currencies; and, unlike previous reschedulings, it was not accompanied by a 'new money' loan. A number of other countries, notably Argentina and the Philippines, also reached some form of preliminary agreement with their commercial bank creditors.

Debt problems were discussed at the London summit of the seven major industrial countries in June. This confirmed the existing strategy on debt, and among other things encouraged multi-year rescheduling of commercial debts in cases where debtor countries were themselves making successful adjustment efforts. This was followed

(1) Until end-December 1983 the BIS reporting area included banks in the Group of Ten countries plus Luxembourg, Austria, Denmark, Ireland and certain offshore branches of US banks. At that date Finland, Norway and Spain, together with the Bahamas, Bahrain, the Cayman Islands, Hong Kong, the Netherlands Antilles and Singapore joined the reporting area.

by a meeting at Cartagena of the finance and foreign ministers of eleven Latin American countries, whose discussions have continued.

Against this background, total private capital market flows recovered from the trough of 1983 (Table A). International bank lending to final users grew by $9\frac{1}{2}$%[1] in the year to end-September 1984 compared with $6\frac{1}{2}$% in 1983. Despite this pickup the composition of the new lending undertaken since the modest upturn began in the second half of 1983 emphasises the continuing impact of international debt problems on the external lending policies of banks. Lending by BIS-area banks has been predominantly to countries within the reporting area, while spontaneous flows to countries outside the area have principally been to the Middle East oil exporters and to non-European developed countries. New spontaneous lending—that is, lending outside the rescheduling agreements and new money packages—to countries experiencing debt servicing problems in Latin America and elsewhere has not resumed.

Gross spontaneous borrowings on the international capital markets for medium-term syndicated credits, notes and bonds amounted to $147 billion in 1984, almost 30% higher than in 1983, but still 10% below the 1982 peak. Reschedulings and unspontaneous loans arranged during 1984 added a further $46 billion, 25% less than in 1983. A particular feature of 1984 was that many OECD borrowers, able to obtain increasingly fine terms, arranged new borrowings to repay existing credits early.

The form of international intermediation continued to shift from bank credits to marketable paper—this trend has become increasingly evident over the last three years (Chart 1). The greatest growth in 1984 was in the arrangement of note issuance facilities (NIFs), which trebled to $9 billion in the year, although they still only account for a small proportion of capital market issues. In addition, there were $6.5 billion of multi-component facilities, a new development in 1984 (described below), which incorporate NIFs. Only a small proportion of these facilities appear in fact to have been drawn. Issues of floating-rate notes (FRNs) more than doubled to $34 billion, while fixed-rate bonds rose by 20% to $69 billion. By contrast, traditional syndicated credits arranged during the year fell by a quarter to $28 billion.

Chart 1
Shares in international capital market activity

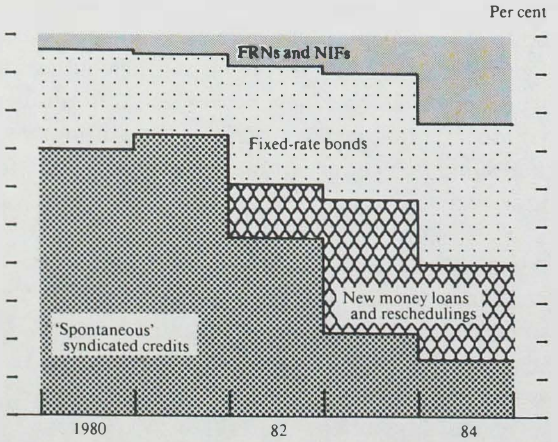


Table A
Growth of international lending

$ billions; banking flows adjusted to exclude estimated exchange rate effects

	1981	1982	1983	Year to end-Sept. 1984	Nine months to end-Sept. 1984
Gross lending					
Bank lending	+336	+229	+127	+149	+101
of which:					
To inside area	*+270*	*+190*	*+ 99*	*+122*	*+ 92*
To outside area	*+ 66*	*+ 39*	*+ 28*	*+ 27*	*+ 9*
Euro and foreign bond issues	+ 49	+ 72	+ 74	+ 96	+ 73
Total gross lending	+385	+301	+201	+245	+174
Net lending					
Bank lending(a)	+165	+ 95	+ 85	+100	+ 60
of which:					
To inside area	*+ 92*	*+ 46*	*+ 47*	*+ 72*	*+ 51*
To outside area	*+ 66*	*+ 40*	*+ 28*	*+ 27*	*+ 9*
Euro and foreign bond issues(b)	+ 27	+ 45	+ 42	+ 54	+ 40
Private capital markets total	+192	+140	+127	+154	+100
IMF	+ 6	+ 7	+ 11	+ 7	+ 4
IBRD and IDA	+ 6	+ 7	+ 7	+ 11	+ 8
Regional development banks	+ 2	+ 2	+ 2	+ 2	+ 2
Total multilateral institutions	+ 14	+ 16	+ 20	+ 20	+ 14
Bilateral aid and official export credits	+ 31	+ 30	+ 28	..	..
Total international lending	**+237**	**+186**	**+175**	..	..

(a) BIS estimate of lending net of certain interbank transactions.

(b) Gross issues less estimates of redemptions and repurchases and excluding estimates of double counting attributable to banks' and multilateral institutions' issues of bonds; estimates are subject to wide margins of error.

Changes in economic conditions in recent years have gradually altered the composition of both borrowers and investors in the euromarkets, encouraging the trend towards intermediation through marketable paper. Economic recovery in the United States and Japan has increased investment opportunities and demand for working capital, and led to higher borrowing by corporations from developed countries. This demand has been met to a large extent through the fixed-rate bond markets, either because corporations wanted fixed-rate funds or because—by using interest rate swaps—they could raise floating-rate funds more cheaply that way.[2]

On the other hand most developing countries have found it more difficult to raise funds freely on the euromarkets since the start of the debt crisis. The relaxation of controls on foreign investment by some industrial countries such as Japan, has at the same time brought back to the euromarkets investors who have traditionally preferred to hold their wealth in securities; in contrast, OPEC investors have favoured bank deposits, at least in the short term (see article on page 69). These changes, together with the prospect of lower inflation in the developed countries, have led to a marked increase since the last quarter of 1981 in the volume of fixed-rate eurobonds issued.

(1) Estimated lending to non-banks after allowing for the effects of exchange rate movements. The estimate includes some lending which is classified as lending to banks but is on-lent to non-bank final users.

(2) Swaps are described on page 52.

The rapid growth in floating-rate instruments—FRNs and NIFs—has largely taken place since late 1983. Banks appear to have resumed eurocurrency lending but have chosen to do so to a large extent by purchasing floating-rate paper, which appears to offer greater liquidity than conventional syndicated credits. Japanese banks in particular have grown rapidly and have become important purchasers of FRNs in London. In addition, pressure on banks' capital ratios has led them to seek off balance sheet fee income by managing or underwriting issues rather than taking loans onto their balance sheets. And more recently non-bank investors, looking for alternatives to bank deposits and also higher returns, have favoured FRNs and short-term notes.

A striking feature of 1984 was the strength of competition among euromarket intermediaries which accompanied and reinforced the changes in market structure. This had two consequences: innovation proceeded at a rapid pace as intermediaries sought to gain business by offering investors and borrowers more attractive facilities; and terms and conditions for borrowers, particularly in the floating-rate sector, improved during the year. The most notable innovations were in the arrangement of NIFs. Developments in distribution techniques reduced costs to borrowers and at the same time offered them greater flexibility. The result was that the market seemed to be evolving towards a euromarket equivalent of the US commercial paper market, with some issues not underwritten, and the emergence of a secondary market in the notes issued under NIFs. Another development was the introduction of multi-component facilities. These allow the borrower to make drawings under any of a variety of facilities, one of which is usually a NIF, with a wide choice of maturities, currencies and interest rate bases (eg Libor or US Treasury bill rate). The largest of these facilities was $4 billion for the Kingdom of Sweden.

