# Financial market developments

## Overview

International bond markets were very active during the first quarter of 1993. Fixed-rate bond issues were a record, almost equalling issues during the last two quarters of 1992 combined. Government borrowers were particularly prominent. Refinancing was high; net corporate borrowing in the international markets remained low. Refinancing is likely to continue at high levels during the rest of 1993.

Confidence revived in some European sectors of the international bond markets, and the share of issues of international bonds in EC currencies recovered to near its pre-September level. Issues of international bonds in Ecu and minor European currencies increased, but were still lower than in the first half of 1992. The deutschmark retained the dominant position in bond issues it gained among European currencies after September. Sterling issues approached record levels.

During the first quarter, greater use was made of new debt instruments structured to meet particular issuer and investor demands. Product innovation continued in the derivative markets, as competition increased and markets developed further. In London, LIFFE further extended its range of European contracts.

Announcements of syndicated credits remained subdued, in contrast with the active bond markets, partly reflecting continued retrenchment by many international banks. In the United Kingdom, France and the Nordic countries, property-related lending still depressed banks' results, and Japanese banks are expected to report a fall in annual profits. US banks' performance continued to improve.

Major equity markets strengthened during the quarter. The rise in the UK stockmarket reflected the effects of lower interest rates; the fall in sterling, which boosted companies' overseas earnings and prospective exports; and greater expectations of domestic economic recovery. New issues and secondary market turnover were high.

## Debt and derivative markets

### *Record bond issues, but net financing unchanged*

International bond issues rose by 70% to reach a record $147 billion in the first quarter of 1993 (Table A). A number of issuers took advantage of low yields to refinance existing debt; and net of redemptions and early repayments, issues were around the same as in the previous quarter. Repayments due on outstanding bonds during 1993 are expected to be some $260 billion in total, and could be much higher if lower yields encourage early redemptions.

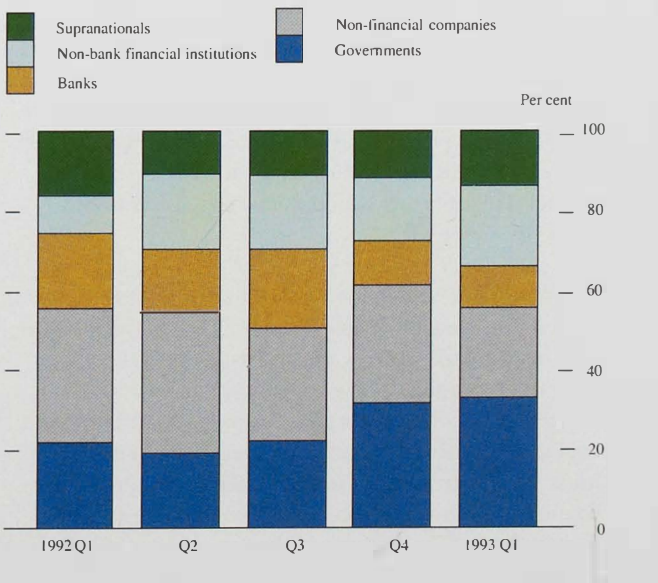
**Table A**
**Total financing activity:(a) international markets by sector**

