Developments in international banking and capital markets in 1992

- *Borrowing in the international banking and capital markets more than doubled last year, after falling sharply in 1991. But because a large part of this borrowing refinanced existing debt, net borrowing was broadly the same as in 1991.*
- *As in 1991, borrowing in the international capital markets reached a new record last year. International bank lending remained subdued despite a rise in the second half of the year.*
- *Falling bond yields and substantial borrowing by governments boosted international capital market issuance.*
- *Uncertainties in Europe, associated with Maastricht and ERM turbulence, caused investors to shift from the Ecu and high-yielding European currencies to 'safe havens' such as the US dollar and deutschmark.*

Overview

Political uncertainties in Europe, interest rate and exchange rate tensions, and subdued growth in the world economy made 1992 a volatile year for financial markets. Despite this, as Table A shows, borrowing in the international financial markets remained resilient.

Table A
Estimated net lending in international markets 1988–92

$ billions: banking flows adjusted to exclude estimated exchange rate effect

		1988	1989	1990	1991	1992
1	Gross international bank lending	511	807	714	-103	152
2	Net international bank lending	260	410	465	80	195
3	Gross new bond issues(a)	227	267	263	320	340
4	*Less* redemptions and repurchases	79	90	109	149	222
5	Net new bond issues	148	177	154	170	118
6	Net new euronote placements	20	7	32	34	28
7	Total international financing(2+5+6)	428	594	651	284	341
8	*Less* double counting	67	76	79	38	70
9	**Total net international financing**	**361**	**518**	**572**	**246**	**271**

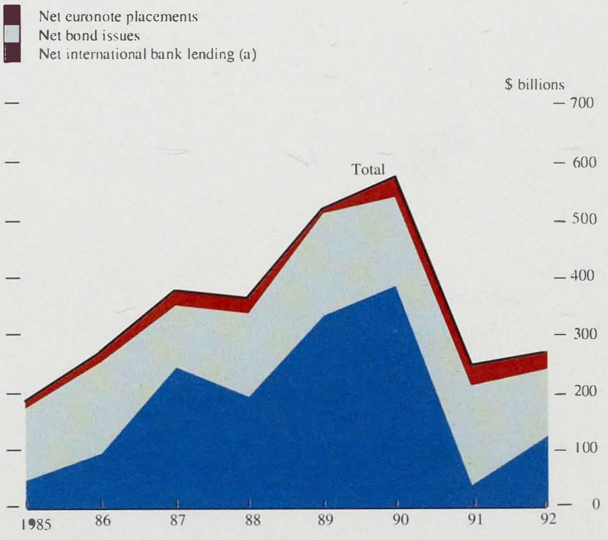
Source: BIS, Bank of England and Euroclear.

(a) On a completion basis.

Total borrowing from banks and bond markets more than doubled last year, to $492 billion, around half its record level in 1990. Some market sectors contracted, such as equity-related bonds which were affected by the weakness of the Nikkei. Those that expanded included issues of floating-rate and medium-term notes structured to meet particular interest rate expectations.

Net borrowing from banks and bond markets, as shown in Chart 1, was only slightly higher than last year, at $271 billion, as many borrowers refinanced existing bonds and loans. In particular, much of the debt taken on during the buoyant 1988–90 period has reached, or is approaching, its maturity.

Chart 1
Net international financing



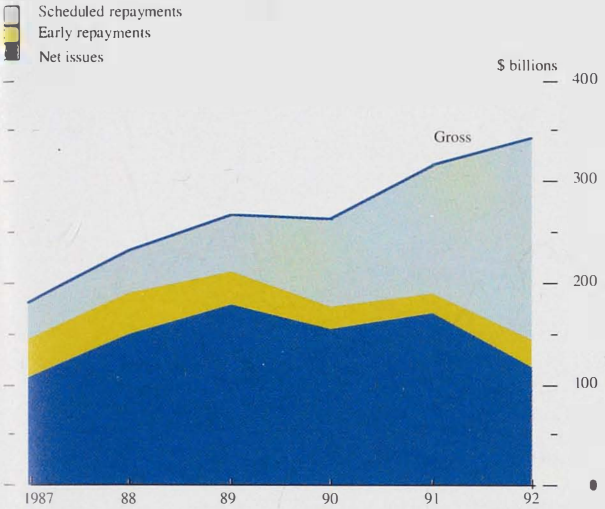
Source: BIS and Euroclear.

(a) Excluding international bonds bought or issued by banks.

In the international bond markets, the value of new issues reached a record $340 billion in 1992. But net borrowing was less than in the 1988–91 period (see Chart 2), with scheduled repayments reaching record levels. As last year, lower yields also encouraged some issuers to redeem bonds early.

