Financial market developments

Stock markets were generally weaker . . .

During much of the fourth quarter of 1991, stock prices in most markets were weak, reflecting signs of economic slowdown in Japan and continental Europe while earlier hopes of recovery in the United States and United Kingdom faded (Table A). In Europe, increases in official short-term interest rates accentuated this weakness, but reductions in official interest rates in the United States and Japan prompted a sharp year-end rally, which more than offset the earlier decline in the US market. Pacific Basin equity markets rallied in the middle of the fourth quarter, with the exception of Japan, and were among the best performing markets over the year as a whole. Concerns about the situation in the former Soviet Union also periodically affected markets. Equity markets ended the year on average about 15% higher than a year earlier and almost as high as levels before the Gulf War. Reflecting the stage of the cycle, there has been considerable divergence in the performance of different groups of shares; in the United States, for example, the share prices of technology companies and securities brokers showed strong advances in the fourth quarter, but the shares of heavy industries (including oil and autos) fell back.

Table A
International financial markets: key indicators

	1990	1991		
	31 Dec.	28 June	30 Sept.	31 Dec.
United Kingdom				
Equity market: FT-SE 100	2,143.5	2,414.8	2621.7	2493.1
10-year government bond yield %	11.0	10.6	9.6	9.7
3-month Treasury bill yield %	13.8	11.0	9.7	10.2
United States				
Equity market: S&P 500	330.2	371.2	387.9	417.1
10-year government bond yield %	8.1	8.2	7.5	6.7
3-month Treasury bill yield %	6.6	5.7	5.3	3.9
Canada				
Equity market: TSE Composite	3,256.8	3,465.8	3387.9	3512.4
10-year government bond yield %	10.3	10.1	9.2 (a)	8.3
3-month Treasury bill yield %	11.4	8.7	8.3	7.3
Japan				
Equity market: Nikkei	23,848.7(b)	23,291.0	23.916.4	22.983.8(c)
10-year government bond yield %	6.6(b)	6.9	6.0	5.4(c)
3-month Treasury bill yield %	7.6(b)	7.7	6.4	5.5(c)
Germany				
Equity market: DAX	1,398(b)	1,622.2	1,607.0	1,578.0(c)
10-year government bond yield %	9.0(b)	8.5	8.4	8.1
3-month interbank interest rate %	9.3(b)	9.1	9.3	9.6
France				
Equity market: CAC General	413.0	470.8	496.4	476.7
10-year government bond yield (OAT) %	10.0	9.1	8.8	8.7
3-month Treasury bill (BTF) discount rate %	9.6	9.4	9.1	10.3
Italy				
Equity market: BCI	519.4	586.2	539.1	507.8
7-year government bond yield %	14.5	13.3	13.0	12.9
3-month interbank interest rate %	13.8	11.7	11.7	12.7
World equity index				
Financial Times World Index: US dollar index	129.8	136.5	145.8	151.3
Local currency index	115.6	128.0	132.3	132.3

(a) 29 September.
(b) 28 December.
(c) 30 December.

. . . but capital market issues were still buoyant

International and domestic capital issues remained buoyant in the fourth quarter, particularly in the United States. New issues of private sector debt in the United States reached record levels in 1991 ($580 billion, an increase of around 85% over 1990); within this, issues of mortgage-backed debt increased strongly and junk bond issues saw some revival. Equity issues rose by over 160% to $80 billion, exceeding redemptions for the first time in eight years. The value of rights issues in 1991 in the United Kingdom broke previous records, as did total sterling capital issues. A number of other domestic markets showed strong development during the year.

As international capital market prices generally advanced in 1991 as a whole, borrowers tapped the market to lower their financing costs, strengthen their balance sheets and reduce their reliance on bank lending. At the same time, an increase in bad debts in many countries, in particular associated with the problems of falling property prices and related specialist finance companies, encouraged a more cautious attitude by banks in their lending policies, especially by US and Japanese banks. The sharp reduction this year in interbank funding on international markets demonstrated the desire by many banks (particularly Japanese) to restrict their asset growth; this may have put some funding pressure on those previously dependent on such funds. However, slower bank lending growth in many countries reflected demand factors as well as supply conditions.

The trend towards more reliance on capital finance by companies was facilitated by the increased internationalisation of capital markets, with many investors being more willing than hitherto to invest outside their domestic markets. Access to these international investors tended to be limited to larger and higher quality credits, which could often gain access to the markets on finer terms than many banks; the experience of lesser names was mixed. Concerns about commercial and domestic property sectors in most countries continued and investment in the property sector fell back sharply in 1991.

Banks continued to strengthen their balance sheets . . .

Bank restructuring continued in the fourth quarter. There were some further defensive mergers, but on a smaller scale than earlier in the year, and action was taken to strengthen savings and mortgage institutions, notably in some Nordic countries. Most international banks appeared to have reached their required regulatory capital ratios, but efforts to strengthen capital continued, either by those who wanted to establish a reserve capacity or by others where capital might be eroded (for example in Japan, where measurement of some capital under the BIS accord is dependent on stock market valuations), and more generally to provide against the continuing upward trend in bad debts and bankruptcies. Several banks announced plans for further capital raising in 1992. There were also more cutbacks in international banking activity and further asset sales by banks during the quarter. However, there were examples of fresh activity by some banks in developing countries. Further cross-border linkages among banks, and among insurance companies, were established, especially in Europe.

Banks' efforts to raise more capital were reflected in their issues of international bonds, which totalled $15 billion in the fourth quarter, taking the total for 1991 to $64 billion (14% higher than in 1990 on a gross basis, but well below 1990 levels net of redemptions). In addition, banks raised a considerable volume of equity in their domestic markets and also, increasingly, internationally. For example, US banks raised a record amount of equity capital during the year and German banks continued as active issuers of profit participation certificates.

. . . and reported mixed results

Results from international banks announced in the second half of 1991 were mixed. Many suffered this year from recession and property difficulties. Bad debts continued to have a significant impact (notably on the UK, Australian and some Japanese banks) and recessionary conditions were most evident in the weak results of smaller specialist banks in many countries (including mortgage, savings and regional institutions) and Japanese trust banks. Nevertheless, some major banks announced improvements in their performance (for example in the United States, Japan, Germany and Switzerland). Securities houses, and the securities trading arms of many banks, benefited over the year from the buoyancy of capital and derivative markets, with underwriting fees in the United States more than double those in 1990. In Japan, however, capital issues were depressed by the equity market and Japanese securities houses announced weak interim results (although foreign brokers benefited from overseas demand for Japanese securities and in some cases from derivative trading).