$ billions, by announcement date

| | 1991 | 1992 | | | | | 1993 |
|---|---|---|---|---|---|---|---|
| | Year | Year | Q1 | Q2 | Q3 | Q4 | Q1 |
| **International bond issues** | | | | | | | |
| Straights | 263.1 | 279.5 | 88.8 | 67.5 | 51.6 | 71.5 | 121.7 |
| Equity-related | 43.8 | 23.6 | 7.1 | 3.4 | 5.0 | 8.4 | 8.6 |
| *of which:* | | | | | | | |
| *Warrants* | *31.8* | *18.3* | *5.3* | *2.4* | *4.4* | *6.3* | *6.2* |
| *Convertibles* | *12.0* | *5.3* | *1.8* | *1.0* | *0.7* | *2.1* | *2.4* |
| Floating-rate notes | 21.8 | 43.0 | 6.1 | 12.7 | 18.2 | 6.0 | 15.6 |
| Bonds with non-equity warrants (currency, gold, debt) | 1.0 | 1.2 | 0.4 | 0.3 | 0.2 | 0.2 | 0.8 |
| **Total** | **329.7** | **347.3** | **102.4** | **83.9** | **75.0** | **86.1** | **146.7** |
| **Credit facilities (announcements)** | | | | | | | |
| Euronote facilities | 73.0 | 118.6 | 31.6 | 25.8 | 28.2 | 33.1 | 15.1 |
| *of which:* | | | | | | | |
| *CP* | *26.9* | *17.3* | *4.1* | *3.2* | *1.7* | *8.3* | *6.1* |
| *MTNs* | *45.8* | *100.6* | *27.4* | *22.1* | *26.5* | *24.7* | *9.0* |
| *NIFs/RUFs* | *0.3* | *0.7* | *0.1* | *0.5* | — | *0.1* | — |
| Syndicated credits | 136.7 | 222.0 | 28.9 | 79.9 | 65.4 | 47.8 | 42.0 |
| **Total** | **209.7** | **340.6** | **60.5** | **105.7** | **93.6** | **80.9** | **57.1** |
| Memo: amounts outstanding | | | | | | | |
| All international | | | | | | | |
| Bonds(b) | 1,648.3 | 1,686.4 | 1,607.1 | 1,707.9 | 1,767.0 | 1,687.2 | 1,741.8 |
| Euronotes(c) | 144.9 | 173.1 | 156.2 | 166.5 | 174.9 | 173.1 | 182.6 |
| *of which, EMTNs* | *38.5* | *61.4* | *41.0* | *47.5* | *53.7* | *61.4* | *77.8* |

(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. Bond total includes issues from MTN programmes.
(b) BIS adjusted figures, including currency adjustment. Includes issues of fixed-rate bonds and floating-rate notes.
(c) Euroclear figures.

**Chart 1**
**International bond issues by borrower**




Source: Bank of England ICMS database.

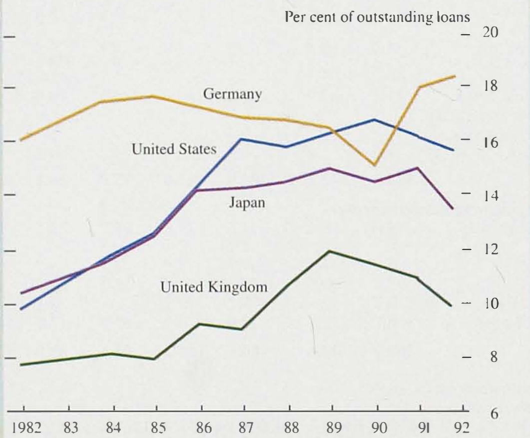
### *Governments were the largest issuers*

As shown in Chart 1, government borrowers accounted for around one third of international bond issues during the first

# Bank lending to the commercial property sector

Banks in a number of countries have been suffering from bad debts in the property sector, particularly relating to commercial property. As Chart A shows, in the United Kingdom, the United States and Japan, domestic banks' lending to the commercial property sector increased as a share of total lending during the 1980s.

**Chart A**
**Banks' commercial property lending** (a)




Source: Central banks.

(a) Domestic lending to construction and property companies as a proportion of total non-bank loans.

Although UK domestic banks' lending was less concentrated in this sector, the rate of increase in lending and the quality of the new assets booked may be as important as the level. It is also important to note that the chart shows only direct lending to construction and property companies. This understates banks' total exposure to the property sector because it takes no account of indirect exposure where banks have lent to business with property as security or where (as happens particularly often in Japan) banks have lent funds to financial institutions which then make loans to the property sector.

Much of the new lending related to office developments in London, New York and Tokyo. The services sector expanded rapidly during the 1980s; in particular, the growth of financial services led to demand for new offices. Pressure on margins as competition increased encouraged banks to take on higher risks, including more speculative office developments. An influx of foreign banks added to competition in some centres. For example, Chart B shows that in the United Kingdom (where foreign banks appear to have been more involved in property lending than in other countries such as France and Japan), some foreign banks increased their lending to the commercial property sector more rapidly than domestic banks during the late 1980s.