As terms improved, many borrowers were encouraged to reduce the cost of their outstanding debt (particularly syndicated credits) either by renegotiating terms or by repaying the debt and replacing it with lower-cost debt, often raised through NIFs or FRNs. In all, some $10 billion of renegotiations and $19 billion of refinancings have been identified during 1984 (Table D).

The stresses to which the banking system has been subject were evident in a number of banking problems that emerged during the year. These were the result of difficulties in domestic, rather than international, lending. In the United States the Federal Deposit Insurance Corporation reported that there were 79 bank failures during 1984, the highest figure since 1938, and over 800 banks were on the problem list at the end of the year. Loans to the energy and agricultural sectors have caused particular difficulties for a number of US banks.

During the year the largest banking problem in the United States was the troubles in the second quarter and later rescue of Continental Illinois. This had repercussions in international banking markets. Although during the rest of the year banks in the United States were net takers of funds from the euromarkets, during the second quarter they became net suppliers, principally to their own offices abroad. This may have reflected the unsettled conditions that followed the problems at Continental Illinois. Isolated instances of banking problems requiring rescue action also arose in other countries, including the United Kingdom and Germany.

During the year banks made further efforts, encouraged by supervisors, to strengthen their financial positions. This was evident in increased provisions and additions to capital by banks in a number of countries, often making use of new capital instruments. British and American banks, for example, raised $4.5 billion through issues of subordinated FRNs, and some American banks issued FRNs whose redemption was linked to the issue of additional equity; they were thus able to count them as primary capital. Major French banks issued capital instruments such as *titres participatifs* and *certificats d'investissement* as well as issuing subordinated FRNs for the first time. In Germany the large commercial banks raised additional capital in anticipation of consolidated supervision following amendments to the German banking law.

In a number of countries balance sheet growth, which had been very restricted in 1983, recovered a little in 1984. In many cases a shift in favour of domestic business has been evident as banks have been more cautious in their international lending and have prepared to take advantage of opportunities offered by deregulation in their domestic markets.

Developments in the principal markets

This section describes developments in individual capital market sectors[1] using information on gross flows compiled by the Bank (see page 64).

Floating-rate notes

Gross issues of FRNs more than doubled to $34 billion in 1984, with borrowing dominated by OECD countries. An important factor behind the growth of the market was purchases by banks, which view such acquisitions as a means of meeting their objective of increasing overall liquidity. Details of purchases by all banks in the BIS area are not available, but the data for banks in the United

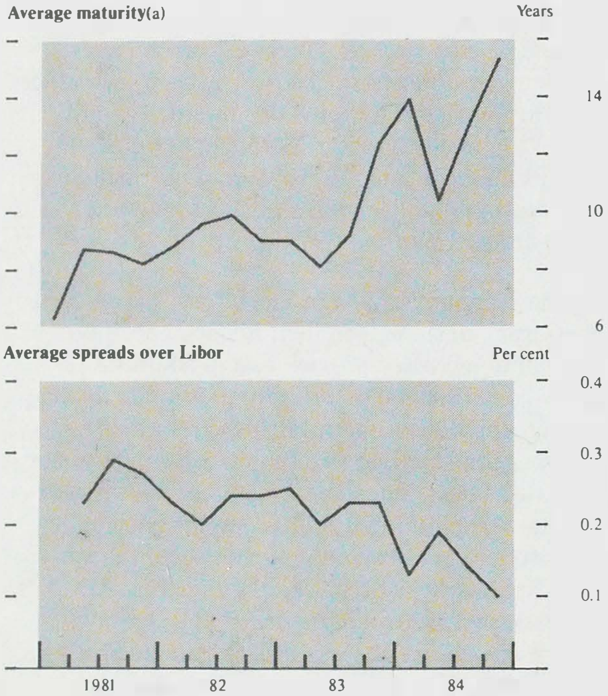
Table B
Floating-rate note holdings by UK banks

$ billions, at mid-months

	1983	1984			
	Nov.	Feb.	May	Aug.	Nov.
Japanese banks	5.8	7.3	8.6	9.4	11.8
American banks	0.9	0.7	0.9	0.8	0.8
British banks	0.8	0.8	0.9	0.9	0.9
Consortium banks	0.7	0.8	0.4	0.3	0.7
Other overseas banks	1.9	2.2	2.3	2.8	2.9
Total	**10.1**	**11.8**	**13.1**	**14.2**	**17.1**

(1) A discussion paper on the syndicated credits market, covering its development since inception, is to be published shortly.

Chart 2
Average terms on dollar FRNs for all borrowers



(a) Excluding perpetual issues.

Kingdom (Table B) show very rapid growth in 1984. The outstanding feature is the size of Japanese banks' holdings, which accounted for 69% of total holdings by banks in the United Kingdom at mid-November 1984.

Investor demand for high quality assets, the improved current account position of certain sovereign OECD borrowers—such as Sweden—and greater competition among intermediaries produced better terms for those borrowers who had access to the market. They achieved lower costs (sometimes through novel issuing arrangements), longer maturities (Chart 2), and more flexible instruments. The overall cost over Libor of an FRN (spread over Libor plus the spread equivalent of front-end fees) for an OECD sovereign borrower in 1982 was around 0.6%; by the start of 1984 this had halved to around 0.3%. The cost fell further during the year, with the Kingdom of Sweden able to sell FRNs by tender to give a yield to maturity of less than 0.1% over Libor. Fees came under pressure during the year and maturities lengthened, first to forty years and then to perpetual FRNs.

Banks, the other main class of borrowers in the FRN market, have also benefited from improved terms and conditions and more than trebled their issues during 1984 to $18 billion (Table C). In particular, the willingness of investors to accept longer maturities allowed banks to issue $1.9 billion of perpetual FRNs with no facility for investors to call for redemption. In many cases banks issued subordinated FRNs as a means of raising additional capital. In May 1984 the Bank of England reminded banks of its principles for the supervisory treatment of banks' holdings of subordinated FRNs issued by other banks: in principle, holdings of another bank's capital, whether equity or subordinated debt, are deducted from the holding bank's capital base. In order primarily to maintain the liquidity of the market in banks' subordinated debt, however, the Bank has indicated that it is prepared to consider concessions for specialist market makers in such issues, along the lines set out in a paper issued in November.

More intense competition in the FRN market, including from investment banks and securities companies, has broadened the range of institutions in lead-management positions. The increased number of lead-managing banks reflects institutional changes: banks have devoted additional resources to this business, in some cases at the expense of running down loan syndication departments. But the market is still more concentrated than that for syndicated credits. In 1983 the top five lead-managers of FRNs accounted for around 60% of all issues by value; their market share fell in 1984 to under 50%.

Pricing FRNs in relation to bases other than the traditional Libor—such as Libid (the rate at which prime London banks bid for funds), Limean (the mean of bid and offer rates) or the US Treasury bill rate—became more common in 1984. This reflected a deterioration in the perceived credit quality of some banks relative to sovereign borrowers.[1] Other innovations in 1984 included the 'flip-flop' FRN (a perpetual FRN convertible at one or two years' notice into a lower-yielding four-year FRN, which can be converted back into the perpetual FRN) which raised $1.7 billion during the year, and 'interest rate mis-match' FRNs (which carry a coupon giving a spread over 3 or 6-month Libor, reset weekly, to allow investors to fund their holding with short-term borrowing).