Chart 3 gives a breakdown of net bond issues by borrower. A notable feature was the sharp rise in government borrowing, which rose by 40% to account for 34% of net

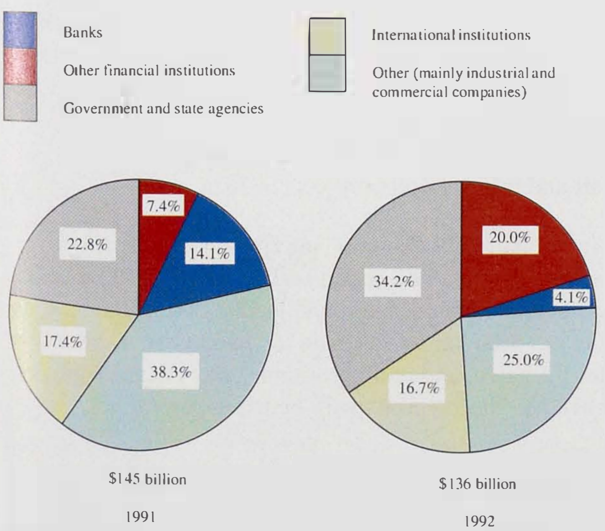
Chart 2
International bond issues



Source: Bank of England ICMS database and BIS.

issues. West European governments were prominent borrowers, particularly in the second half of the year, as they funded widening budget deficits, replenished foreign

Chart 3
Net international bond issues(a)



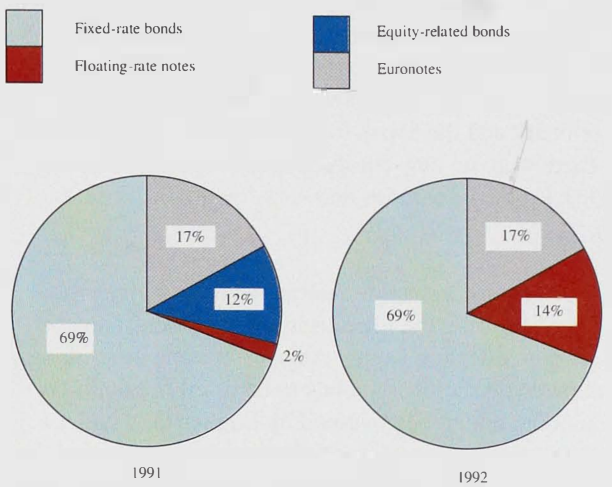
Source: Bank of England ICMS database and BIS.

(a) Excluding equity-related issues.

exchange reserves or repaid short-term borrowing extended during the ERM turbulence. Gross borrowing by French, German and Japanese banks was heavy. In net terms, Dutch and German banks borrowed most, in some cases to fund domestic and cross-border expansion. Although corporate borrowing in the international bond market took a smaller share of overall borrowing, ample funds were available to creditworthy borrowers.

Chart 4 shows the contribution of different instruments to capital market finance last year. Fixed-rate bond issues rose 6%, with the first quarter particularly buoyant. Borrowing via floating-rate notes (FRNs) doubled. A large number of

Chart 4
Net international capital market borrowing by instrument

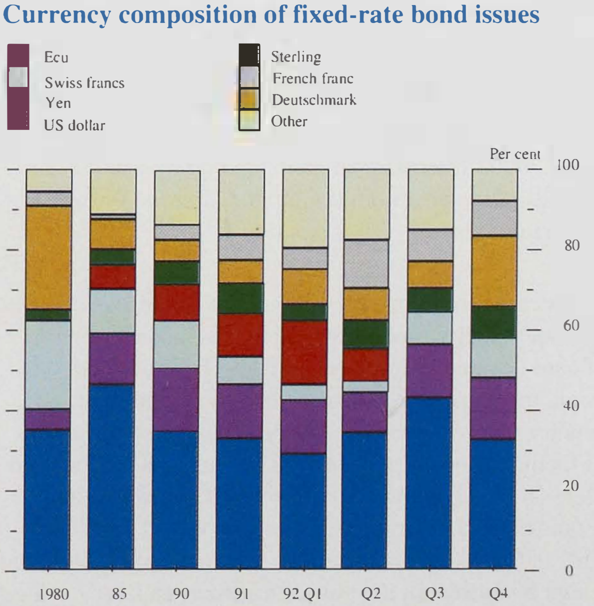


Source: Bank of England ICMS database and BIS.

banks issued subordinated FRNs to strengthen their capital bases; and structured FRN issues—linked to the shape of the yield curve—rose in the second half of the year. The use of euromedium-term note (EMTN) facilities, regarded as a flexible and cost-effective alternative to eurobond issues, was greater than ever before. The value of equity-linked bond issues fell to its lowest since 1989 as the Japanese equity market remained weak and borrowers repaid a net $20 billion of equity-linked bonds last year.

Political uncertainties in Europe, and associated exchange rate and interest rate volatility, affected the currency composition of borrowing from mid-year onwards. As Chart 5 shows, the currency composition of the international bond market shifted: issuance in the Ecu and high-yielding European currency sectors contracted, while the traditional 'safe haven' currency sectors expanded. Early in the year,

Chart 5
Currency composition of fixed-rate bond issues



Source: Bank of England ICMS database.

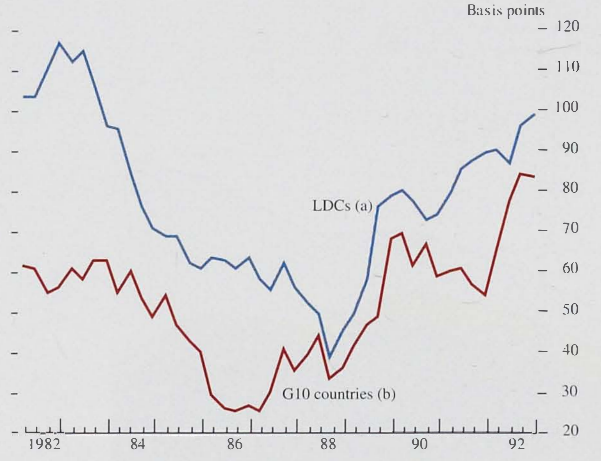
when the Maastricht Treaty appeared to confirm the path to EMU, investors bought high-yield European bonds in the belief that convergence of European inflation and interest rates would provide capital gains. When Denmark rejected the Treaty in early June, and subsequent realignments demonstrated that exchange rates within the ERM were not immutably fixed, investors switched towards the dollar, the deutschmark and the Swiss franc. In the second half of the year there were no new eurobond issues denominated in Swedish kroner or escudos and very few in lire, pesetas or Ecus.