Bank share price indices fell back in several countries (at least relative to their local stock markets) during the fourth quarter, including France, the United Kingdom, the United States and Nordic countries, although they showed some improvement in Germany. Bank bond yield spreads in the United States increased sharply in the first half of the year, but narrowed slightly in the second half.

Credit concerns continued, but with greater discrimination

Credit concerns persisted and, although earlier efforts to reinforce their balance sheets may have put some banks in a better position to take on fresh lending, scarce capital was still cautiously allocated. In the syndicated credits market, average spreads increased slightly in the fourth quarter, particularly for lesser credits. In the eurodollar and US debt markets, spreads on corporate issues narrowed over the year, reflecting easier supply conditions, expectations of economic recovery and improvements in some company balance sheets, but confidence weakened in the fourth quarter. There were some signs of renewed tiering in bond markets, for example between medium and high-rated borrowers in the euro-yen and euro-Canadian dollar markets, as well as in the US domestic markets. Although some issuers improved the terms on which they could borrow, notably those which had reduced their gearing, recorded credit downgrades in the United States continued to exceed upgrades and overall the fourth quarter yielded little evidence of reduced credit concerns.

New debt issues and turnover in international capital markets

Overall financing activity was higher . . .

Overall financing activity in the international capital markets in the fourth quarter returned towards the high levels in the first half of the year (Table B), bringing the total financing for the year to some 12% above that in 1990. The improvement in the fourth quarter reflected a revival in euronote facilities and in syndicated credits, particularly for a few OECD-based borrowers. Fixed-rate bond issuance continued at the buoyant levels of recent quarters, but equity-related issues fell back further to their lowest level since the second quarter of 1990; floating-rate note issuance remained subdued.

Table B
Total financing activity:(a) international markets by sector

$ billions, by announcement date

	1990 Year	1991 Year	Q1	Q2	Q3	Q4
Fixed-rate bonds						
Straights	172.1	262.3	81.1	62.0	59.9	59.3
Equity-related	33.0	43.9	7.4	20.0	11.8	4.7
of which:						
Warrants	*22.6*	*31.9*	*5.6*	*13.1*	*9.6*	*3.6*
Convertibles	*10.4*	*12.0*	*1.8*	*6.9*	*2.2*	*1.1*
Bonds with non-equity warrants (currency, gold, debt)	0.1	0.9	0.1	—	0.2	0.6
Total	**205.2**	**307.1**	**88.6**	**82.0**	**71.9**	**64.6**
Floating-rate notes	57.6	21.5	6.3	6.5	4.5	4.2
Euronote facilities	70.5	90.9	22.1	26.8	16.3	25.7
of which, EMTNs	*20.2*	*52.6*	*13.9*	*17.0*	*5.5*	*16.2*
Syndicated credits	165.0	139.5	39.4	31.5	29.1	39.5
Total	**498.3**	**559.0**	**156.4**	**146.8**	**121.8**	**134.0**
Memo: amounts outstanding(b)						
All international						
Bonds	1472.3	. .	1435.9	1451.9	1547.3	. .
Euronotes(c)	111.2	144.9	125.9	129.5	136.9	144.9
of which, EMTNs	*21.9*	*38.5*	*24.3*	*26.6*	*31.4*	*38.5*

. . not available.

(a) Maturities of one year and over. The table includes euro and foreign issues and publicised placements. Issues which repackage existing bond issues are not included. Figures may not add to totals because of rounding.
(b) BIS adjusted figures, including currency adjustment.
(c) Includes issues of fixed-rate bonds and floating-rate notes.

International banking developments

The international banking activity of banks in the BIS reporting area changed little in the third quarter of 1991, with cross-border assets and liabilities falling by $3.0 billion and $30.8 billion respectively, after record declines of over $100 billion in the second quarter. The decline in cross-border interbank activity was particularly pronounced for Japanese banks. In marked contrast to earlier years, Japanese banks do not appear to have undertaken window-dressing operations to increase balance-sheets at end-September, the end of their interim accounting period.

BIS-reporting banks' outstanding claims on countries outside the reporting area increased by $3.3 billion in the third quarter, having fallen by $18.7 billion in the first half year, while deposits rose by $11.2 billion after a first half fall of $25.3 billion. Non-OPEC LDCs were notable contributors to the third quarter increases (claims +$5.1 billion, liabilities +$4.2 billion). Within this group, countries in Asia—notably Thailand, China and South Korea—were the largest takers of new funds, while claims on Latin America declined by $1.5 billion. After eighteen months of decline, outstanding claims on Eastern Europe expanded by $1.3 billion, more than accounted for by $1.6 billion of officially guaranteed new credits for the former Soviet Union from German banks. Deposits from all the Eastern European countries, except Albania, registered sizable increases, leading to a total increase of $2.8 billion after falls in the previous three quarters. Deposits by Middle Eastern OPEC countries grew by $3.7 billion, having contracted by $16.3 billion in the first half of the year.

Net international bank credit (the volume of funds intermediated by the BIS-reporting banks net of redepositing between banks) returned to growth (+$20 billion) in the third quarter after its first ever fall in the previous period, but remains very subdued compared with recent years.

Cross-border business of banks in the United Kingdom

$ billions: changes exclude estimated exchange rate effects

	1990			1991			Out-standing at end-Sept. 91
	Year	Q3	Q4	Q1	Q2	Q3	
Liabilities vis-à-vis:							
BIS industrial area	76.0	27.3	36.2	-9.9	-32.5	6.8	727.4
of which:							
United States	*3.8*	*8.7*	*10.4*	*-9.3*	*10.4*	*8.0*	*134.5*
Japan	*-6.6*	*2.1*	*-4.3*	*-2.3*	*-1.6*	*0.3*	*98.7*
'Offshore' banking centres	-1.4	1.1	0.5	-2.4	-2.6	-1.2	114.9
Sub-total	74.6	28.4	36.7	-12.3	-35.1	5.6	842.3
Outside reporting area:							
Developed countries	1.6	2.2	-1.2	-2.8	1.5	0.8	33.7
Eastern Europe	-0.7	0.5	0.6	-1.9	0.1	1.2	5.3
Oil exporters	11.9	6.0	5.0	-0.2	3.2	-1.3	69.9
Non-oil developing countries	6.5	2.4	0.9	-1.1	2.1	1.7	59.9
of which, Latin America	*2.2*	*0.9*	*0.5*	*-0.2*	*0.9*	*0.1*	*8.7*
Sub-total	19.3	11.1	5.3	-6.0	6.9	2.4	168.8
Other (a)	3.4	3.5	-5.4	15.7	-7.5	-7.1	104.1
Total (b)	**97.3**	**43.0**	**36.6**	**-2.6**	**-35.7**	**0.9**	**1115.2**
Assets (c) vis-à-vis:							
BIS industrial area	83.9	43.6	17.8	0.8	-24.7	-3.5	742.8
of which:							
United States	*18.7*	*5.5*	*10.1*	*12.0*	*-3.9*	*5.2*	*138.4*
Japan	*1.4*	*12.9*	*-2.6*	*-10.1*	*-10.8*	*-6.4*	*193.5*
'Offshore' banking centres	6.4	3.0	-1.8	-4.1	-5.8	-0.7	118.3
Sub-total	90.3	46.6	16.0	-3.3	-30.5	-4.2	861.1
Outside reporting area							
Developed countries	0.8	0.2	-0.4	-0.9	-0.2	0.5	33.4
Eastern Europe	-4.6	-1.3	-0.9	-1.2	-0.7	-0.6	13.8
Oil exporters	-1.5	-0.5	-0.1	-2.5	0.2	-1.0	14.5
Non-oil developing countries	-3.3	0.7	1.0	2.0	0.3	0.5	45.3
of which, Latin America	*5.3*	*-0.1*	*0.5*	*1.1*	*1.0*	*-0.5*	*24.6*
Sub-total	-8.6	-0.9	-0.4	-2.6	-0.4	-0.6	107.0
Other (d)	2.2	5.7	-4.3	-0.1	-3.0	4.1	32.0
Total (b)	**83.9**	**51.4**	**11.3**	**-6.0**	**-33.9**	**-0.7**	**1000.1**