Table C
FRNs issued by banks

$ billions

	1983	1984
United States	0.38	4.62
France	2.51	3.93
United Kingdom	0.33	2.92
Japan	0.29	1.10
Other OECD	1.51	4.41
Non-OECD	0.37	0.95
Total	**5.39**	**17.93**

The continuing improvement in terms for borrowers led to the renegotiation of terms on some $10 billion of outstanding debt and the repayment before maturity of a further $19 billion (Table D). By the end of the year bankers seemed to be prepared to accept reduced margins rather than face losing their participation altogether. Several large standby credits were renegotiated and some were replaced by cheaper NIFs or highly flexible multi-component facilities. These refinancings partly explain the unprecedented growth in NIFs and FRNs,

(1) In the event of a banking crisis, it is believed that the differential between Libid and Libor may increase since prime banks would have less problem in raising deposits (at Libid) than less creditworthy banks, but would be more cautious about lending to the latter (at Libor). Thus, by pricing over Libid, the borrower tries to eliminate the potential impact of a banking crisis on its funding costs.

Table D
Voluntary restructurings identified in 1984
$ billions

	Renegotiated	Refinanced	Total
Canada	5.0	0.8	5.8
Denmark	0.2	2.3	2.5
Italy	2.6	3.5	6.1
Spain	0.9	0.5	1.4
Sweden	—	6.5	6.5
United Kingdom	0.9	1.1	2.0
Others	0.1	3.9	4.0
Total	**9.7**	**18.6**	**28.3**

and caused net new borrowing in 1984 to be a smaller proportion of the gross total than is usually the case.

Fixed-rate bonds

Issues of fixed-rate bonds grew more slowly than FRNs, rising by 20% to $69 billion. Within that total, borrowing by US entities more than doubled to $17 billion, including the first foreign-targeted issues by the US Treasury. Abolition of US withholding tax in July might have been expected to reduce the comparative advantage of the euromarket and the cost differential in favour of eurobond borrowing narrowed during the year. Nevertheless, since bearer bond issues were still prohibited in the US domestic market, the eurobond market continued to attract some of the best quality US borrowers; in September, most unusually, straight eurobond issues by US corporations exceeded domestic issues.

From December foreign corporations could borrow for the first time in the euroyen bond market. Issues by non-Japanese corporations amounted to ¥198 billion (nearly $800 million) by the end of the year. There have not yet been any issues by Japanese corporations.

Booming stock markets in the first quarter of 1984 led to a high rate of equity warrant and convertible issues by US and Japanese companies. In the third and fourth quarters zero coupon issues raised more than $700 million, over half of which may have been arbitrage transactions; these deals effectively translated US Treasury debt in registered form into corporate debt in bearer form. Also in the fourth quarter, some $3 billion of bonds were issued linked to debt warrants (rights sold with a fixed-rate bond to purchase additional fixed-rate bonds at a given time, price and coupon) which allowed investors to hedge against a fall in interest rates or the dollar exchange rate.

Syndicated bank credits

The steady revival in international bank lending shown by the BIS banking statistics was not apparent in announcements of spontaneous medium-term syndicated credits; these fell 25% to $28 billion. The lending implicit in rescheduled loans and the provision of new money as part of debt restructuring packages totalled $46 billion during the year, including nearly $21 billion in the fourth quarter when preliminary agreement was reached with Argentina. New money commitments made in the final quarter of 1983 resulted in estimated quarterly disbursements shown in Table E.

The multi-year rescheduling for Mexico, agreed in principle in early September, offered the borrower an improvement in terms over those on its previous agreements. Over $48 billion of public sector debt falling due between 1985 and 1990 is to be rescheduled with repayments extending up to 1998 at an average spread of $1\frac{1}{8}$% over Libor (with no prime option) and no restructuring fee, compared with Libor $+1\frac{7}{8}$% or prime $+1\frac{3}{4}$% and a 1% restructuring fee on its previous rescheduling. A special feature is that banks will be able to convert up to 50% of eligible exposure into certain specified domestic currencies (subject to review with their monetary authorities). The rescheduling for Argentina agreed in principle in December offered a similar improvement on terms agreed in earlier negotiations: maturities up to 1985 are to be rescheduled at Libor $+1\frac{3}{8}$% (compared with Libor $+2\frac{1}{8}$% on the previous agreement). It also contains a currency conversion option.

Terms continued to improve for those borrowers able to raise funds through spontaneous syndicated credits. These were mainly OECD countries, but also some newly industrialised countries in Asia, such as South Korea and Malaysia. Spreads for all borrowers averaged 0.67% compared with 0.75% during 1983. These favourable borrowing conditions encouraged some borrowers to renegotiate terms on existing loans.

There were also several developments concerning the marketability of loans. There appears to have been some increase in the selling and swapping of loans, mostly the debt of good quality borrowers. Trading of claims on troubled debtors seems to be infrequent and tends to consist of swaps of claims on one for another. An innovation has been transferable syndicated loans, which provide explicitly for secondary market trading: eight such loans for $1.5 billion were arranged in 1984.

Note issuance facilities

An increasingly important alternative to syndicated credits in the euromarkets has been the arrangement of note issuance facilities (NIFs). These trebled to $9 billion in 1984. There was also $6.5 billion of multi-component facilities which include NIFs.

NIFs enable borrowers to raise medium-term funds by issuing a series of short-term notes, with a flexibility of draw-down which is not possible with bonds or FRNs. There are two basic alternatives. In one case a tender

Table E
Latin America: drawings on new money loans in support packages[(a)]
$ billions

	1983	1984				
	Year	Q1	Q2	Q3	Q4	*Total available*
Argentina	1.3	—	—	—	—	—
Brazil	2.2	3.0	1.8	0.9	0.9	*6.5*
Chile	1.3	—	—	0.6	0.2	*0.8*
Mexico	5.0	—	1.0	1.0	1.0	*3.8*
Total	9.8	3.0	2.8	2.5	2.1	*11.1*

(a) Net of drawings and repayments of bridging loans.

Table F
International business of banks in the BIS reporting area[a]