The deutschmark's share in international bond financing also benefited from the liberalisation of the deutschmark debt market, effective from 1 August. Among other things, this allowed deutschmark bonds to be listed in London or Luxembourg and to be governed by English law, both of which are standard practice in other currency sectors of the euromarkets.[1] This liberalisation, combined with adverse issuing conditions in the Ecu market, contributed to the launch of a number of large, liquid eurodeutschmark bond issues from West European sovereign borrowers and increased international participation in the eurodeutschmark bond market; net foreign investment in deutschmark bonds more than doubled between the second halves of 1991 and 1992 to DM123 billion ($75 billion). Previously, eurodeutschmark bonds were largely bought by domestic or continental European investors and often held to maturity, but many of last year's bonds received wide international placement and have been actively traded.

International bank lending remained subdued, but recovered from its low in 1991 (see Table A and Chart 1). Demand for bank finance was weak because of uncertain prospects for the world economy, borrowers' reluctance to incur new debt, and the widespread opportunities for funding in the buoyant capital markets. At the same time, although there was ample willingness to lend to top-rated sovereigns and companies on fine terms, banks continued to be cautious about increasing their exposures to other entities and concentrated on improving the quality of their loan portfolios. So, although net international bank credit (ie international bank lending, net of interbank business) rose to $195 billion in 1992, this was well below the peaks of some $400 billion a year in 1989 and 1990. International bank lending rose in the second half of the year both during and after the foreign exchange turbulence.

The syndicated credit market continued to be affected by banks' asset quality problems. There was, however, significant demand to refinance existing facilities and, on occasion, the market proved attractive to a number of top-quality sovereigns and companies. Large syndicated credit facilities—such as those for the United Kingdom and Sweden—took advantage of banks' ability to raise funds more quickly and in larger quantity than would have been possible in the securities markets. A number of highly-rated corporate borrowers in the power, transport and

Chart 6
Spreads on international syndicated credits



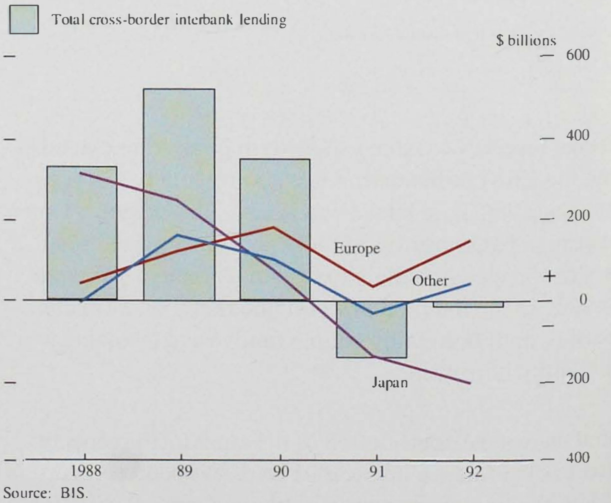
Source: Bank of England ICMS database.

(a) All borrowers.
(b) Non-financial companies.

telecommunication sectors from OECD countries also raised syndicated loan finance last year. The willingness of banks to lend to highly-rated borrowers was illustrated by a slight easing of spreads paid by companies from OECD countries in the international syndicated credit market (which has continued in early 1993), whereas spreads for other borrowers in the syndicated credit market have remained high by the standards of recent years (see Chart 6). In sectors in which asset quality has deteriorated most, such as commercial property and construction, banks have limited new lending and/or raised their spreads and fees to reflect the heightened risk. Outside the OECD area, there was continued demand for new bank loans, particularly for aircraft and infrastructure projects in Asia.

As Chart 7 and Table B show, international interbank lending slowed in 1990, and in both 1991 and 1992 there was a net repayment of interbank loans. One of the reasons for this has been banks' decision in recent years to seek less capital-intensive, and more profitable, ways of managing their balance sheets, principally by using derivatives.

Chart 7
Cross-border interbank lending



Source: BIS.

(1) Details of the deutschmark liberalisation were discussed more fully on page 404 of the November 1992 *Bulletin*.

Table B
Inside-area international interbank market
$ billions; *percentage changes in italics*

	Exchange rate adjusted flows					Stocks	
	1988	1989	1990	1991	1992	1992	
Cross-border lending involving banks in:							
Japan	312	244	69	-143	-205	1,245	*-14.1*
United States (a)	13	116	51	14	10	820	*1.2*
Europe only	36	122	178	34	145	1,408	*11.5*
Other	-22	43	51	-49	28	513	*6.0*
Total cross-border lending	**329**	**525**	**349**	**-144**	**-22**	**3,986**	***-0.5***
Local foreign currency interbank lending	7	39	47	-61	18	557	*3.3*
Total international interbank lending	**336**	**564**	**396**	**-205**	**-4**	**4,543**	***-0.1***

Source: BIS.

(a) Excluding business with banks in Japan, which is included under Japan.

Japanese banks continued to reduce their interbank lending —part of their shift from strategies based on market share to return on capital. But European banks' interbank business rose, mostly because of a sharp increase in the third quarter.