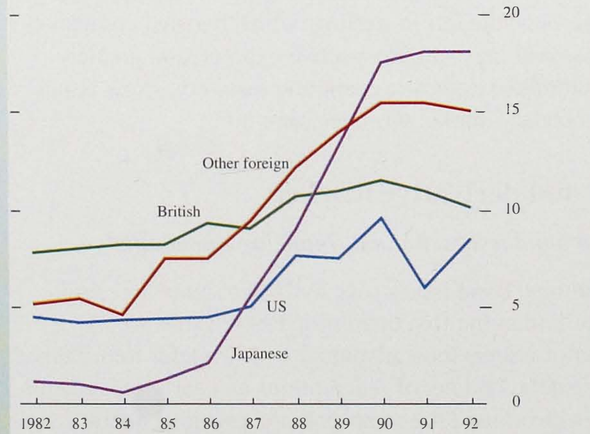
German banks' direct lending to commercial property was a higher proportion of their total lending than at many other international banks during the 1980s, but the level remained stable. Commercial property prices in Germany did not undergo as strong a cycle as in the United Kingdom, Japan or the United States, although prices have since risen, reflecting increased demand following reunification.

Banks from other countries, particularly Finland, Norway and Sweden, have probably suffered the most severe problems over commercial property lending. Several Nordic banks have made net overall losses in recent years owing largely to write-offs of property loans; some of these banks have been given new capital by the national governments. In these countries, deregulation had encouraged a rapid increase in credit during the late 1980s. In Norway, for example, interest payments were made tax deductible and limits on the level of bank lending were removed.

In France, banks have also reported losses on their domestic property lending, largely because of a fall in the price of commercial offices in Paris. Fewer banks appear to be involved than in the other countries mentioned, which may be helpful during restructuring negotiations.

International banks' property-related problems may take longer to work out in the 1990s than it took banks in the United Kingdom to recover from the 1974–75 UK property collapse. The overhang of property is greater, and inflation is likely to be lower, which will slow down the rate at which the real value of borrowers' debts is eroded. The risks in outstanding lending to commercial property are, however, widely spread through the banking sector.

**Chart B**
**UK-based banks' commercial property lending** (a)




(a) Lending to construction and property companies as a proportion of total non-bank loans.

**Table B**
**Sovereign borrowers in the international capital markets**[(a)]

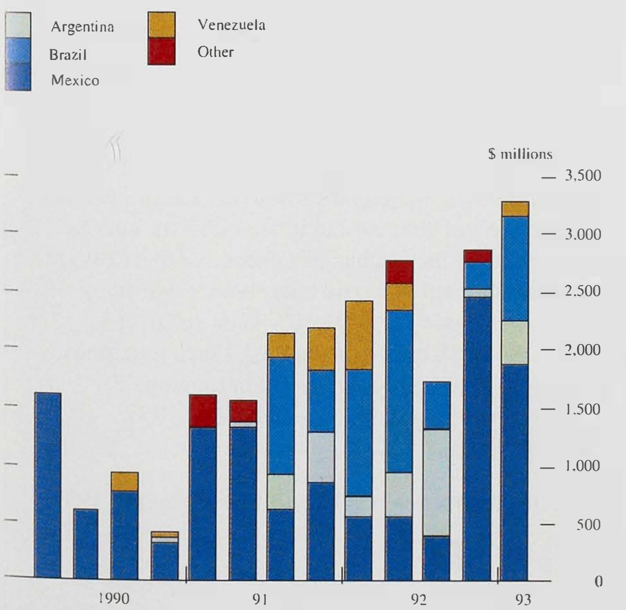
| Country | Amount ($ billions) | Number of currency sectors |
|---|---|---|
| Denmark | 1.9 | 3 |
| Finland | 3.6 | 4 |
| France | 3.2 | 1 |
| Greece | 1.7 | 3 |
| Ireland | 1.4 | 2 |
| Italy | 3.0 | 1 |
| Spain | 2.4 | 1 |
| Sweden | 5.4 | 4 |
| United Kingdom | 0.6 | 1 |
| Other | 6.9 | 5 |
| **Total** | **30.1** | |

Source: Bank of England ICMS database.

(a) First quarter 1993.

quarter, compared with around one fifth during the last three years. Many Western European governments came to the market to replenish foreign exchange reserves, to repay short-term loans extended during the currency turbulence last autumn or to finance widening deficits. As Table B shows, Sweden and Finland were the largest borrowers; France, Italy and Spain were also prominent.