$ billions; changes exclude estimated exchange rate effects

	Year to end-September			1983				1984			Outstanding at end-Sept. 1984
	1982	1983	1984	Q1	Q2	Q3	Q4	Q1	Q2	Q3	
External business analysed by location											
Total external lending	+271.1	+90.0	+125.4	+18.8	+ 6.2	+29.8	+54.2	+27.9	+47.7	− 4.4	2,115
of which:											
United Kingdom	+ 59.2	+34.7	+ 30.8	+10.1	− 0.6	+11.8	+ 9.7	+13.9	+11.6	− 4.4	490
Other Europe	+ 34.3	− 3.5	+ 39.4	−25.4	+ 9.8	+ 5.6	+24.7	− 0.5	+ 5.3	+ 9.9	548
United States	+134.4	+36.9	+ 17.8	+21.2	− 1.0	+ 3.2	+10.1	− 2.3	+23.6	−13.6	403
Japan	+ 11.7	+15.4	+ 18.4	+ 9.0	− 3.2	+12.4	+ 0.4	+10.7	− 3.5	+10.8	124
Total external deposits	+199.1	+70.9	+161.6	+ 8.5	+ 9.6	+33.6	+62.7	+40.7	+54.1	+ 4.1	2,081
of which:											
United Kingdom	+ 71.8	+23.6	+ 40.9	+11.1	+ 0.9	+15.2	+ 9.7	+17.4	+15.9	− 2.1	531
Other Europe	+ 28.2	+10.7	+ 40.1	−21.6	+10.2	− 0.9	+23.4	− 1.9	+10.1	+ 8.5	555
United States	+ 87.4	+27.7	+ 48.0	+ 7.4	+ 2.7	+13.4	+25.2	+ 6.3	+20.6	− 4.1	317
Japan	+ 9.9	+ 3.8	+ 16.3	+ 8.1	− 6.9	+ 9.9	− 3.6	+12.1	− 1.6	+ 9.4	124
Net external assets (+)/liabilities (−)	+ 42.0	+19.1	− 36.2	+10.3	− 3.4	− 3.8	− 8.5	−12.8	− 6.4	− 8.5	+ 34
of which:											
United Kingdom	− 12.6	+11.1	− 10.1	− 1.0	− 1.5	− 3.4	—	− 3.5	− 4.3	− 2.3	− 41
Other Europe	+ 6.1	−14.2	− 0.7	− 3.8	− 0.4	+ 6.5	+ 1.3	+ 1.4	− 4.8	+ 1.4	− 7
United States	+ 47.0	+ 9.2	− 30.2	+13.8	− 3.7	−10.2	−15.1	− 8.6	+ 3.0	− 9.5	+ 86
Japan	+ 1.8	+11.6	+ 2.1	+ 0.9	+ 3.7	+ 2.5	+ 4.0	− 1.4	− 1.9	+ 1.4	—
Direction of external business											
Lending within the BIS area and non-reporting offshore centres(b):	+176.5	+54.6	+ 99.2	+15.3	− 3.9	+21.4	+35.3	+27.9	+41.1	− 5.1	1,511
of which, non-banks	+ 23.5	+ 7.4	+ 7.3	+ 1.4	+ 0.7	+ 2.5	+ 1.2	+ 4.3	+ 0.2	+ 1.6	287
Lending outside the BIS area	+ 55.0	+19.0	+ 26.8	+ 1.1	+ 6.5	+ 2.0	+17.6	+ 1.7	+ 6.2	+ 1.3	571
of which:											
Latin America	+ 25.5	+ 5.2	+ 5.6	+ 2.7	+ 1.4	+ 1.7	+ 2.0	+ 1.3	+ 2.0	+ 0.3	212
Other non-oil developing countries	+ 6.0	+ 7.8	+ 3.5	− 0.6	+ 3.2	− 0.7	+ 2.0	− 0.3	+ 0.8	+ 1.0	116
Oil exporters	+ 10.5	+ 3.0	+ 4.9	+ 0.1	+ 0.8	+ 1.3	+ 7.1	− 0.6	+ 0.7	− 2.3	105
Eastern Europe	− 3.4	− 2.6	+ 0.7	− 1.4	+ 0.1	− 1.1	+ 1.1	+ 0.7	− 1.3	+ 0.2	49
Developed countries	+ 16.9	+ 5.7	+ 12.1	+ 0.3	+ 1.0	+ 0.8	+ 5.3	+ 0.7	+ 4.0	+ 2.1	90
Deposits from within the BIS area and non-reporting offshore centres(b):	+177.2	+72.1	+119.4	+20.0	+ 9.2	+22.7	+48.6	+35.9	+40.1	− 5.2	1,672
of which, non-banks	+ 37.2	+16.8	+ 17.4	+ 1.6	+10.3	+ 1.0	+10.6	+10.4	+ 1.6	− 5.2	323
Deposits from outside the BIS area	+ 3.4	−11.0	+ 30.0	− 8.4	− 4.5	+ 7.1	+ 7.0	+ 3.6	+13.2	+ 6.2	355
of which:											
Latin America	+ 2.6	+ 4.8	+ 9.3	− 0.3	+ 2.4	+ 2.9	+ 0.9	+ 1.2	+ 3.9	+ 3.3	66
Other non-oil developing countries	+ 8.2	+ 3.9	+ 9.4	+ 0.3	+ 0.7	+ 0.5	+ 2.8	+ 2.4	+ 5.8	− 1.6	99
Oil exporters	− 13.2	−20.6	+ 1.5	− 8.2	− 7.1	+ 2.6	− 0.8	− 2.0	+ 1.4	+ 2.9	141
Eastern Europe	+ 2.1	+ 4.4	+ 5.5	+ 0.1	+ 0.5	+ 0.1	+ 2.2	+ 1.6	+ 0.3	+ 1.4	22
Developed countries	+ 3.7	− 2.7	+ 4.2	− 0.3	− 1.0	+ 1.0	+ 1.8	+ 0.4	+ 1.8	+ 0.2	28
Net supply (−)/use (+) of funds within the BIS area and non-reporting offshore centres (b):	− 0.7	−17.5	− 20.2	− 4.7	−13.1	− 1.3	−13.3	− 8.0	+ 1.0	+ 0.1	− 161
of which, non-banks	− 13.7	− 9.4	− 10.1	− 0.2	− 9.6	+ 1.5	− 9.4	− 6.1	− 1.4	+ 6.8	− 36
Net supply (−)/use (+) of funds outside the BIS area	+ 51.6	+30.0	− 3.2	+ 9.5	+11.0	− 5.1	+10.6	− 1.9	− 7.0	− 4.9	+ 216
of which:											
Latin America	+ 22.9	+ 0.4	− 3.7	+ 3.0	− 1.0	− 1.2	+ 1.1	+ 0.1	− 1.9	− 3.0	+ 146
Other non-oil developing countries	− 2.2	+ 4.8	− 5.9	− 0.9	+ 2.5	− 1.2	− 0.8	− 2.7	− 5.0	+ 2.6	+ 17
Oil exporters	+ 23.7	+23.6	− 3.4	+ 8.2	+ 7.9	− 1.3	+ 7.9	+ 1.4	− 0.7	− 5.2	− 36
Eastern Europe	− 5.5	− 7.3	− 4.8	− 1.5	− 0.4	− 1.2	− 1.1	− 0.9	− 1.6	− 1.2	+ 27
Developed countries	+ 13.2	+ 8.4	+ 7.9	+ 0.6	+ 2.0	− 0.2	+ 3.5	+ 0.3	+ 2.2	+ 1.9	+ 62
Domestic business of BIS area banks in foreign currency (b)											
Lending to:											
Banks	+ 41	+ 7	+ 12	+ 22	− 41	+ 35	− 8	+ 25	− 21	+ 16	344
Non-banks	+ 13	+ 10	+ 11	+ 3	+ 3	+ 2	+ 2	+ 7	—	+ 2	126
Deposits from:											
Banks	+ 44	+ 13	+ 11	+ 21	− 37	+ 34	− 6	+ 22	− 18	+ 13	332
Non-banks	+ 7	+ 2	+ 3	− 1	+ 1	—	+ 3	+ 3	− 3	—	51
Net supply (−) use (+):											
Banks	− 3	− 1	+ 8	+ 1	+ 4	+ 1	− 2	+ 3	+ 4	+ 3	+ 12
Non-banks	+ 9	+ 7	+ 8	+ 4	+ 2	+ 2	− 1	+ 4	+ 3	+ 2	+ 75

(a) With effect from end-December 1983 the BIS reporting area was expanded from fifteen to twenty-four countries, see page 64.