The geographical distribution of borrowers in the international financial markets continued to be dominated by entities from OECD countries in 1992. Corporate borrowers from G7 countries contributed to record fixed-rate bond issues as they attempted to lock in to low long-term bond yields in the dollar, yen and Swiss franc sectors. A number of UK and US companies refinanced existing syndicated credit facilities on finer terms. Companies also repaid debt from cash reserves or replaced debt with equity. Corporate 'deleveraging' was particularly prevalent in the United States where the equity market was generally receptive to new issues. Non-bank US companies repaid a net $6.6 billion international bonds last year, after repaying $2.2 billion in 1991. Corporate borrowers from other G7 countries continued to be net borrowers in the international bond market last year. Despite falling in some countries recently, corporate debt: GNP ratios are still high by historical standards; so further deleveraging might be expected.

Although Japanese companies were the largest borrowers in the international bond market, issuing $58 billion, their net borrowing ($1 billion) was the second lowest among G7 countries. Many of these issues refinanced expiring equity-warrant bonds. Fund-raising to repay these equity-related bonds is a continuing source of supply to the international bond market. The increasingly liberalised domestic yen corporate bond market is potentially an alternative channel for meeting these refinancing needs; and some larger companies have the ability to draw upon cash reserves. Among European countries, the United Kingdom borrowed most on the international bond and credit markets.

The range of non-OECD borrowers using the international capital market widened in 1992 and borrowers used a greater range of currencies and instruments. Increased borrowing by lower-rated borrowers was helped by the fall in long-term bond yields which encouraged investors to diversify their portfolios to enhance returns. US investors, for example, were more willing to invest in domestic 'junk bonds' (those below investment-grade status), public and privately-issued foreign bonds, and Latin American eurobonds. The desire for high yields among some investors, combined with reforms and improvements in their domestic economies, allowed Latin American borrowers to announce borrowings of some $10.8 billion in the international capital and credit markets last year, compared with $2.4 billion and $10 billion in 1990 and 1991. Nevertheless, investors reassessed Latin America's return to international capital markets in 1992, particularly around mid-year owing to political problems in Brazil. In some cases, deals were postponed and spreads widened; some borrowers offered more innovative and shorter-term instruments, perhaps as a response. Latin American borrowers also faced growing competition for high-yield funds from borrowers in the rapidly growing economies of China, South Korea and Thailand. But Latin American borrowing regained its impetus in early 1993.

The volatility which affected European cash markets in the second half of the year also affected derivative markets. The larger sectors of the over-the-counter markets were generally resilient in the face of these shocks, but liquidity in some of the smaller market segments was adversely affected and spreads widened. The uncertain conditions led to some shift in business within Europe to exchange-traded futures markets, as investors took advantage of the liquidity of standardised products, pricing transparency and clearing procedures.

Official studies were undertaken during the year into the use and role of derivative markets, and their interaction with one another and with cash markets. These studies were partly a response to concern expressed about the risks, and about the closer market links to which the rapid growth of derivatives has contributed. Following these studies, international consideration is being given to the possibility of compiling more meaningful and consistent statistics on derivative markets. At the same time, market participants have themselves adapted to concerns, for example, over the credit quality of derivative counterparties. This has led a small, but increasing, number of investment banks to establish separately-capitalised, special purpose derivative vehicles. These vehicles have obtained AAA ratings, enabling them to compete more effectively in the credit-sensitive long-term swaps market.

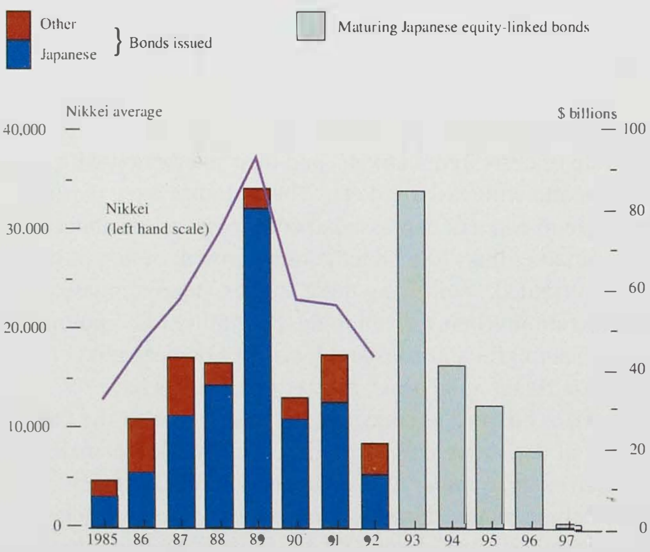
International capital markets

International bonds

Issues in the eurodollar market grew by 25% last year. Borrowing was boosted early in the year as long-term bond yields eased on expectations that the likely pace of recovery was compatible with low inflation and, in the latter part of the year, by the US dollar's safe haven status when confidence in many European currencies was dented. Although borrowing by US corporates (especially lower-rated ones) in the eurobond market remained subdued, US banks and utility companies borrowed heavily in the US domestic market where issuance reached a record. Foreign entities also increased their borrowing in the US public debt market. Canadian and UK borrowers were particularly prominent, although a small number of borrowers from non-OECD countries also issued 'yankee' bonds. Foreign and domestic borrowers also increased their borrowing via 144a private placements. (Rule 144a was introduced in April 1990 and allows borrowers to avoid the costs of an SEC listing needed for a full public issue, provided the securities are sold and traded only among professional investors.) The number of foreign borrowers issuing 144a securities rose by around 50% to over 320 last year. The SEC's decision to permit a wider group of professional investors to trade 144a issues last year may encourage further use of the 144a exemption.