**Chart 2**
**Latin American international bond issues**




Source: Bank of England ICMS database.

The value of eurobond issues by Latin American borrowers in the first quarter of 1993 was the highest since their return to the capital markets in 1989–90, as shown in Chart 2. The range of borrowers was wider (for example, Argentinian and Brazilian banks were prominent) than in the previous quarter, when Mexican borrowers accounted for the vast majority of new issues. This reflected a revival in investors' confidence that reform programmes could be effective and sustainable, and investors' search for higher returns as bond yields continued to fall in major countries.

### *Currency sectors*

The share of EC currencies in total bond issues, which halved to 26% in the third quarter after last autumn's disturbance in European currency markets, has since returned close to its levels in the first half of 1992. The shares of Ecu, sterling, lira, peseta and escudo issues all increased. The gap between some European government bond yields and those on bunds narrowed; the actual yield on Ecu bonds fell below the theoretical yield for the first time since the turmoil of the autumn.

Deutschmark borrowing continued to dominate European issues as it has done since September's currency uncertainties (see Table C). Some of the largest issues of eurodeutschmark bonds were listed in London, after the German authorities introduced measures to liberalise the market last August to allow these bonds to be listed outside Frankfurt and to be governed by a law other than German.

**Table C**
**Currency composition of fixed-rate bond issues**[(a)]

Percentage of total issues announced

| | 1991 | 1992 | | | 1993 |
|---|---|---|---|---|---|
| Currency denomination | Year | Year | Q3 | Q4 | Q1 |
| US dollar | 29 | 33 | 43 | 31 | 30 |
| Ecu | 12 | 7 | — | — | 5 |
| Deutschmark | 4 | 11 | 7 | 18 | 17 |
| Swiss franc | 5 | 5 | 6 | 8 | 3 |
| Sterling | 7 | 7 | 6 | 8 | 9 |
| Canadian dollar | 10 | 6 | 6 | 1 | 11 |
| Yen | 15 | 14 | 14 | 17 | 13 |
| French franc | 7 | 9 | 7 | 10 | 7 |
| Italian lira | 3 | 2 | 1 | — | 1 |
| Other | 8 | 6 | — | 7 | 4 |
| **Total** | **100** | **100** | **100** | **100** | **100** |

(a) Excluding equity-related issues.

The Bank held its regular monthly Ecu Treasury bill auctions, and held tenders for two tranches of a new Ecu Treasury note. The bill auctions in February and March were subject to maximum yields announced on the day of the auction (at around 10 basis points below Libid), a procedure introduced in October to bolster confidence after the currency disturbances. Bidding at auctions improved progressively and in April the Bank reverted to the normal practice of holding auctions without a maximum yield. Almost all of the bills were sold at acceptable levels below Libid. Monthly turnover stayed at around ECU 1½–2 billion during the quarter.

The first tender for HMG's Ecu Treasury note maturing in January 1996—the second in a series of three-year notes—was postponed from January to early February, in response to pressures on some of the component currencies of the Ecu. The tender (for ECU 500 million) was almost five times oversubscribed at yields of 7.99%–8%, reflecting the benchmark status of this debt in the Ecu market. A further ECU 500 million of the issue was sold by tender as scheduled on 20 April. Total bids were over ECU 2 billion, and notes were allotted at yields in a tight range of 7.31% to 7.33%. Average monthly turnover in the new note was around ECU 1½ billion during the quarter

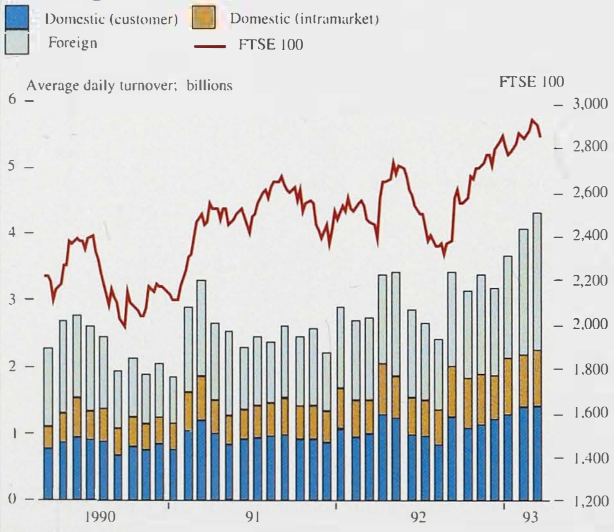
The sterling sector saw a big increase in debt issues announced as issuers took advantage of falling short-term yields early in the quarter and historically low long-term yields towards the quarter end. New sterling debt issues announced totalled over £9 billion, compared with just under