(a) International organisations, unallocated and international issues of securities.
(b) Includes business unidentified by sector.
(c) Including securitised lending.
(d) International organisation and unallocated.

The London market

The cross-border business of banks in the United Kingdom changed little in the third quarter (see Table). The main feature was again a fall in interbank activity, this time of $15.9 billion in claims, of which $5 billion was on Japan and $2.7 billion on the United States. Since the end of the fourth quarter of 1990, the cross-border interbank claims of banks in the United Kingdom have fallen by $67.3 billion, or 8.4%. Slightly over one third of this has been to Japan, with a fall of $26.2 billion, or 12.7%.

Lending by banks in the United Kingdom to BIS industrial area countries fell by $3.5 billion in the third quarter. Lending to offshore banking centres fell by $0.7 billion, with Singapore down $2.4 billion, but the Bahamas up $1.5 billion. Cross-border business with countries outside the BIS reporting area was muted, with lending falling by $0.6 billion. Lending to oil exporting countries fell by $1 billion, following a slight rise in the second quarter. Banks continued to show caution with respect to Eastern Europe; lending fell by $0.6 billion (the seventh successive quarterly fall) the majority of which was accounted for by a reduction in lending to the former Soviet Union.

British-owned and US-owned banks both increased their share of external lending, from 13.2% to 13.7% and from (a revised) 14.4% to 14.6% respectively, at the expense of Japanese banks (whose share fell from 32.3% to 30.8%). Lending by Japanese banks declined by $14.6 billion over the quarter, with a sharp fall in September after rises in July and August. The US dollar's share of UK external lending fell to under 50%, continuing its long-term decline.

Preliminary figures for the fourth quarter of 1991 show that the international business of banks in the United Kingdom grew modestly, with liabilities and claims up by $1.9 billion and $9.3 billion respectively. Increased foreign currency activity within the United Kingdom (liabilities +$6.2 billion, claims +$17.4 billion) was partly offset by a decline in external business. This switch was mainly due to American and Japanese banks. US banks lent $6.3 billion more to non-banks in the United Kingdom while cutting back claims on their own offices overseas by $5.7 billion. A decline in business with their own offices overseas was even more evident for Japanese banks (liabilities -$4.7 billion, claims -$9.4 billion), who instead switched into the interbank market, particularly towards other banks in the United Kingdom (liabilities +$4.7 billion, claims +$7.7 billion).

. . . with a wide range of borrowers increasing their activity . . .

Borrowers from the United States replaced those from Japan as the largest international borrowers on the capital markets in the fourth quarter, partly reflecting a few large credit and euronote facilities. Japanese borrowers continued to account for the largest proportion of international bond issues (Table C). There was an increase in the fourth quarter in capital activity by issuers from a number of European countries. Prominent industrial borrowers were in sectors less affected by recession (such as telecommunications, energy and utilities), but other sectors were also in evidence in some countries (including car manufacturing and, in the United Kingdom, construction and building societies).

Table C

Fixed-rate bond issues by country of issuer(a)

Percentage by value of total issues announced

Country of issuer	1990 Year	1991 Year	Q2	Q3	Q4
United States	9	7	12	6	6
United Kingdom	7	9	9	8	7
Japan	24	23	25	29	21
Germany	4	5	3	6	8
France	9	9	10	10	11
Canada	6	10	9	9	8
Australia	3	1	1	2	1
Italy	4	3	2	1	2
International institutions	14	12	7	13	13
Other	20	21	22	16	23

(a) Including equity-related issues.

Total international funding by UK borrowers (including sterling) also picked up in the fourth quarter, to around $16 billion. UK corporates increased their syndicated credit borrowing during the quarter and issued a record $19 billion of international bonds over the year, around twice the previous year's level.

Western creditors are increasingly differentiating among Central and Eastern European borrowers. Although bank lending to the region continued to decline during the year, Hungary and Czechoslovakia both tapped the international bond markets. There were several issues for Hungary during the year on steadily improving terms and Czechoslovakia entered the market with a $200 million eurobond issue in November. The first foreign corporate bonds were launched on the reopened Budapest Stock Exchange in November. The completion of commercial debt negotiations is likely to prove an essential prerequisite for inflows of new money in a number of cases. Despite the rapid deterioration in the former Soviet economy during the year and the consequent concerns about creditworthiness, the Soviet Union was able to secure a $0.5 billion syndicated credit in November.

Borrowing by developing countries rose in the fourth quarter owing to a small number of large credits: $7 billion in sovereign lending to Kuwait and Algeria and around $3 billion in aircraft finance for, among others, Taiwan, India and China. Separately, Korea moderately increased its equity-related issues.

New debt issued by Latin American borrowers eased slightly to $3.1 billion in the fourth quarter, and was mostly accounted for by Mexico, Brazil, Venezuela and Argentina. The sharp fall in the price of secondary market LDC bank debt during the quarter had a relatively limited effect on new bond issues. Although spreads on outstanding bonds widened, they continued to narrow for more highly regarded new issues as the markets' familiarity increased and as demand for high yield bonds firmed. Latin American borrowers further extended the range of maturities, currencies and instruments used, with the ninth Mexican euro-commercial paper/euro-CD issue and the first issues by Latin American borrowers of a 10-year bond, a euro-medium-term note programme, a securitised bond and a sterling bond. Equity markets also grew and issuance of ADRs by Mexican companies reportedly continued. The internationalisation of some domestic markets during the year helped to broaden the investor base and development institutions took steps to assist market growth. Various debt indices, warrants and funds investing in Latin America were launched.