Borrowing in yen on the international bond market was unchanged. Much of this activity reflected Japanese companies refinancing earlier issues. Japanese companies also diversified their funding last year to help refinance the large quantity of expiring out-of-the-money equity-warrant bonds issued between 1987–89 when the Nikkei was buoyant (see Chart 8). For example, they have increased their fund-raising in yen and other currencies, not only in the straight fixed-rated eurobond market, but also in the euromedium-term note and Japanese domestic bond and commercial paper markets. Borrowing in the domestic yen bond market rose last year as the gradual easing of issuing and syndication restrictions began to make it more competitive with the euroyen sector. For example, there was increased use of the fixed-price re-offer method for syndicating domestic bonds (now widely used in the euromarket). The euroyen market was also liberalised slightly: certain euroyen bonds can now be sold to Japanese institutional investors without a 90-day 'seasoning period' and borrowers' net worth requirements for issues of euro and domestic yen bonds were eased.

Chart 8
Equity-linked bond issues



Source: Bank of England ICMS database and Telerate.

The liberalisation of the deutschmark sector and strains within the ERM (which contributed to sovereigns' demand for funds) led to an increase in borrowing in deutschmarks. There were 200 eurodeutschmark bonds issued last year, to the value of DM 56 billion ($36 billion), compared with DM 37 billion in 1991 (185 issues). A number of west European governments issued large eurodeutschmark bonds, including Denmark, Finland, Sweden and the United Kingdom. The UK issue, at DM 5.5 billion, was part of an ECU 10 billion multicurrency funding programme, and was the largest ever fixed-rate eurobond denominated in the German currency. Some of these sovereign issues received wide international placement and established important benchmarks for secondary market trading. These developments partly reflected increased participation by non-German banks—as underwriters and traders—in the deutschmark sector.

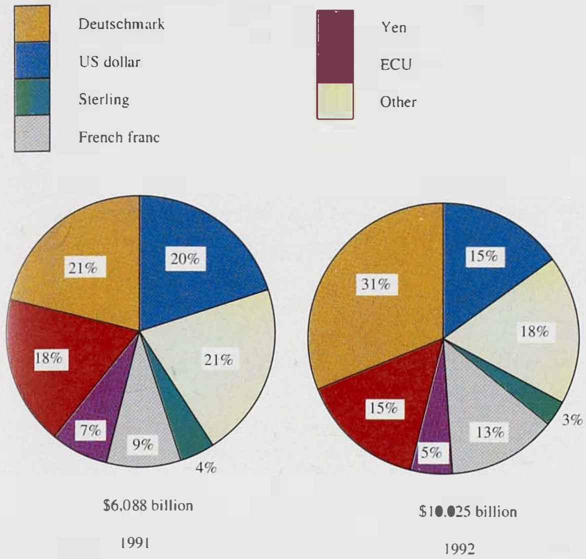
After growing quickly in 1991 and the first quarter of 1992, the Ecu bond market suffered a sharp reverse when the result of the Danish referendum on the Maastricht Treaty and the tensions that followed within the ERM led to heavy selling pressure, a fall in liquidity, a rise in market yields above the theoretical yield and a sharp fall in issues. Sovereign and supranational issues in the latter part of 1992 and early 1993 helped to sustain activity in the Ecu market, but diminished confidence in European monetary convergence is continuing to have a negative effect on the market.

Several other measures affected the international bond market last year. Among these were the Italian authorities' decision to remove Italian investors' exemption from withholding tax when buying eurobonds issued by certain supranationals. The IBRD and EIB had often obtained fine pricing by targeting bonds at Italian investors. The Italian authorities also allowed foreign investors to reclaim withholding tax on Italian government bonds more easily.

Continued issuance of 'global bonds'—securities which can be issued simultaneously in the euro, US and Far East domestic markets, and which can be traded globally through domestic and international clearing systems—was another development last year. Since the first issue by the IBRD in 1989, the issuer base has broadened and the first corporate and sovereign issues took place in 1992. In total, there were fourteen issues in 1992, in US dollars, Canadian dollars and, for the first time, in yen.

As Chart 9 shows, turnover of fixed-income deutschmark bonds far exceeded that for the dollar in 1992 owing to the combined effect of deutschmark liberalisation and a shift from the Ecu sector. In addition, turnover of peseta and French franc bonds doubled and turnover of guilder and Danish kroner bonds rose threefold. Although the value of Ecu turnover was unchanged between the first and second halves of the year, this reflects heavy selling by market-makers attempting to unload unprofitable positions in the second half of the year, rather than genuine 'end-user' investment.

Chart 9
Secondary market turnover(a)



Source: Euroclear and Cedel.

(a) All fixed-income bonds.

Floating-rate notes (FRNs)

Floating-rate note (FRN) issues doubled last year to $43 billion and net FRN borrowing, at $24 billion, compared with $4 billion in 1991. Around three fifths of issues were in US dollars. The rise in FRN issues reflected Tier 2 capital raising by banks and less attractive opportunities to swap fixed-rate dollars into floating-rate, which may have encouraged direct borrowing in the FRN market. Japanese banks issued fourteen FRNs last year, eight of which were launched in the three months preceding their end-September reports.