(b) Excludes business of banks in the United States and Japan.

panel of banks is invited to bid for any notes issued, up to a predetermined maximum spread. An underwriting group is committed to taking up any notes not bid for or providing equivalent funds through a credit. In the other case, a sole placing agent is responsible for placing any notes issued, again with the underwriters taking up any unplaced notes or extending equivalent credit. In these facilities the underwriting banks assume the risk of having to lend at some date in the future, although this risk is not reflected in their balance sheets. There has been a growing concern among supervisors that these risks should in some way be incorporated in capital adequacy measurements.

During the year borrowers reduced their costs by adopting new techniques for the distribution of notes and by the use of facilities which were not fully underwritten. The *multi-component facility* allows the borrower to raise funds in a variety of ways, such as issuing short-term notes through a NIF, or drawing on bank credits, in a variety of currencies, for a range of maturities and at rates related to a variety of interest rate bases.

The emphasis in selling notes has shifted from selling to bank investors towards selling to non-banks. The interest rates used have reflected this development as notes have come to be priced in relation to rates received by depositors (such as Libid) rather than banks (such as Libor). As a result, some highly regarded sovereign borrowers have been able to borrow at rates comparable with, or even lower, than those paid by banks.

In spite of the number of new facilities being arranged, they have not all resulted in net increases in borrowing. Not all facilities are fully drawn; some, indeed, are explicitly designed as standby facilities (sometimes as backup for US commercial paper programmes) with low commitment fees, but utilisation fees which increase as the facility is drawn. Borrowers have also raised low-cost funds through NIFs to repay earlier, more expensive borrowings.

During the year the market broadened its scope: NIFs were arranged for the first time in ECUs and Singapore dollars; and the range of borrowers with access to the market included some from developing and Eastern bloc countries. As non-bank corporations' share of FRN issues has declined they have become more prominent in arranging NIFs.

Banks' international lending

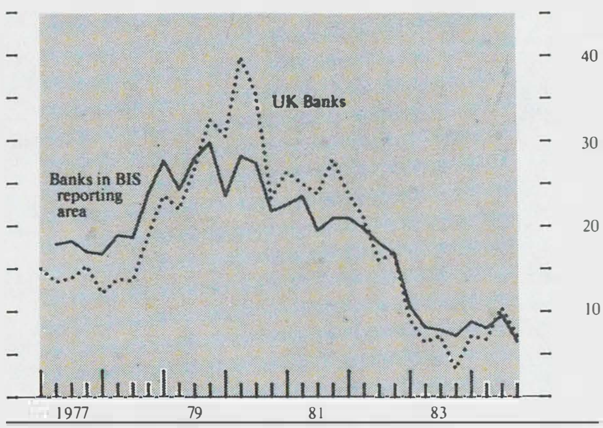
This section is based largely on statistics produced by the Bank for International Settlements (BIS), which are described on page 64. Because the data are available only to end-September 1984, analysis is based on developments in the twelve months to that date. Accordingly, there is no exact comparability between changes in capital market borrowing described earlier, which cover the calendar year 1984, and in banks' international lending. The banks' lending figures for the twelve months to end-September 1984 include particularly strong growth in the final quarter of 1983.

Changes in the composition of international lending have given a particular relevance to the capital market developments covered in the previous section. Table A illustrates this point well. In 1981 net funds raised by euro and foreign note and bond issues accounted for 14% of total private international lending. By the first nine months of 1984 this ratio had risen to 40%. It would be wrong, however, to conclude from this change that the role of banks in the provision of international finance has diminished since 1981. Rather, the change reflects in large part the increasing preference of banks for 'securitised' international lending, through purchases of FRNs and bonds, rather than more conventional credits. In pursuit of greater liquidity and security in their international business, banks have emerged as major holders of the rising volume of notes and bonds. At the same time, they have become important issuers of such paper.

The statistics of banks' international lending do not at present fully capture their lending in the less conventional form of purchases of floating and fixed-rate notes and

Chart 3
Growth of bank lending to non-residents

Percentage change over the previous 12 months



bonds (in contrast, banks' purchases of short-term paper under NIFs are thought to be covered).[1] Statistics of identified banking flows, although on balance perhaps less complete than previously, nevertheless provide the most comprehensive picture available of the lending activities of international banks, as well as detail on movements in international bank deposits.

Business within the BIS reporting area

Lending to final users (non-banks) by banks located in the BIS reporting area has increasingly been to countries within the area (Table A). Claims on final users in the reporting area have risen as a proportion of total new lending to final users from 56% in 1981 to 72% in the year to end-September 1984, and in the first three quarters of 1984 reached 85%. Directly reported lending to non-banks

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

$ billions: net supply of funds (+)/use (−)

	Changes (excluding estimated exchange rate effects)				Outstanding net supply (+)/use (−) at end-Sept. 1984	
	Year to end-Sept. 1983		Year to end-Sept. 1984			
	Banks	Non-banks	Banks	Non-banks	Banks	Non-banks
By residents of:						
Austria	+ 0.5	−0.2	− 1.5	−0.3	− 1.6	− 2.4
Belgium	− 2.5	−1.9	− 1.2	+0.5	−11.9	− 3.2
Luxembourg	+ 1.6		+ 0.9		+ 5.8	
Canada	+ 0.9	+1.7	+ 0.6	+0.6	−20.2	+ 1.5
Denmark	− 0.5	−1.1	− 0.2	+0.9	− 0.1	− 10.7
France	+ 0.6	−2.5	− 0.7	−0.8	+ 2.2	− 9.4
Germany(a)	− 0.5	+0.7	+ 1.5	+1.7	+ 3.1	− 27.5
Ireland	− 0.8	+0.1	− 0.2	−0.1	− 2.9	− 4.0
Italy	+ 0.4	+0.8	− 4.1	+1.9	−13.4	− 15.5
Japan	+11.6	—	+ 2.1	+0.5	+ 0.1	− 6.8
Netherlands	+ 1.0	+1.6	+ 3.3	+2.0	+ 4.8	+ 3.9
Sweden	− 1.1	+0.2	+ 0.6	+1.5	− 5.6	− 7.1
Switzerland	+ 4.2	−0.2	+ 1.7	+2.5	+22.5	+ 17.1
United Kingdom(b)	− 6.5	+0.3	−10.1	+0.6	−41.2	− 0.8
United States	+ 9.2	+8.8	−30.2	−4.8	+86.3	+111.0
Other(c)	+ 1.0	—	+ 1.3	−0.1	+ 6.2	− 21.9
Total	**+19.1**	**+8.2**	**−36.2**	**+6.6**	**+34.1**	**+ 24.2**

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

(b) The omission of banks' overseas investments from the lending statistics exaggerates the extent to which banks in the United Kingdom are net takers of funds. At end-September 1984 banks in the United Kingdom held overseas investments worth two-thirds of the net 'take' identified in this table.

(c) From end-Dec. 1983 includes Finland, Norway and Spain which are not separately identified and fuller coverage of the offshore banking centres.

(1) The statistical appendix to 'The international market for floating-rate instruments' in the September 1984 *Bulletin* (page 337) gives details of the gaps in the coverage of international banking statistics caused by the blurring of distinctions between the credit and capital markets.

International banking and debt statistics

The statistical sources

The Bank of England's capital markets statistics used in the article are compiled from published market sources and cover borrowings up to the end of 1984. Bonds, FRNs and NIFs are recorded by completion date; syndicated credits by announcement date. Totals for credits may differ from those quoted in other sources because of timing differences and because the Bank's definition includes only spontaneous, syndicated eurocurrency credits with an original maturity greater than one year. Renegotiations, reschedulings, export-related lending covered by creditor government guarantees, unspontaneous new money loans and credits known to have been cancelled without being drawn are not included.