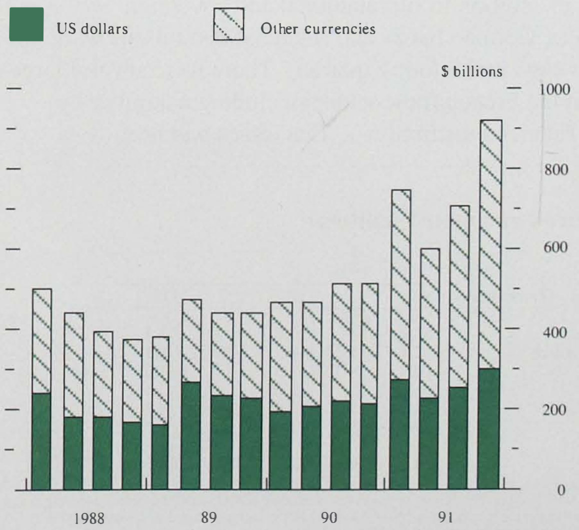
Buoyant fixed-rate borrowing helped replace maturing debt

Fixed-rate bond issues in 1991 rose by some 50% over 1990 to reach a record level. Some were to refinance maturing issues, while some may have been used to refinance maturing bank credits. Secondary market turnover in bonds increased strongly in the fourth quarter, partly reflecting lower US interest rates (see Chart 1); Japanese institutional investment in international bonds also increased.

The average maturity of new issues in the international dollar sector shortened to six years in the fourth quarter, compared with over nine years in the same period in 1990, as borrowers shortened maturities in response to the unusual steepness of the eurodollar yield curve. Average new sterling maturities, however, lengthened further to $12\frac{1}{2}$ years, the longest recorded in any sector. This reflected a few particularly long issues (notably zero-coupon bonds), under the continuing influence of the inverted yield curve and the relatively low level of rates.

Chart 1

Straight eurobonds: secondary market turnover



Source: ISMA.

The currency composition changed

The volume of dollar bond issuance was little changed at $17 billion in the fourth quarter (Table D). Although lower eurodollar bond yields made issuance attractive to borrowers, swap opportunities were limited. Euro-yen issues increased to $12.2 billion in the fourth quarter, taking the total for the year to a record $35 billion, over 40% above 1990. Japanese companies accounted for almost two thirds of the quarterly total, a sharp increase on previous years, reflecting the pressures facing the Japanese corporate sector and the difficulty of raising finance domestically from banks and equity markets. In the second half of the year, restricted opportunities for raising equity-linked debt, against the background of weak equity prices, encouraged a return to the straight yen sector. Towards the end of the quarter, the Japanese authorities took action to encourage issuers to use the domestic bond market, partly by encouraging a reduction in commissions. The first domestic Japanese bond was announced under the fixed price re-offer system (used in the euromarkets), along with the first domestic straight issue lead-managed by a foreign house.

Table D
Currency composition of fixed-rate bond issues(a)
Percentages of total issues announced

Currency denomination	1990 Year	1991 Year	Q2	Q3	Q4
US dollars	35	33	38	35	30
Swiss francs	12	7	7	6	6
Yen	15	13	10	12	19
Deutschemarks	5	6	7	4	9
Sterling	6	7	9	6	4
Australian dollars	4	2	1	2	2
Canadian dollars	3	8	7	10	6
Ecu	9	11	8	10	3
French francs	4	6	3	7	10
Other	7	7	10	8	11

(a) Including equity-related issues.

Issues in deutschemarks and French francs rose during the fourth quarter and together accounted for nearly 20% of the total. Demand for deutschemark paper was initially muted by expectations of higher interest rates, but rose on the currency's strength over the quarter and uncertainty over withholding tax arrangements on domestic deutschemark bonds. In addition to supranational and sovereign borrowers, German banks and financial institutions were active issuers in the fourth quarter. There were several large issues in the French franc sector (including a number by French financial institutions). Ecu issues had been particularly buoyant earlier in the year, but fell away sharply in the fourth quarter ahead of the Maastricht European union negotiations. Although the outcome was regarded favourably by the bond markets, the markets had by then entered the end-year doldrums and issuance remained relatively subdued. International new issues of sterling bonds fell back to around $2.5 billion. A number of debut deals were made by UK utilities and by Mexico. After nine months of record levels, Canadian dollar new issuance fell back by over 40%, as widening spreads made swapped borrowing less attractive.

Table E
Announced euronote facilities(a)
$ billions

Nationality of borrower	1990 Year	1991 Year	Q1	Q2	Q3	Q4
United States	14.4	14.6	1.0	0.0	3.4	10.2
United Kingdom	8.4	15.8	2.2	8.4	2.1	3.1
Australia	10.3	8.5	2.6	4.1	1.0	0.8
Japan	6.1	10.7	2.0	2.0	2.5	4.2
Other OECD	28.2	34.6	13.3	10.0	4.8	6.5
Other	3.1	6.7	1.0	2.3	2.5	0.9
Total	**70.5**	**90.9**	**22.1**	**26.8**	**16.3**	**25.7**

(a) Includes all facilities for the use of euronotes (including note issuance facilities, revolving underwriting facilities, multiple-option facilities which incorporate a note issuance option, eurocommercial paper programmes and euro-medium-term note programmes).

Equity-related activity was generally subdued

The weakness of equity prices, notably in Japan, continued to have a generally depressing influence on the equity-related sector. Coupons fell with the decline in market rates, but remained relatively high. Japanese issues continued to dominate activity, but there was a small flurry of Korean issues, several of which encountered difficulties, partly because of investor wariness ahead of the opening of the Korean stock market to foreigners. The first offering by a Thai entity was made.

Interest in medium-term notes increased, but commercial paper activity was mixed . . .

Announced new euronote facilities recovered in the fourth quarter, mainly reflecting increased use of the market by US borrowers (Table E). Within the total, new euro-medium-term note (EMTN) facilities increased by around $11 billion to $16 billion in the fourth quarter while, by contrast, new euro-commercial paper (ECP) facilities fell back slightly to $9 billion. Banks and financial companies accounted for around 80% of the total euronote facilities launched. There was an increase in ECP facilities by Japanese banks and financial companies and also a fourth UK building society EMTN programme.