# London Stock Exchange: first quarter 1993

## Equity prices, issues and turnover

The FTSE 100 continued to rise during the first quarter, as shown in Chart A, and reached a new all-time high of 2,957 early in March. The new FTSE 250 and Small Cap indices rose by 7.3% and 12.4% respectively over the quarter.

### Chart A
### Equity turnover and prices on the London Stock Exchange




Issues of new equity announced by UK companies in the first quarter rose sharply, stimulated by prospects of increased output and the rise in equity prices since sterling's withdrawal from the ERM. At £5.5 billion, the level of new issues announced was three times the quarterly average in 1992 as a whole. A large number of rights issues were announced, including the £1.3 billion issue for Zeneca (the largest UK cash call ever) in connection with the proposed demerger of ICI. These rights issues have tended to be more favourably received this year than last, with funds more typically being raised to finance expansion or acquisitions rather than to restructure balance sheets.

Secondary market turnover was very high, with daily turnover of UK stocks averaging some £2.2 billion. Within this, customer business was a record £1.4 billion. Spreads consequently reduced in each category of stocks (although proportionately more for second and third line stocks than for the FTSE 100), reaching their narrowest since the new categories were introduced at the start of 1991.

Daily turnover of overseas stocks by Exchange member firms averaged some £1.9 billion, the highest since data became available in 1989. As Chart B shows, London remains the principal centre of trading of overseas equities . Some 63% of global business in overseas stocks took place on the London Exchange in 1992, almost three times that in the next largest stock market, the New York Stock Exchange. Around two thirds of overseas stocks traded in London are European and one fifth are Japanese.

## Gilts turnover

Average daily turnover in the gilt-edged market (including intramarket business), at £6.3 billion, was the highest for some years. The average daily number of bargains fell from 4,077 in the fourth quarter to 3,614.

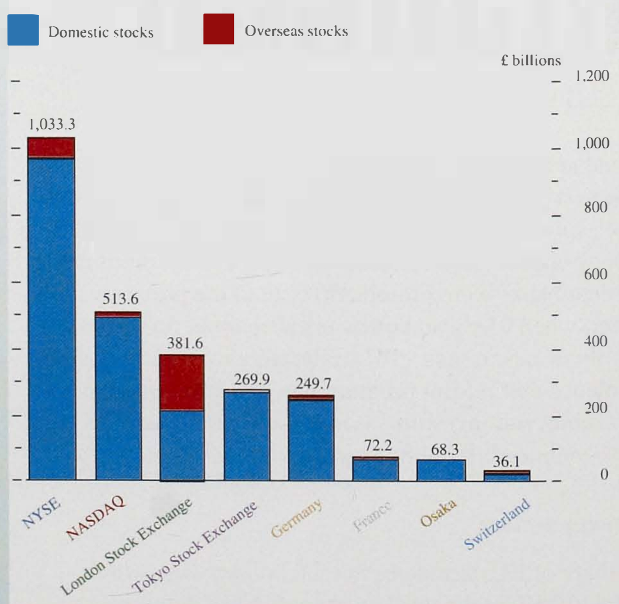
## The future of the USM

The Stock Exchange issued a consultative paper in December 1992, detailing plans to phase out the Unlisted Securities Market (USM) by the end of 1995, with no new entrants to be admitted to the market after June 1993. In response to the submissions received, the Exchange has decided to allow new entrants to join the USM until the end of 1994, with an eventual phasing out some time after the end of 1996. A working group has been established by the Exchange to examine whether there is a need for another junior market to succeed the USM and, if so, to produce recommendations on the appropriate market structure and regulation.