The BIS banking data are conceptually different from the Bank's capital markets statistics. The BIS measures banks' outstanding international loans of all maturities, and thus compiles figures of new lending net of repayments. Changes in lending, adjusted to exclude the effects of movements in the dollar against other major currencies, are calculated from end-quarter positions. Unlike the capital markets data the BIS statistics incorporate new syndicated lending only to the extent that disbursements are made. Banks' purchases of FRNs and bonds, which have risen sharply in the recent past, are not at present fully captured in the BIS bank lending statistics. Banks' holdings of short-term paper issued under NIFs should, however, be covered. (For more detail see the September 1984 *Bulletin*, pages 344–5.)

The BIS quarterly data are at present available only to end-September 1984 and the article is therefore mostly based on movements in the twelve months to that date. Figures for the international activity of banks in the United Kingdom, which form part of the wider BIS series, are available for the calendar year 1984.

Recent developments in BIS statistics

The BIS data have become increasingly comprehensive and detailed since first published in 1964. The most recent changes in the *quarterly BIS series* derive from an expansion of the reporting area. From end-December 1983, Finland, Norway and Spain joined the fifteen countries already reporting and banks in Switzerland began to supply complete geographical details of their business (but their institutional coverage fell). From the same date, these statistics cover fully the positions of banks in six offshore centres (see notes and definitions to Table 13.1 in the statistical annex).

Also from end-December 1983, the *BIS semi-annual maturity analysis* is based on a new reporting system, with data from most reporting countries included on a consolidated basis. Under the new system—described in the notes and definitions to Table 13.2 in the annex—the worldwide lending of BIS area banks (including that of their branches and subsidiaries abroad) is consolidated by the countries in which the parent banks or head offices are situated.

IMF statistics

From January 1984 the IMF has published in *International Financial Statistics (IFS)* combined data on the external assets and liabilities of banks in over 100 member countries, and detailed information on the geographical distribution of the business of banks in various financial centres *vis-à-vis* non-banks in the rest of the world. Coverage of the geographical breakdown has recently been extended from 18 to 31 reporting centres (see the March 1985 *IFS*). The major part of this business represents the external positions of banks in the BIS reporting area.

The *IFS* series provides a broad measure of the positions of the banking system in individual member countries with banks and non-banks in the rest of the world and of the positions of non-banks in individual countries with banks in the international banking centres. The data are therefore more comprehensive than those compiled by the BIS which measure only the positions of banks in the BIS reporting area *vis-à-vis* individual countries; the relationship between the *IFS* and BIS data is shown in the table. A fuller description of the series is given in *IFS* and in the *IMF Surveys* of 9 January and 18 June 1984.

BIS/OECD: a wider measure of external claims

The BIS and the Organisation for Economic Co-operation and Development (OECD) now publish semi-annual statistics combining the external claims of banks in the BIS reporting area, the trade-related claims of official lending agencies, and the officially guaranteed trade-related claims of non-banks in twenty OECD countries on countries outside the BIS reporting area. Integration of the data has involved an element of adjustment and estimation but these statistics nevertheless improve the availability of information on external indebtedness.

Measures of international bank lending

$ billions

	External lending					Foreign currency lending to residents by BIS area banks	Swiss trustee accounts	International bank lending		
	Total (a)	*Of which*, by banks in the expanded BIS reporting area						Total (columns 5+6+7)	*Of which:*	
		Europe, Canada, Japan and United States		Offshore centres (b)	Total (columns 2+3+4)				Eurocurrency banking market (columns 2+4+6)	To final users(c)
		Foreign currency	Domestic currency							
Amount outstanding at end-September:	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*
1981	2,156	886	370	390	1,646	360	88	2,094	1,636	875
1982	2,457	949	510	428	1,887	422	92	2,401	1,799	985
1983	2,537	981	559	433	1,973	448	84	2,505	1,862	1,050
1984	2,647	1,031	579	506	2,115	469	98	2,682	2,006	1,255

(a) Based on a wider population using data from the IMF's *International Financial Statistics* (tables 7xdd and 8xad).

(b) With effect from end-1983 Bahamas, Bahrain, Cayman Islands, Hong Kong, Netherlands Antilles and Singapore formally joined the BIS reporting area. For earlier periods, partly estimated data for these centres were published by the BIS.

(c) BIS estimate of lending net of certain interbank transactions.

in the reporting area rose at much the same pace as in the previous year, but indirectly identifiable lending to final users by BIS-area banks (for example, borrowing domestic currencies in the euromarkets for on-lending domestically, or switching foreign currency borrowing into domestic currency for the same purpose) is estimated to have risen more quickly.

The United States became a net taker of funds from the international banking market in the year to end-September 1984 absorbing $35 billion; in the previous twelve months it had supplied $18 billion. In the second quarter of 1984 an increase in US banks' lending to foreign affiliates temporarily reversed this position but these banks became large net takers again in the third quarter. At end-September 1984 banks in the United States had net external assets of $86 billion, $44 billion lower than at end-March 1983. US non-banks are now more important net suppliers of funds to the euromarkets than US banks—their net deposits stood at $111 billion at end-September 1984—although they too were net takers in the year to end-September. Buoyant credit demand arising out of the US recovery, and the rapidly widening current account deficit, explain much of the flow of funds to the United States.

Table H
Interbank lending within the BIS area[a]
$ billions; changes exclude estimated exchange rate effects; *figures in italics are percentages*

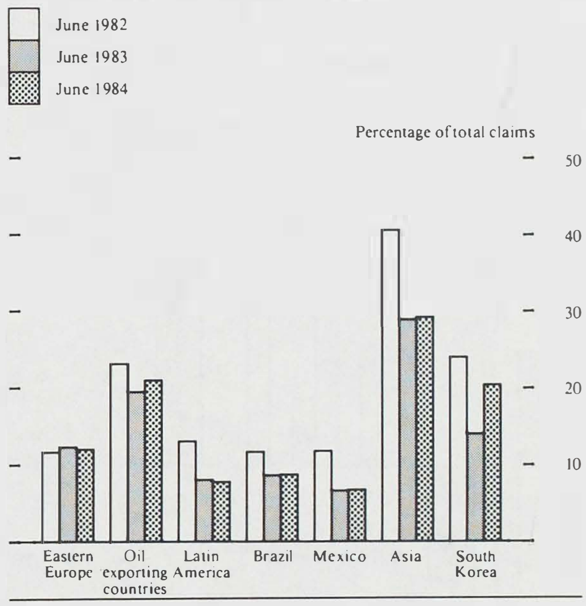
	Transactions in year to end-September			Outstanding at end-Sept.
	1982	1983	1984	1984
Cross-border interbank lending	*+153*	+51	+92	1,224
Interbank lending as a percentage of cross-border lending	*87*	*87*	*93*	*81*
Lending to resident banks in foreign currency(b)	+ 51	+13	+ 13	344
Total international interbank lending	+204	+64	+105	1,568
Interbank lending as a percentage of international lending	*83*	*76*	*86*	*79*

(a) Including the offshore centres.
(b) Excluding lending by banks in the United States and Japan.

Interbank business dominates flows within the BIS reporting area (Table H). At end-September 1984 loans outstanding to other banks located in the reporting countries accounted for over four fifths of total international loans within the area. By contrast, lending to banks in countries outside the reporting area represented only about one third of total lending outside the area and is in any case more directly associated with lending to final, non-bank, users.