Under existing programmes, issues of euronotes grew strongly. Net new EMTN issues rose during the year by $17 billion to $38 billion, 75% above a year earlier. With market confidence in EMTNs growing, the range of currencies used widened considerably (to include, for example, some Scandinavian currencies and the Irish punt) and the share of Australian dollar, lira and sterling issues under EMTN programmes grew significantly over the year. Although most issues were straight fixed-rate issues, there was a significant growth in the use of more complicated structures.

The level of outstanding ECP ended the quarter little changed at $80 billion and has not risen since the end of March. Commercial paper issues in the long-established US domestic market fell sharply in 1991, partly reflecting lesser reliance on this market by financial and other companies, although there were signs of a pick-up towards the end of the year. However, some companies increased their use of other domestic commercial paper markets, including the Japanese market, as distinctions between the domestic and euromarkets lessened. The German domestic market grew over the year, to $5.5 billion outstanding, and in the fourth quarter there were further foreign issues in this market (via German-domiciled subsidiaries) and also the first non-resident issuer in the Belgian market. Regulatory changes were announced to promote the Danish market.

. . . while syndicated credits were up for the quarter but down for the year

New announcements of international syndicated credits recovered in the fourth quarter to nearly $40 billion, a 35% increase over the quarter (Table F). Nevertheless, the total in 1991 was 15% down on 1990 and the lowest since 1988, as corporate borrowing in OECD countries fell back, reflecting recessionary conditions, and some higher quality borrowers turned to bond and equity markets. Merger and acquisition activity in particular declined sharply in 1991 in major economies and project finance demand also fell back. Some companies also sought to rationalise their debt structures, replacing the increasing number of loans maturing (following the low-cost expansionary period in the late 1980s) with alternative forms of debt, including bilateral loans.

Table F
Announced eurocurrency syndicated credits[a]
$ billions

	1990	1991				
	Year	Year	Q1	Q2	Q3	Q4
Major OECD	94.0	55.8	12.0	10.7	13.5	19.6
Minor OECD	28.8	32.1	13.3	9.3	5.2	4.3
Developing countries	29.8	47.3	12.7	10.9	8.8	14.9
Eastern Europe	12.1	3.6	1.1	0.6	1.4	0.5
Other	0.3	0.7	0.3	0.0	0.2	0.2
Total	**165.0**	**139.5**	**39.4**	**31.5**	**29.1**	**39.5**

(a) Includes those syndicated loan facilities which may allow a borrower to increase its liabilities partly or wholly in foreign currency (from the borrowers' point of view) and/or involving an international capital flow.

The fourth quarter increase reflected a few very large loans, with seven accounting for nearly half the total. Kuwait's $5.5 billion loan, to finance reconstruction, is the largest ever discretionary loan to a government. The two largest corporate deals raised $11 billion, largely refinancing loans for major conglomerates. Both loans were significantly oversubscribed, suggesting the continuing availability of appropriately priced facilities to well-regarded borrowers. There were also some tentative signs of increased borrowing activity in the fourth quarter by other US companies and Italian borrowers returned to the market. Aircraft finance was a prominent feature of the quarter and the year as a whole, notably for the Far East and a few western airlines. Some market estimates suggest it is likely to increase considerably in the future to meet replacement demand. Although the loans are typically asset backed, pricing is reportedly reflecting the changed credit rating of the industry.

FRN issuance was low

Issues of floating-rate notes were at their lowest quarterly level ($4.2 billion) for over three years. UK issuers, which have typically accounted for between one third and one half of issues in recent years, continued to be active. Two UK financial institutions issued in non-sterling sectors of the FRN market, including the first building society to launch a dollar-denominated FRN.

The development of the securitised FRN market was to some extent affected by proposals to tighten accounting and regulatory rules, but the underlying pressures encouraging financial institutions to securitise their assets were still in evidence in the fourth quarter. There were three large issues in the mortgage-backed sector and a few new types of issue (including the first domestic mortgage-backed securitisation in France). A car loans-backed sector is now emerging within the sterling FRN market, despite the higher risk weighting than for mortgage-backed issues for banks. The UK subsidiaries of two major car manufacturers launched such issues in the fourth quarter. Demand for FRNs has been dampened by interest rate expectations and concerns about liquidity. In the secondary market, the prices of perpetual FRNs were marked down sharply on renewed concerns about credit quality.

Derivatives expanded internationally

International activity in derivatives appears to have increased further in 1991. Figures published by ISDA showed that the total volume of swaps increased in the first half of the year by 41% (to over $900 billion) compared with the same period in 1990. Interest rate swaps, including caps and collars, continued to account for the bulk of the value, but currency swaps also increased sharply. Overall activity in European currencies, including the Ecu, grew strongly.

Total premium income on announced OTC warrant issues was little changed in the fourth quarter at $2.6 billion and total premium income for 1991 of $13.4 billion was 41% above 1990. Stock warrants, including the first warrants on Spanish government bonds and Italian state debt, picked up over the quarter, but currency warrants, which had been particularly related to deutschemark volatility, fell back.

Domestic markets

New issues and turnover

Sterling new issues reached record levels in 1991

Sterling issues of debt and equity announced during the fourth quarter fell to £4.8 billion from £7.8 billion in the third quarter, partly for seasonal reasons. Total sterling capital issues of almost £30 billion in 1991 were, however, some 50% more than in 1990 (Table G), and exceeded the previous record in 1987 by about 20%. Issues of fixed-rate debt by UK borrowers of £8 billion in 1991 were also a new record. The strong rise in issues of debt and equity in 1991 was encouraged by stock market strengthening over the year and by a fall in bond yields. Moreover, there was a desire by companies to reduce overall costs, using the proceeds of new equity and bond issues to repay existing debt, including bank borrowing, and to strengthen balance sheets with new equity.

Ecu activity continued to expand

The first tender for UK government Ecu Treasury notes took place on 21 January 1992, on the basis of an Information Memorandum issued by the Bank on 9 January. Tenders were invited for ECU 1,000 million of a three-year note, to mature on 24 January 1995.

The tender was extremely successful: it was oversubscribed five times, and the range of bids accepted was narrow, at 8.45%–8.48%. At the time of the auction, this represented a spread of about 55 basis points below three-year swap rates and almost 100 basis points below the weighted average yield on three-year securities in Ecu component currencies.

The programme, announced by the Chancellor on 31 October, is intended to establish a series of liquid benchmarks in the rather underdeveloped intermediate sector of the Ecu bond market. This should stimulate the development of Ecu markets more generally and help to reinforce London's pre-eminent position in these markets.

The liquidity of the notes will be ensured by the commitment of thirty market-makers to make continuous markets in each note throughout its life and will be further bolstered by the Bank's sale and re-purchase facility, under which the Bank has retained ECU 100 million of the notes, which it holds available for lending to market makers. The Bank envisages that further tranches of this note will be offered at the three tenders to be held later this year, on 21 April, 21 July and 20 October.