## TAURUS

The TAURUS project, intended to dematerialise all UK share certificates, was halted on 11 March. The project had substantially overrun budgets and timetables. An internal review presented by the Exchange's executive to its Board estimated that completion would take another two years and cost as much again as had already been spent. The Governor of the Bank established a Task Force to define a new way forward for equity settlement in London. The Task Force is due to report by the end of June 1993.

### Chart B
### Turnover on the major world equity markets in 1992



£16 billion in the whole of 1992. Overseas issuers accounted for over 40% of these, with financial institutions prominent. In the fixed-rate sector, Abbey National announced the largest ever single sterling transaction in the international bond market, a £650 million ten-year issue.

US dollar-denominated issues continued at around one third of fixed-rate bond issues during the first quarter; borrowers were attracted by falling yields. There was a sharp rise in euro-Canadian dollar issues, as issuers took advantage of wide swap spreads; new fixed-rate bond issues totalled $13 billion, most of which was swapped into other currencies. This compares with $1 billion in the last quarter of 1992, when uncertainty about the outcome of the Constitutional election deterred both investors and issuers.

### *Turnover of fixed-rate bonds*

Secondary market trading of fixed-rate bonds was high during the first quarter, totalling $3,600 billion. Trading of fixed-rate deutschmark bonds was particularly strong, and accounted for around one third of turnover, compared with one quarter in the same period in 1992. The DM 5.5 billion five-year and $3 billion ten-year bonds, launched last year to complete HMG's foreign currency borrowing programme, continued to trade well and are both among the most actively traded eurobond issues settled through Euroclear.

### *Equity-related bonds*

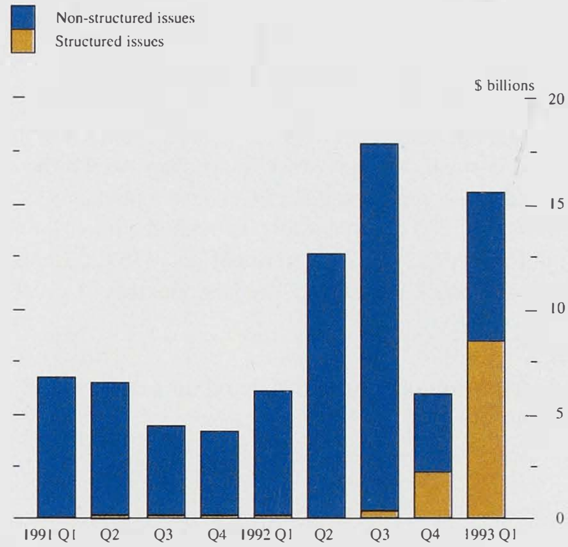
Although lower than in 1987–89, equity-related bond issues have increased over the last two quarters, reflecting a rise in Japanese equity prices to which most such issues are linked. Issues by Japanese borrowers (mainly in Swiss francs and dollars) accounted for one half of the new issues during the first quarter of 1993. Some of these refinanced Japanese companies' expiring equity-warrant bonds, which are expected to total around $80 billion in 1993. Several sterling convertible issues were announced. Issuers sought to take advantage of rising UK share prices and low interest rates, and investors were keen to gain future exposure to the equity market while initially receiving a specified income stream.

### *Floating-rate notes*

Issues of floating-rate notes more than doubled in the first quarter of 1993 (see Chart 3). Around one half were structured issues (mainly by banks and financial institutions), designed to take advantage of investors' and issuers' expectations of future movements in interest rates. In the eurodollar market, there were further issues of collared FRNs. These are linked to short-term Libor but have a minimum interest rate floor and a maximum rate cap. The first such issues in sterling were launched, made viable by the steepness of the yield curve after the UK base rate cut on 26 January. The borrowers were financial institutions seeking long-term funds but keen to take advantage of much lower short-term rates.

The first step-up recovery FRNs ('SURFs'), collared notes linked to long-term interest rates, were issued. Reverse

**Chart 3**
**Floating-rate note issues**




Source: Bank of England ICMS database.