The shape of the yield curve in the United States, and more recently in France and Germany, led to an increase of FRN issues 'structured' to suit investors' expectations of future interest rate movements. In the eurodollar market, the steep yield curve led to issues of some $2 billion of 'collared' FRNs paying maximum and minimum coupons—the latter were frequently some 1½%–2% above prevailing dollar Libor. Towards the end of the year, expectations of lower short-term interest rates in France and Germany—which followed the relaxation of tension in parts of the ERM—led some investors to demand public and privately arranged FRNs which paid coupons inversely linked to short-term rates.

Note issuance facilities

The striking growth of the euromedium-term note (EMTN) market continued last year. The value of new programmes rose by $35 billion to $91 billion, and net new EMTN issues rose 40% to $23 billion. Issuer interest in EMTNs has grown rapidly as they are seen as a cost-effective and flexible complement to eurobonds. Although EMTNs are usually issued on a 'best efforts' basis, in 1992 borrowers made some forty underwritten 'bond' issues under EMTN programmes, after the first such issue in 1991. This trend has further blurred the distinction between EMTNs and traditional eurobonds. Nevertheless, the EMTN market is still far smaller than the international bond market where net issues were $118 billion last year. The range of borrowers in the EMTN market expanded during the year, to include lower-quality non-financial companies in the OECD area and borrowers from non-OECD countries such as Mexico, Korea and Venezuela. Another feature of the market was its continuing attraction for investors seeking unusual features, such as notes linked to commodity or price indices or interest rate structures, though the majority of EMTN issues are 'plain vanilla' fixed-interest notes. As a result of the liberalisation of the German capital markets in August, the deutschmark has been added as an extra currency option in a number of EMTN programmes.

By contrast, borrowing in the eurocommercial paper (ECP) market remained subdued. As the market has matured after a period of growth, so the number of new programmes has fallen; in 1992, borrowers repaid a net $0.6 billion ECP. Corporate downgrades in this traditionally credit-sensitive market and growing competition from recently liberalised domestic CP markets in Europe may both have restrained ECP borrowing last year. The Irish Government established the first sovereign deutschmark commercial paper programme.

Syndicated credits

Around a third of announced international syndicated credits may have been for refinancing and restructuring last year. US borrowers were particularly prominent (examples were the $6 billion facilities arranged for Chrysler and Time Warner). Some recapitalisation programmes were announced which combined equity issues with refinancing of outstanding bank loans and bonds, thereby reducing leverage. UK companies announced $17 billion facilities last year, compared with around $30 billion per year between 1987 and 1990. Demand for finance from UK companies has been generally muted but there has also been a shift in the channels through which they have borrowed, with some companies preferring bilateral or 'club' arrangements with a small number of banks. Other UK companies, attracted by the prospect of obtaining long-term funds (sometimes more than 10 years) at low dollar interest rates, have borrowed in the US private placement market as an alternative to bank credit. Borrowing by Italian companies was much lower than in recent years owing to uncertainties about the treatment of foreign banks' claims on a state-owned corporation.

Outside the OECD area, there was continued demand for syndicated bank loans, particularly from rapidly growing Asian economies in the form of project finance (related to infrastructure) and for aircraft purchase. Asian borrowers announced around $31 billion international syndicated credits last year, compared with $21 billion in 1991.

International banking

During 1992, gross international bank lending recovered to rise by $152 billion, or 2.1% of the outstanding stock, after a

Table C
Growth of international bank lending

$ billions; *percentage changes in italics*

	Exchange rate adjusted flows					Stocks	
	1988	1989	1990	1991	1992	1992	
Inside reporting area:							
Interbank	336	564	396	-205	-4	4,543	*-0.1*
Non-bank	160	230	284	101	89	1,878	*5.0*
Outside reporting area	14	-2	-12	8	63	813	*8.4*
Unallocated by country	1	15	45	-7	4	117	*3.5*
Gross lending	**511**	**807**	**714**	**-103**	**152**	**7,350**	***2.1***
Less: Redepositing of funds in the inside area interbank market	251	397	249	-183	-43	3,690	*-1.2*
Net international bank credit	260	410	465	80	195	3,660	*5.6*
Memorandum items:							
Cross-border lending	436	685	608	-55	177	6,196	*2.9*
Local forex lending	75	122	106	-48	-25	1,154	*-2.1*

Source: BIS (from data reported to the BIS by banks in the BIS reporting area, ie G10 countries, seven other industrialised countries and seven offshore centres).

net repayment of $103 billion in 1991 (see Table C). This revival reflected business in the third quarter, during and after the foreign exchange turbulence, when gross international bank lending was $287 billion. International interbank lending within the BIS reporting area fell by $4 billion, despite a strong rise of $207 billion in the third quarter, primarily within European centres. The growth in lending to non-banks within the BIS reporting area slowed to 5.0%.