The note programme builds on, and has several features in common with, the programme of Ecu Treasury bill tenders launched late in 1988. There were ECU 3.6 billion of Treasury bills outstanding at the end of the fourth quarter, unchanged from the previous quarter. The Bank allotted ECU 300 million of one and three-month bills and ECU 400 million of six-month bills at each of the tenders held on 8 October, 11 November and 11 December; tenders continued to be oversubscribed significantly, by around two to three times at each maturity.

The margin of the average yield accepted at tender below the bid-rate for ecu-denominated bank deposits remained at around 15 basis points for one-month bills and 30–40 basis points for three and six-month bills. Total turnover rose to ECU 17.7 billion in the fourth quarter, from ECU 15.9 billion in the previous quarter.

In the actively traded longer maturities, the UK government's first 'Ecu gilt' (ECU 2.75 billion at 10 years, issued on 13 February 1991) maintained its position as the lowest-yielding 10 year issue and principal benchmark during the quarter to end-December. It has been the most actively traded Ecu issue in the international settlement systems, accounting for 17% of total turnover in Ecu bonds.

Rights issues, which had been especially heavy in the second quarter (see Table H), continued to be made in the final quarter despite the poor take-up of the large cash-calls announced by Asda (£357 million), BAe (£432 million) and Hillsdown (£281 million) in September; they accounted for 80% of the value of issues announced in the fourth quarter compared with 84% in the second. The number of flotations fell again in 1991, particularly of smaller companies, partly reflecting the recession. However, there were several issues linked to the establishment of new investment trusts. Three issues of permanent interest-bearing shares (PIBS) were announced by building societies in the second half of the year, taking advantage of new legislation enabling them to

Table G
Sterling capital issues: amounts announced (a)

£ millions

	UK borrowers (b)			Overseas borrowers	
	Shares (c)	Fixed-rate debt	Floating-rate debt	Shares and fixed-rate debt	Floating-rate debt
1987	15,556	5,172	1,347	3,849	—
1988	7,225	5,933	5,548	3,681	—
1989	7,746	7,403	5.809	4,724	36
1990	5,317	5,640	5,542	2,322	700
1991	12,679	8,089	4,073	4,618	395
1991					
Q1	2,270	1,831	908	1,378	175
Q2	4,919	2,468	1,265	1,793	200
Q3	3,703	1,963	1,068	1,065	20
Q4	1.787	1,827	832	382	—
Oct.	800	660	75	76	—
Nov.	689	749	640	306	—
Dec.	298	418	117	—	—

(a) Further details can be found in the Bank's monthly Capital Issues Press Notice.
(b) Including issues by overseas financing subsidiaries.
(c) Shares comprise ordinary shares and preference shares including convertible preference shares. Only those issues which raise new money for the issuer are included: therefore sales of shares by the Government (eg the electricity privatisations) are excluded.

Table H
Summary of rights issues announced in 1991

	Number of issues	Value £ million
January	4	635
February	4	112
March	13	1,280
Q1	*21*	*2,027*
April	34	1,172
May	28	1,610
June	24	1,344
Q2	*86*	*4,126*
July	16	201
August	12	1,204
September	15	1,317
Q3	*43*	*2,722*
October	15	466
November	17	464
December	5	504
Q4	*37*	*1,434*
Total	**187**	**10,309**

raise this Tier 1 capital from financial markets. New issues of mortgage-backed securities met with renewed demand during the year and were well received despite increased mortgage arrears and repossessions in the housing market.

The amount of sterling commercial paper (SCP) outstanding at the end of 1991 was £3.7 billion, down by £1.2 billion on the previous quarter, reflecting the seasonal fall in issuance (Table J). The effect of the recession on the SCP market has not been as marked as in the United States, where the CP

Table J
Sterling commercial paper(a)

Issues, maturities and amounts outstanding
£ millions

	Issues	Maturities	Amount outstanding at end-period
1987	16,685	15,145	2,067
1988	34,819	33,554	3,332
1989	46,188	45,991	3,529
1990			
Q1	14,575	13,951	4,154
Q2	14,749	13,691	5,212
Q3	16,039	15,925	5,326
Q4	11,765	13,191	3,900
1991			
Q1	12,439	11,648	4,691
Q2	12,399	12,286	4,804
Q3	12,933	12,818	4,919
Q4	10,819	11,998	3,740

(a) The data for maturities and therefore amounts outstanding were revised substantially for the period April 1990 to September 1991 following the discovery of cumulative errors in the statistical returns relating to a number of programmes.

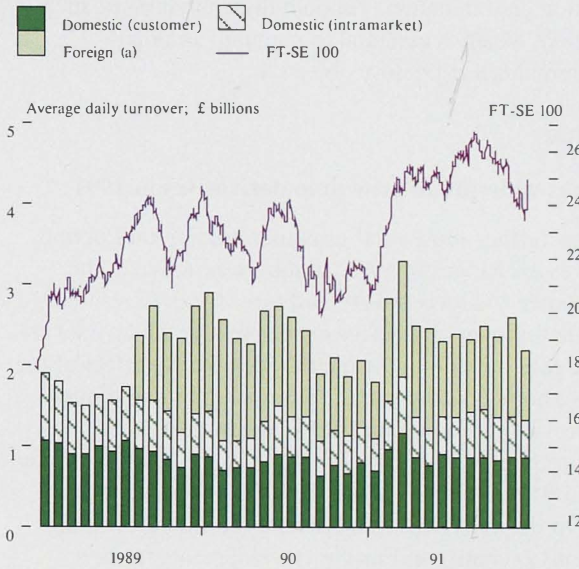
market has contracted sharply and where in addition the proceeds of new equity issues have been used to repay commercial paper borrowing. Overseas companies' issues of SCP fell back during the second half of the year from a peak of £1.1 billion (24% of the total outstanding) reached in March. The Bank was notified of six MTN programmes in the fourth quarter, taking the total extant to 28.

Turnover was generally flat in the fourth quarter . . .

Turnover in the gilts market averaged £4.7 billion per day during the fourth quarter, marginally higher than in the previous period, and averaged £6.1 billion per day in November as interest rate expectations were reversed and sterling weakened against the deutschemark. (See Developments in the gilt-edged market, page 56.) Turnover in domestic equities on the London Stock Exchange fell by 4% to a daily average of just under £1.4 billion. Trading of foreign equities in London by Exchange members increased by 4% to £1.1 billion per day, despite a sharp decline in the trading of Japanese equities in December. Over the year as a whole, domestic equity turnover rose by about 13%, while foreign equity trading by Exchange members declined by 6% (see Chart 2); total equity turnover rose by 3%.