The 8% growth in cross-border interbank lending within the BIS area in the year to end-September 1984, almost double the rate of the previous twelve months, will have reflected a number of factors. The rising market share of Japanese banks in London, and funding overseas offices in the aftermath of the Continental Illinois rescue—particularly in the second quarter of 1984—will both have tended to expand interbank lending, as will the modest

Chart 4
Undisbursed credit commitments



pickup in lending to final users.[1] On the other hand some influences have acted to dampen growth. US banks have been seeking to contract their balance sheets in order to improve their return on total assets and low margin interbank business is likely to have been particularly affected; also, further development of financial futures, options and forward rate agreements might be expected to have reduced use of the interbank market for some transactions.

Interbank lending in foreign currencies within the main financial centres grew at much the same rate in the year to end-September 1984 as in the previous year, though considerably slower than in 1982.

Business with countries outside the BIS area and the offshore centres (Tables A and J, and Charts 4–6)
Lending to countries outside the BIS area and the offshore centres rose by $27 billion in the year to end-September 1984, rather faster growth than in the previous year but

Table J
Business of BIS reporting area banks with non-oil developing countries in Latin America
$ billions; changes exclude estimated exchange rate effects

	Transactions in year to end-September			Transactions in nine months to end-Sept. 1984	Outstanding at end-Sept. 1984
	1982	1983	1984		
Total lending	**+25.5**	**+5.2**	**+5.6**	**+3.6**	**211.6**
of which, to:					
Argentina	+ 0.8	+0.5	−0.4	−0.8	26.1
Brazil	+ 9.6	+2.1	+4.3	+4.0	75.3
Mexico	+10.2	+1.4	+3.1	+1.7	73.9
Total deposits	**+ 2.6**	**+4.8**	**+9.3**	**+8.4**	**65.6**
of which, from:					
Argentina	− 0.3	+0.6	−0.3	−0.1	8.1
Brazil	− 0.5	+1.4	+3.9	+4.2	16.1
Mexico	+ 1.4	+2.8	+5.0	+4.2	22.3
Total net lending	**+22.9**	**+0.4**	**−3.7**	**−4.8**	**146.0**
of which, to:					
Argentina	+ 1.1	−0.1	−0.1	−0.7	18.0
Brazil	+10.1	+0.7	+0.4	−0.2	59.2
Mexico	+ 8.8	−1.4	−1.9	−2.5	51.6

(1) The growth of interbank lending in relation to total business — shown in Table H — will also have been exaggerated because of the understatement of banks' acquisitions of floating-rate notes and bonds in the overall balance sheet.

Chart 5
Banks' net positions with countries outside the BIS reporting area

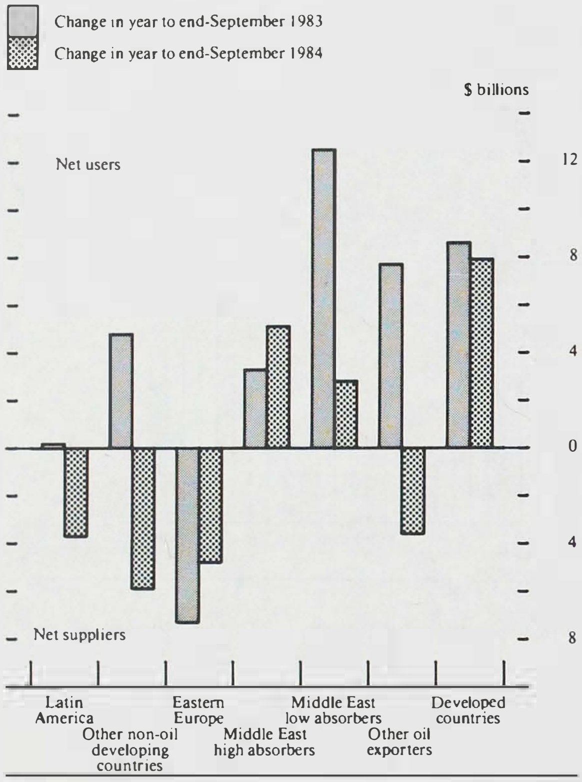
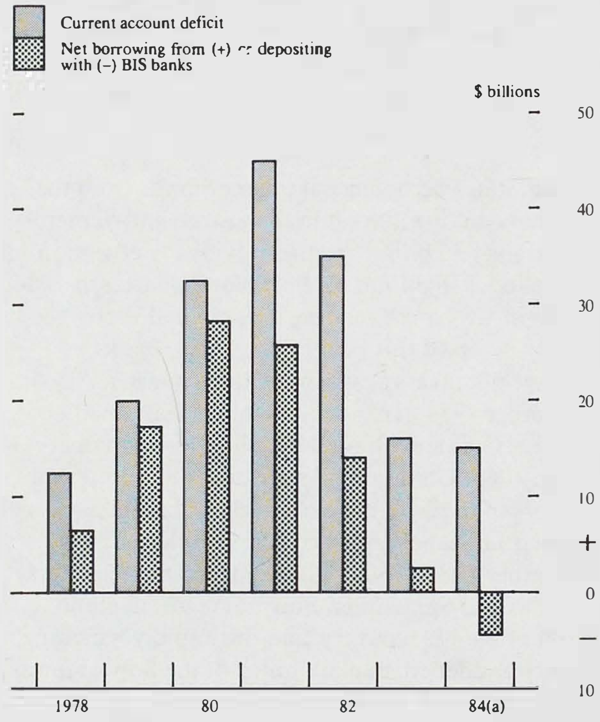


Chart 6
Latin America: current account deficits and international bank finance



(a) First three quarters.

considerably slower than in 1981 and 1982. Two thirds of the rise occurred in the final quarter of 1983, when spreads offered by banks to favoured borrowers narrowed considerably and competition to lend to creditworthy countries was intense. Favourable borrowing terms may have prompted countries to bring forward their borrowing plans.

Some 63% of the lending to the countries outside the BIS reporting area went to borrowers in developed and oil exporting countries (in 1983 this proportion was 46%). These countries were also active issuers of fixed and floating-rate notes and bonds. Of the $9 billion increase in lending to non-oil developing countries, almost two thirds went to Latin America (Table J) and mostly represented drawings of new money provided under support packages (Table E). The slower rate of lending to non-oil developing countries reflects not only the banks' concerns on creditworthiness but also the successful adjustment programmes of many of these countries which have sharply reduced their demands for external bank finance.

Countries outside the BIS reporting area increased their deposits with the BIS-area banks by $30 billion in the year to end-September 1984, having reduced them by $11 billion in the previous year. As their current account positions improved—Brazil, for example, had a record trade surplus in 1984—the Latin American non-oil developing countries very nearly doubled their rate of deposit accumulation with BIS banks in the year to end-September 1984, to become net suppliers of $3½ billion to BIS banks in the period. In 1982 they had been net takers of $23 billion, a considerable shift. Oil exporting countries increased their deposits by $1½ billion in 1984 having reduced them by $34 billion over the previous two years (see article on page 69).