Intermediation via the international banking market (net international bank credit)

Intermediation via the international banking market (ie BIS-reporting banks) comprises funds deposited by users outside the BIS-reporting area or by non-banks within the BIS-reporting area, and ultimately (after interbank redepositing) on-lent to other end-users; this excludes purely domestic intermediation, ie it must involve *either* foreign currencies *or* foreign residents *or* both. As Table D shows, such intermediation remained weak in 1992 at $195 billion, with particularly low demand for credit from end-users within the BIS reporting area (only $128 billion) because of slow economic activity and credit concerns in particular sectors such as commercial property. Within the year, however, net international bank credit recovered sharply in the third quarter as banks played a major role in

Table D
Intermediation through the international banking market

Net international bank credit
$ billions; *percentage changes in italics*

	Exchange rate adjusted flows					Stocks	
	1988	1989	1990	1991	1992	1992	
Total source/use of funds	**260**	**410**	**465**	**80**	**195**	**3,660**	***5.6***
of which:							
Outside BIS-area							
Source	42	58	92	-12	11	717	*1.6*
Use	13	-2	-12	8	63	813	*8.4*
Unallocated by country							
Source (eg CDs issued)	32	46	32	55	26	419	*6.6*
Use	1	15	45	-8	4	116	*3.6*
Inside BIS-area							
Source	186	306	341	37	158	2,524	*6.7*
Use	246	397	432	80	128	2,731	*4.9*

Source: BIS.

supplying and absorbing particular currencies. Credit was mainly channelled to end-users in Germany, Japan and the United States by banks in France, Italy, Spain and the United Kingdom. Intermediation in the fourth quarter fell back again to only $15 billion.

Outside-area business

Banks' lending to outside-area countries rose by $63 billion. Deposits from these countries also increased slightly by $11 billion (see Table E), despite a fall of $17 billion in Saudi holdings.

Table E
Business with countries outside the BIS reporting area

$ billions; *percentage changes in italics*

	Exchange rate adjusted flows					Stocks	
	1988	1989	1990	1991	1992	1992	
Outside BIS reporting area:							
Total source of funds	**42**	**58**	**92**	**-12**	**11**	**717**	*1.6*
Total use of funds	**13**	**-2**	**-12**	**8**	**63**	**813**	*8.4*
of which:							
Developed countries							
Source	13	17	8	-3	11	112	*10.9*
Use	2	3	6	—	7	154	*4.8*
Eastern Europe							
Source	4	—	-6	1	10	31	*47.6*
Use	8	9	-10	-1	4	95	*4.4*
Oil Exporters							
Source	12	14	25	-14	-10	218	*-4.4*
Use	5	6	-2	-4	22	154	*16.7*
Non-oil developing							
Source	13	26	65	4	-1	356	*-0.3*
Use	-2	-20	-6	13	30	410	*7.9*
of which:							
Latin America							
Source	3	5	19	-3	—	115	—
Use	-5	-17	-23	—	12	200	*6.4*
Asia							
Source	8	16	35	2	-8	164	*-4.7*
Use	4	—	18	18	19	177	*12.0*

Source: BIS.

Most new lending during the year went to OPEC countries ($22 billion) and the Asian economies ($19 billion). Nearly half of the rise in reporting-banks' claims on OPEC countries reflected lending to unidentified countries in the Middle East. Of the identified claims, lending to Indonesia rose by $6 billion (balanced by a similar increase in deposits). Within Asia, large inflows of banking funds were recorded in China ($6 billion), Thailand ($5 billion), South Korea ($4 billion) and India ($3 billion). These flows are consistent with announcements of gross syndicated credits (see page 227).

Notable changes in deposits included large withdrawals by Saudi Arabia, faced with a growing fiscal deficit, and Taiwan ($12 billion), faced with the financing of a major domestic development plan and the contraction in the local offshore market. At the same time, deposits from the successor republics of the former Soviet Union rose by $6 billion (balanced by a similar rise in lending) and from Malaysia by $4 billion, reflecting a rise in their foreign exchange reserves during the period.

Analysis by centre and currency

As Table F shows, the United Kingdom, with 16.5% of the total stock of external lending, remains the leading centre for cross-border bank lending ahead of Japan (with 14.2%). In

Table F
External lending

$ billions; *percentage share in italics*

	Stocks	Exchange rate adjusted flows					Stocks
	1987	1988	1989	1990	1991	1992	1992
By centre							
United Kingdom	*20.8*	34	55	86	-52	88	*16.5*
Japan	*13.7*	167	153	73	-36	-59	*14.2*
United States	*12.1*	47	47	-28	7	-25	*9.0*
France	*6.3*	23	55	65	-15	75	*7.5*
Switzerland	*3.5*	—	-6	46	-7	6	*6.1*
Germany	*4.9*	17	54	73	10	6	*5.9*
Luxembourg	*4.3*	19	37	42	18	40	*5.4*
Belgium	*3.6*	1	20	23	2	9	*3.2*
Netherlands	*2.7*	15	22	22	7	2	*2.8*
Italy	*1.5*	3	19	2	5	4	*1.7*
Offshore	*22.1*	97	211	183	-1	-5	*23.2*
Other	*4.5*	-4	19	21	7	36	*4.5*
Total	**4,208**	**436**	**685**	**608**	**-55**	**177**	**6,106**
Of which:							
Industrial area	3,278	315	474	425	-53	182	4,756
Of which:							
By currency:							
US dollar	51.7	123	181	140	-76	58	*46.5*
Deutschmark	13.5	43	64	67	-17	72	*14.5*
Yen	13.3	71	113	43	-23	-75	*12.3*
Swiss franc	6.7	-6	-4	19	-7	-4	*4.6*
Sterling	3.6	30	24	34	-29	36	*4.1*
ECU	2.4	16	21	21	16	13	*3.5*
French franc	2.2	5	16	38	20	63	*4.6*
Other	6.6	33	60	63	63	19	*9.9*