During the third quarter, a greater proportion of the total trading in continental European and in Japanese equities took place in London, rather than on the home exchanges. This probably reflected a general increase in cross-border

Chart 1
Equity prices and turnover on the London Stock Exchange



(a) Complete foreign equity turnover data were not available until late 1989 when the London Stock Exchange introduced SEQUAL, its trade matching and reporting service for non-UK equities.

investment activity by institutional investors, who tend to take advantage of the greater liquidity offered by SEAQ International in London.

. . . and equity prices were mostly weak

The FTSE 100 index reached a record high of 2,680 on 2 September, but fell in the fourth quarter because of unease about the recession and European interest rate prospects. At the end of December, however, prices rose sharply following Wall Street's reaction to lower US interest rates, taking the FTSE 100 to 2493 at the year end—up 16% on end-1990 (see Chart 2). The Eurotrack 100 index (covering the leading non-UK European stocks) fell by 4% during the fourth quarter, but rose by 10% during 1991 as a whole.

Stock Exchange figures show that in 1991, the average commission rate in the domestic equity market for those transactions where commission is charged, was 0.35%. About 25% of transactions were on a nil commission basis, thus bringing the average for all transactions down to 0.26%. For foreign equity business, the average commission rate was 0.30%, but since about half of the transactions were on a nil commission basis, the average for all transactions was 0.15%. The average touch on the FTSE 100 stocks (the difference between the best bid and offer prices, measured as a proportion of the mid-price) widened from about 1% in the third quarter to almost 1.25% in the fourth quarter. By contrast, the touch for second line stocks narrowed marginally to 6.6%, while that for third line stocks closed the year at 9.7%—broadly in line with the previous quarter but higher than a year earlier.

The London Stock Exchange's listing obligations have been amended to permit companies to release news to third parties at the same time as it is released to the Exchange.

(Information was previously channelled in the first instance through the Exchange.) This is to increase competition in information dissemination. Smooth dissemination of such information, which is essential to maintain an orderly market, remains a regulatory objective.

Derivatives

There was widespread growth in derivatives in 1991

There was further substantial growth in trading on London derivatives exchanges in 1991; trading was active in the fourth quarter and there was record turnover in November. Aggregate turnover on the five exchanges for which data are available rose by 13% in the quarter, despite the effect of the December holidays, and was 22% higher than in the same quarter in 1990. Trading on LIFFE, the largest of the London exchanges, rose by 17% in the fourth quarter and by 13% in 1991 as a whole. While LIFFE consolidated its position as the most active and diversified financial futures and options exchange in Europe, developments further underlined the importance of commodity as well as financial futures markets. For example, London Metal Exchange volume reached a new peak in November and grew by 29% in the fourth quarter and by 27% in 1991 as a whole. The International Petroleum Exchange had a record quarter, and has consolidated the sharp increase in trading which followed Iraq's invasion of Kuwait in 1990. Both exchanges announced plans for new futures contracts in 1992 (secondary aluminium on the LME and unleaded gasoline on the IPE).

Long gilt futures were heavily traded during the fourth quarter, with turnover reaching a record of over 80,000 contracts on 22 November as sterling fell against the deutschemark. Turnover during the fourth quarter rose to average 25,900 contracts per day, the highest since the second quarter of 1990. The nominal amount of call warrants exercisable into gilt-edged stock outstanding remained unchanged at the end of December, at £130 million. The amount of put warrants outstanding at the end of the quarter was also unchanged, at £30 million.

Having fallen during the third quarter to its lowest level since the first quarter of 1989, turnover in the short sterling futures contract on LIFFE rose sharply to average 32,542 contracts per day in the fourth quarter, reflecting changes in interest rate expectations over the quarter. Following sterling's weakening against the deutschemark, some 105,000 contracts were traded on 22 November.

The introduction of new contracts slowed in the fourth quarter. LIFFE added one product to its already broad range—an option on the Italian government bond future—bringing the 1991 total of new products on the exchange to six. The two Italian contracts traded very successfully in the fourth quarter, with the volume of trading in the future increasing more rapidly than any of LIFFE's other contracts at a similar stage of development.

LIFFE moved in mid-December from the Royal Exchange to a new trading floor at the Cannon Bridge development. The new premises provide more space for members' staff and room for additional trading areas for new contracts. The equity options market, LTOM, is scheduled to move to Cannon Bridge in early February. Formal merger of LIFFE and LTOM is due to follow before the end of March.

The first authorised futures and options funds were launched in December, six months after the SIB regulations making provision for such funds to be sold were put in place. This will facilitate, indirectly, private participation in futures and options. Outside the United Kingdom, funds investing in futures have grown considerably and US domestic funds now have over $20 billion under management.

Regulation

As part of their review of retail regulation, the SIB and LAUTRO have published their linked proposals for future rules on disclosure of investment product details, commission structures and the status of advisers. The disclosure regime is primarily intended to tackle the complex regulatory problems posed by life assurance products, and the main thrust of the proposals is towards more easily comprehensible and earlier disclosure.

The SIB has also published new rules on the handling of client money, which will apply to FSA-authorised firms from 1 January 1992. The new rules allow clients to nominate the banks with which their money is to be held and also provide for greater disclosure to clients about where client money is held. The client money rules will not apply to banks and building societies which hold client money in-house.

The SFA's revised rulebook has been finalised. Most of its provisions will take effect from 1 April 1992. The main exceptions are the new capital rules, scheduled for implementation later in 1992, and the rules on client money, which will take effect together with the SIB rules from 1 January 1992.

Settlement

The DTI laid before Parliament on 19 December the regulations permitting the dematerialisation of corporate securities in TAURUS. They were subsequently debated in Parliament. The Stock Exchange is working on its rulebook, which will apply the regulations and establish the more detailed framework for the operation of TAURUS.

The City's role in facilitating financial sector reform in Central and Eastern Europe

During the last two years, the Central and Eastern European countries have made progress in the transition from centrally planned to market-oriented economies: the process is more advanced in these countries than in the former Soviet Republics. Stabilisation programmes have been initiated and important economic and political reforms are under way. However, the flow of resources to these countries has so far been slight. Many financial institutions and banks suffering losses from recession in the West are acting cautiously with their depositors' and investors' money until the positive results expected from reform emerge.

A central part of the process is financial sector reform to establish a modern banking system and capital markets, to harness domestic savings efficiently and allocate them to the most productive investment opportunities. The task is huge, and there is a very long way still to go. Previously, the financial sector in each of the centrally planned economies was dominated by one state-owned bank which undertook both central and commercial banking activities. This so-called mono-bank system was typically complemented by a foreign trade bank and one large savings bank which held all individuals' deposits, and in some countries by a bank or banks dedicated to directing investment funds to industry or agriculture. The state had almost total control over the allocation of funds for investment via the central plan.