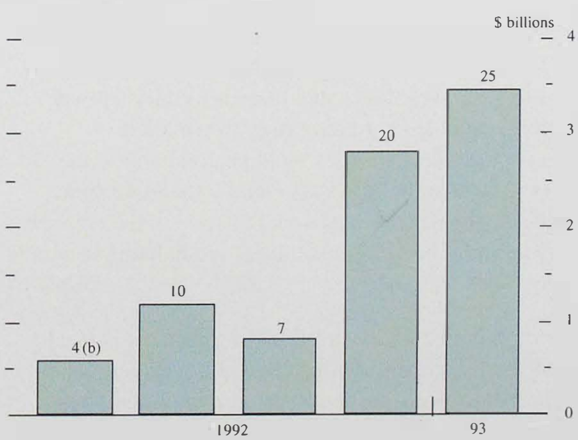
Note: structured issues pay maximum and minimum coupons, for example, or might be negatively linked to interest rates.

FRNs, which pay coupons negatively linked to interest rates, were issued in both public and private markets in deutschmarks, French francs, lire, Swedish kroner and (for the first time) in sterling. Investors benefit initially from a higher rate than is available on a straight FRN, which is intended to compensate for the risk of a lower yield when the coupon is reset.

### *Euromedium-term notes*

Net issues of euromedium-term notes (EMTNs) were a record $16 billion, as borrowers used existing EMTN programmes extensively during the first quarter. But only eight new EMTN programmes were arranged, which is the lowest quarterly total since mid-1991. EMTN issues tend to be smaller than eurobond issues and targeted at specific investors. Borrowers are, however, increasingly seeking to launch large underwritten issues off their programmes, which can save documentation and administrative costs (see Chart 4).

**Chart 4**
**Underwritten EMTN issues (a)**



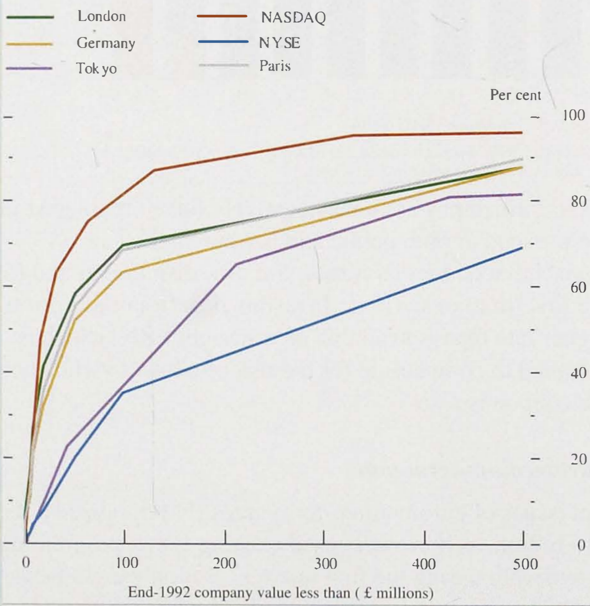

Source: Bank of England ICMS database.

(a) Euromedium-term note issues underwritten by a syndicate of investment banks.
(b) Number of issues.

# Trading in small company shares

More small companies are listed on the London Stock Exchange than on any other major exchange, except for NASDAQ, the formalised US over-the-counter market which specialises in small company stocks (see Chart A). Of the 1,593 listed UK companies, 932 (59%) have a market capitalisation of £50 million or less, compared with 441 (55%) in France, 343 (52%) in Germany and 476 (20%) on the New York Stock Exchange. The large number of small company listings in the United Kingdom has been attributed to various factors, including the UK tax system (in particular inheritance tax) which encourages liquid family holdings; the use of flotation to refinance companies previously backed by venture capital firms; the greater availability of information about small companies; and the typical UK pattern of transaction-based banking relationships, which encourages greater use of the equity market as an alternative source of funds.