Analysis of business by centre (Table K)
Banks in Japan increased their share of total international lending in the twelve months to end-September 1984, and at the end of the period accounted for 9.1% of outstanding loans. At the same time, Japanese-owned banks operating in London also considerably expanded their international

Table K
International banking analysed by centre

	End-September 1984				Share of total market		
	Foreign currency lending to:		Domestic currency lending to non-residents	Total(a)			
	Residents	Non-residents			1982	1983	1984
				$ billions	*Percentages*		
Gross lending	**469**	**1,536**	**579**	**2,682**			
of which:							
United Kingdom	178	463	28	669	26.9	26.6	24.9
United States	..	9	394	403	14.5	15.4	15.0
Japan	120	88	37	245	7.5	8.6	9.1
France	42	116	20	178	7.2	7.0	6.6
Luxembourg	15	82	2	99	4.3	4.2	3.7
Swiss trustee accounts	..			98	3.9	3.4	3.7
Belgium	22	64	3	89	3.3	3.3	3.3
Canada	25	41	3	69	2.6	2.6	2.6
Netherlands	7	46	12	65	2.9	2.6	2.9
Switzerland	6	27	28	61	2.8	2.8	2.3
Germany, Federal Republic	2	20	39	61	2.8	2.5	2.3
Italy	19	24	2	45	1.7	1.6	1.7
Offshore banking centres	..	..	..	506	17.7	18.1	18.9

Source: Bank for International Settlements.

.. not available.

(a) The three components do not sum to the total, which also includes Swiss trustee accounts.

business. Because of the pronounced slowdown in their external lending, banks in the United States lost market share. The same was true of banks based in the United Kingdom, largely because of a reduction in their foreign currency loans to residents. Nonetheless, London remains the principal centre for international lending, with almost one quarter of total business. At end-September 1984 banks in the United Kingdom, the United States and Japan together accounted for just under half of total outstanding international loans, and banks in the offshore centres had a further 19%.

Table L
Currency shares of external lending by BIS area banks(a)
Percentages; flows are adjusted to allow for exchange rate effects

Increases in year to end-September	US$	DM	Sw. Fcs	£	Yen	Other(b)
1980	67.3	11.1	8.1	3.1	3.6	6.8
1981	67.3	9.6	7.9	3.8	3.9	7.5
1982	78.6	3.7	3.3	2.0	2.7	9.7
1983	47.2	15.0	2.4	4.8	7.6	23.0
1984	40.4	10.5	7.3	9.5	12.0	20.3
Stock outstanding at end-Sept. 1984	*71.5*	*9.7*	*5.2*	*2.6*	*3.5*	*7.5*

Source: Bank for International Settlements.

(a) Excluding the business of the offshore banking centres for which no currency breakdown is available: the dollar share may therefore be understated.

(b) Including unallocated items.

Analysis by currency

As external lending by banks in the United States slowed down and they became net takers of funds from the international banking system, so the proportion of BIS-area banks' lending denominated in US dollars contracted, even though eurodollar lending accelerated (Table L). After allowing for the effects of exchange rate movements, identified dollar-denominated loans represented only 40% of external lending in the year to end-September 1984. Failure fully to include banks' purchases of FRNs and bonds in the lending figures has meant, however, that the dollar-denominated lending of banks is substantially understated in these figures. The dollar has been the most important currency of the rising volume of FRN and bond issues (Table M).

External lending in other currencies grew more rapidly than identified dollar lending; sterling, yen and Swiss francs all took an increased share. Lending in other currencies again rose rapidly, largely reflecting the increasing popularity of ECU-denominated lending. Deutschemark lending rose less quickly than in 1983. The appreciation of the dollar produced a small rise in the share of total loans outstanding, booked in dollars, from 70.7% at end-September 1983 to 71.5% a year later.

The dollar's share of new issues in the euromarkets rose because the volume of FRN issues (predominantly denominated in dollars) has been growing rapidly and dollar-denominated fixed-rate issues have also become important. Increased activity by US borrowers following the abolition of US withholding tax has helped to raise the dollar's share of fixed-rate issues, as have the dollar's strength on foreign exchange markets and high US

Table M
Share of US dollar in 'spontaneous' capital markets
Percentages of value of gross new issues in calendar years

	1980	1981	1982	1983	1984
Spontaneous syndicated credits	96.5	95.1	94.3	90.6	86.0
FRNs and NIFs	92.9	95.3	97.7	95.2	93.1
Fixed-rate bonds	33.5	48.5	53.5	44.3	47.5
Total	**80.0**	**85.5**	**80.0**	**68.0**	**69.3**

interest rates which together have made dollar issues attractive to investors. Although over 90% of FRNs continued to be issued in US dollars, sterling FRN activity has been buoyant since the last quarter of 1983, with a market share rising from 5% to 6%.

New issues of bonds and syndicated credits arranged in ECUs together doubled in value in 1984. There was also a greater diversity of borrowers and instruments, with the first NIF denominated in ECUs being announced in the second quarter. In the last quarter the ECU received a further boost when French residents were allowed to buy ECU paper offered by European Community institutions without paying the usual premium on purchases of foreign currency bonds. ECU-denominated bonds issued by the European Community in the US domestic market in November were also well received. The ECU's share of spontaneous credits rose from 2% in 1983 to 8% in 1984; its share of fixed-rate issues grew more modestly from 3% to 4%.

The London market (Tables N and P)
International lending booked by banks in the United Kingdom (allowing for acquisitions of fixed and floating-rate notes and bonds) grew rather more quickly in 1984 than in 1983 (Table N), with purchases of investments accounting for over 40% of total growth.

Japanese banks increased their share of outstanding international loans from London by three percentage points in 1984, and their market share has risen by nearly half since 1980. Much of the growth in Japanese banks' lending in 1984 was in claims on banks overseas and investments, especially FRNs (Table B). At end-December 1984 their international assets were 40% greater than British banks and 50% greater than American

Table N
International lending by UK banks
$ billions: percentages of total lending in italics

	Transactions during calendar year (adjusted to exclude exchange rate effects)			
	1982	1983	1984	Outstanding at end-1984
Lending to:				
Banks in the United Kingdom	+13.7	−11.6	− 4.2	126.1
Banks overseas	+20.8	+16.9	+16.1	337.3
Total interbank	+34.5	+ 5.3	+11.9	463.4
	61.2	*26.1*	*44.6*	*68.8*
Non-banks overseas	+15.3	+ 5.5	− 2.1	136.5
	27.1	*27.1*	*− 7.9*	*20.3*
Investments	+ 4.4	+ 7.0	+10.9	30.8
Other(a)	+ 2.2	+ 2.5	+ 5.6	43.3
Total lending	**+56.4**	**+20.3**	**+26.3**	**674.0**

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

banks in London. The counterparts of the higher market share of Japanese banks were falling shares for American and, to a lesser extent, British banks. American banks' lending fell particularly sharply in the third quarter and over the year their share of total international lending out of London dropped by over two percentage points.

Foreign currency lending to other banks within the United Kingdom fell by 3% in 1984 but this was outweighed by a 5% rise in lending to banks abroad. The external interbank lending was principally to unrelated banks overseas, and lending to own offices fell.

The external business of banks in the United Kingdom in 1984 was distributed geographically in a similar way to that of BIS-area banks as a whole. Three quarters of new lending was to other BIS-area countries, and spontaneous lending outside the BIS area was mainly to developed countries outside Europe and to Middle Eastern oil exporting countries. The non-oil developing countries were net suppliers of funds to banks in the United Kingdom in 1984.

Table P
International lending[a] by groups of UK banks

Percentage share

	British banks	American banks	Japanese banks	Other overseas banks	Consortium banks
At end-Dec.					
1981	23.6	22.3	22.8	27.4	3.9
1982	22.3	21.5	25.5	27.0	3.8
1983	21.8	20.9	25.2	30.0	3.2
1984	20.1	18.7	28.3	30.0	3.0

(a) Lending in foreign currency to UK residents and non-residents, and in sterling to non-residents; overseas investments are also included.