In all the countries, banking reform in the late 1980s began with the creation of a two-tier system under which the commercial activities of the mono-banks (National Banks) were hived off into new banks, which were usually regionally or sectorally based. During 1991, legislation created largely independent central banks and established the foundations of a modern structure of commercial banks.

The modernisation of the state-owned commercial banks, which in all these countries still dominate domestic banking activity, is hampered by their dependence on central bank funds and the continued dominance of state-owned enterprises in loan portfolios. Additionally, the banks in most countries are still building up their experience of credit-risk appraisal, liquidity management and supervisory procedures; payments and clearing systems are still in the process of being developed and there are staff shortages. The banks also have to tackle the problem of non-performing loans on their books (most of which were generated under the previous regimes) and, more recently, the effects of the collapse of trade with the former Soviet Republics. Various schemes are under discussion, and although some non-performing loans may be government guaranteed, the authorities are reluctant to write them off, partly because of concern about the budgetary cost, but also owing to concerns that this might undermine the incentives for commercial banks to ensure prudent lending decisions in the future. Most countries intend to restructure and privatise major commercial banks, but this will take time.

New private banks have entered the market: these comprise both domestically-owned entities and a growing number of joint-venture banks and foreign banks. The entry of foreign banks has brought not only foreign capital but also new management skills, improved technology and competition.

The West has reacted positively to the need to develop the financial sector in Central and Eastern Europe, and an increasing amount of western assistance is being provided. The IBRD has programmes in most countries to assist with the development of the financial sector (among other aspects); the OECD, European Community and the European Bank for Reconstruction and Development (EBRD) are also active in this area. Various western banks and other private sector institutions have responded through the provision of technical assistance as well as by establishing a market presence. In particular, German and Austrian banks are significantly involved in the region. In the specific case of central banking, many western central banks are providing training courses on a bilateral and multilateral basis. Meanwhile, the EBRD, which was established specifically to assist in the region's transition to a market economy, can provide loans, equity capital and some technical assistance.

The United Kingdom's financial sector has been involved in these developments over a wide range of activities, the funding for which comes from both the official sector—including the Central and Eastern European governments, World Bank, the IMF, the Group of 24 countries, the EBRD, and UK government sources and the private sector—local Central and Eastern European sources, various City trade associations, and UK companies themselves. In particular, the UK government's Know How Fund, administered by the Foreign Office, finances the provision of advice and training to assist Central and Eastern European countries' transition towards the free market system.

The involvement of the UK banking industry has included the provision of training on subjects such as trade finance and credit analysis, and some banks have hosted short secondments to their UK offices. The Chartered Institute of Bankers has recently appointed a co-ordinator to handle provision of training for the region. Some banks have been active in providing general technical assistance, advice on privatisations and corporate finance expertise. Other activities have included work on strategic policy for domestic banks, financial sector reforms such as advice on setting up capital and securities markets, exchange rate policy, and technical assistance with debt and reserves management.

In the field of securities markets, the London Stock Exchange has helped with the establishment of exchanges in Budapest, Bratislava and Prague. It has initiated a number of training placements; participants spend part of their time at the London Stock Exchange and part at a securities firm. The Joint Exchanges Committee, which represents London's derivatives exchanges, has been helping with training and providing legal and technical assistance for the commodity and stock exchanges.

In the accountancy sector, the Institute of Chartered Accountants in England and Wales has been involved in training, arranging secondments to UK accountancy firms, visits by government officials, research into accounting needs, and provision of study materials. The Chartered Association of Certified Accountants has participated in various initiatives. Individual accountancy firms have helped with training programmes in the Central and Eastern European countries themselves, for instance at the newly established Business Schools, and more directly in training professional staff in their own offices, both locally and in the United Kingdom. Like the banks, some UK accountancy firms have been closely involved in provision of privatisation advice, and several have set up offices in the region. Other activities have included advice on tax questions, strategic business planning, development of information systems and technical accounting issues.

The insurance industry has established a training initiative, in conjunction with the DTI, under which Central and Eastern European officials, (mainly from Poland, Hungary and Czechoslovakia) have benefited from placements with the DTI and insurance companies. Individual insurance companies have provided lecturers for seminars and specific technical advice to governments and companies. The Association of British Insurers has given general assistance, for instance in drafting insurance legislation, while the Chartered Insurance Institution is involved in training. The Institute of Actuaries is sponsoring training and the Government Actuary's Department is assisting in the development of insurance supervision and occupational pension provision.

City law firms are involved in activities ranging from advice on the legal aspects of privatisation to assistance with financial services and banking legislation. Schemes to provide academic and practical training for lawyers from Central and Eastern European countries have been set up with government support, and the Law Society of England and Wales and the Bar Council have encouraged bilateral law associations with each of the countries in question, promoting education, training and contacts. The legal profession has also given general advice and assistance, for instance with establishing law libraries and providing office technology and hardware.

The management consultancy sector is providing technical assistance on a variety of business issues. The largest consultancies have established offices locally, and one or two firms have recently been set up which focus entirely on work within Central and Eastern Europe.

The London Chamber of Commerce and Industry is one of a consortium of British CCIs working with the Know How Fund on future training projects; in the case of Poland, these are already under way. British Invisibles has recently appointed a Director for Eastern Europe, who will be responsible for promoting awareness in Central and Eastern Europe of opportunities to obtain training and technical assistance for private sector financial and business services from the United Kingdom, and strengthening practical links between the City and Cental and Eastern Europe.

Finally, the Bank of England is itself directly involved in the region. It provides two main forms of assistance. First, its Centre for Central Banking Studies, established in 1990, provides training in central banking for Eastern European central bankers and, occasionally, officials from other institutions such as Finance Ministries. Last year the Centre ran six courses, mostly in-house, for participants from the area, covering the main principles, objectives and practices of central banking. Second, the Centre for Central Banking Studies helps to co-ordinate the provision of technical assistance from the Bank of England to Central and Eastern Europe. So far, most of this work, provided under the auspices of the IMF, has been with Poland, covering the organisation of money markets, foreign exchange markets, and government securities markets. The Bank also played a part in the IMF's advisory mission to Yugoslavia on money-market development. In addition, the Bank is increasing its bilateral technical assistance, particularly in banking supervision, debt management, monetary policy and operations and reserves management. The Centre's work is not exclusively confined to Central and Eastern Europe, but most of its activities have been directed there so far, and this is likely to continue in the future.