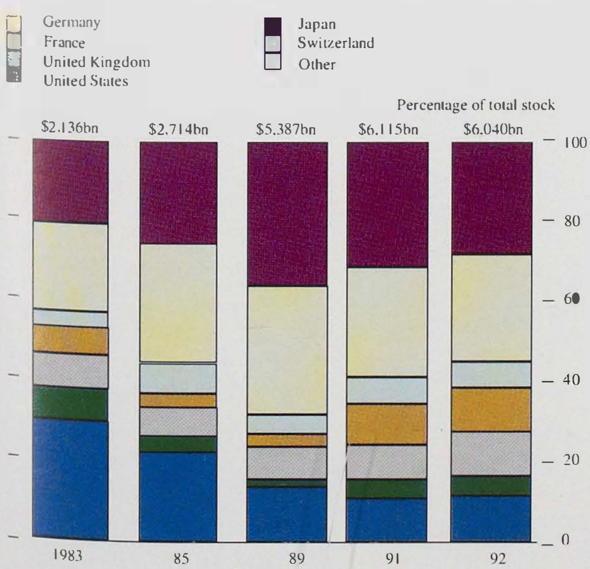
Source: BIS.

1992, lending from the United Kingdom increased by $88 billion whereas lending from Japan fell by $59 billion. Large falls in their local foreign currency claims also pushed the share of international business (comprising cross-border and local foreign currency claims) of banks in Japan below that of banks in the United Kingdom. The yen's share of cross-border lending continued to decline in contrast to the share of individual European currencies, nearly all of which rose strongly.

Analysis by nationality of bank(1)

Chart 10 provides an analysis of international lending by nationality of ownership of reporting banks. Although Japanese-owned banks remained the largest individual nationality group within the BIS-reporting area, in 1992 their share of international banks' assets fell from 31.6% to 27.8%. Among other nationality groups, German banks' share rose by 8.8% to 11.3% and both US-owned banks' and French banks' shares rose to 10.9%. In line with other European banking groups, British banks' share rose (from 4.5% to 4.8%).

Chart 10
International bank assets by nationality of banks(a)



Source: BIS.

(a) Stocks at end-year, includes cross-border and domestic foreign currency lending.

International banking business in London

London is the leading centre for international bank lending, ahead of Japan. The rise in international bank business in London (see Table G) occurred primarily in the third quarter. British banks accounted for a considerable share of the cross-border business but the strongest growth was generated by other EC banks, particularly French and German. Japanese banks' business in London continued to decline.

Table G
External lending of banks in the United Kingdom

$ billions

	Exchange rate adjusted flows					Stocks
	1988	1989	1990	1991	1992	1992
By country						
BIS reporting area	41	57	86	-53	79	887
Outside reporting area:						
Developed countries	-2	-2	1	-1	2	34
Eastern Europe	2	2	-5	-3	-2	11
Oil exporters	1	-1	-2	-2	2	17
Non-oil developing countries	-6	-4	-3	3	2	47
Other	-2	3	9	4	5	24
Total	**34**	**55**	**86**	**-52**	**88**	**1,020**
Of which:						
By currency						
US dollar	5	1	18	-38	38	508
Deutschmark	7	12	18	3	32	156
Sterling	8	5	8	-10	25	86
Yen	8	18	8	-28	-31	67
ECU	7	6	7	1	4	44
By nationality (a)						
Japanese	19	3	-5	-57	-44	248
British	-2	8	-1	-3	24	156
American	1	9	10	3	4	112
German	2	13	28	5	33	132
French	1	-1	5	2	14	48
Italian	8	10	19	2	3	80

(a) Nationality flows only relate to monthly reporting banks whereas other figures also include quarterly reporting banks and some other financial institutions.

In 1992 banks in the United Kingdom recorded rises in both funds received from, and lent to, countries outside the BIS-reporting area (up by $2.4 billion and $4.2 billion respectively). However, within the rise in funds received, deposits from Saudi Arabia fell by $7.3 billion. Lending to Bahrain saw a rise of $3.8 billion with the remainder well spread.

Concluding remarks

Buoyant capital markets and subdued bank lending were features of the international financial markets in both 1991 and 1992. Cyclical elements—falling bond yields and banks' asset quality problems—encouraged companies to borrow directly in the securities markets, rather than from banks. Secular trends, such as progressive capital market

(1) The stock data analysed in this section are converted to dollars at the prevailing end-year exchange rates; appreciation of a currency against the US dollar will therefore increase foreign currency assets when converted into dollars.

liberalisation and the growing use of credit ratings, have had similar effects. For most banks, these trends probably represent both a challenge to their traditional corporate lending business and an opportunity to expand their risk-management capabilities into new areas.

The combination of record bond issues and the opportunities for trading profits in the light of market volatility have contributed to increased profitability at many investment houses and banks' securities subsidiaries. Banks in Japan and the United States benefited from wider margins as interest rates fell. But the cyclical downturn and depressed property prices have affected commercial banks' profitability and balance sheets in many developed countries: for example, reported bad debts rose, especially to property-related borrowers, in France, Japan and Sweden, and remained high in the United Kingdom.

The markets and instruments through which international fund-raising will take place in the near future will no doubt reflect supply-side influences such as the efficiency of capital markets and their demonstrated resilience in the face of market stresses, as well as the continued risk-containment strategies of banks. On the demand side, borrowing will be boosted by substantial refinancing needs as debt issued in the late 1980s matures and by continued demand for funds from the public sector. The interplay of these factors has been evident in early 1993 when international bond issues have reached a new record. A cyclical upturn in a number of large countries would reinforce this trend.