**Chart A**
**Size distribution of companies listed on major world exchanges**

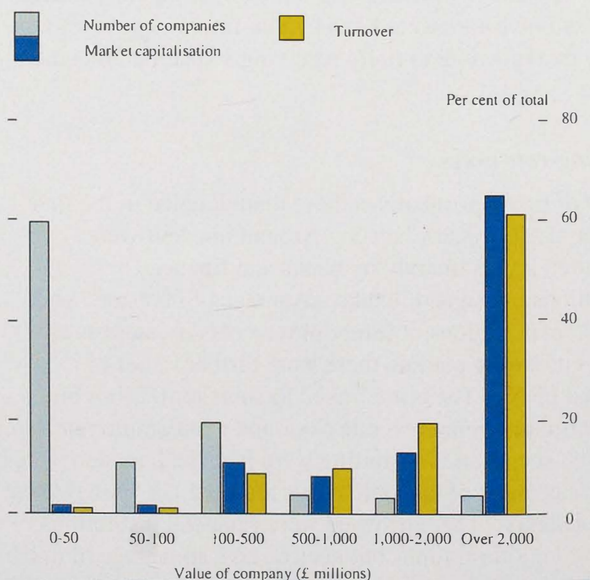



Small company stocks constitute most of the 1,173 'less liquid' UK share issues, as defined by the Exchange.(1) Each issue has fewer shares and there is usually a lower proportion available for trading (the 'free market capitalisation') than for issues by large companies (see Chart B). The shareholdings also tend to be more static, held either by those with a personal interest in the company or on a long-term basis by institutions specialising in small company funds.

Neither of the most widely used trading systems is ideally suited to small company stocks. In a quote-driven system (used for most stocks on the Exchange), intermediaries provide assured liquidity at a cost: they may find it harder to unwind positions in less liquid stocks and are remunerated for this through wider dealing spreads. In practice, many market-makers have found this business unprofitable. In an order-driven system, investors deal direct (thus avoiding payment for risk-taking to an intermediary), but may not be able to find a counterparty at the time and price at which they want to trade.

The Exchange has tried three different trading structures for small company shares: a competing market-maker system, SEAQ; an order-driven system, the Company Bulletin Board Service, introduced in April 1992; and a hybrid system, SEATS, introduced in November 1992. Under SEATS there is a single market-maker continuously quoting firm two-way prices for deals of small size (on average 1,500 shares) and investors are able to place limit orders. Under SEAQ, spreads were wide (averaging at least 10% for less liquid stocks), and poor profitability made intermediaries reluctant to act as market-makers. Investors were dissatisfied with SEAQ's replacement for the 100 most illiquid shares, the Bulletin Board, as they were unable to deal quickly even in small size. The introduction of SEATS, which covers at present 118 small company shares, has received favourable comment from the market. Investors can deal immediately in retail size and they can also post limit orders to exploit any natural liquidity which a stock might have, thus not paying a dealing spread. The single market-maker also benefits as it can deal with a wider range of traders. So far, spreads have narrowed slightly under this system, reflecting the lower risk to market-makers.

**Chart B**
**Distribution of UK listed companies, turnover and capitalisation by size of company in 1992**



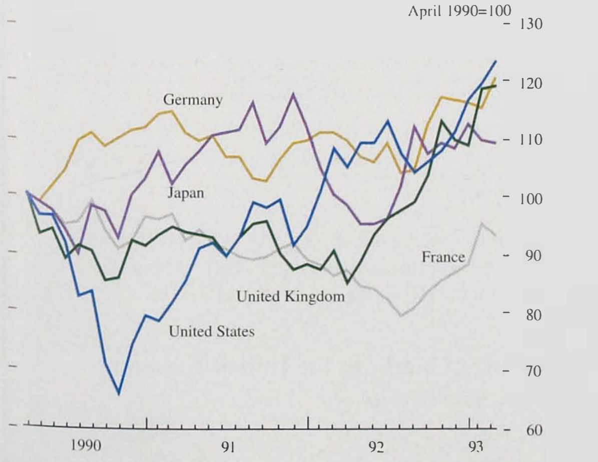

(1) Stocks for which the Normal Market Size (2.5% of the value of average daily trading in the stock converted into numbers of shares) is 1,000 or less.

*Syndicated credits and banks' performance*

Announcements of syndicated credits remained subdued during the quarter. The total value, at $42 billion, was 14% below the previous quarter and around one third of total international bond issues. About one quarter of the international syndicated credits announced were to refinance existing facilities, around the same as in 1992. Asian borrowers have increased their borrowing in this market in the last two years; Thai borrowers (particularly financial institutions, which may on-lend funds domestically) were particularly prominent in the first quarter. Small commercial syndicated credits were arranged for the first time for Estonia, Slovakia, Russia and the Czech Republic.

The low level of syndicated credit announcements partly reflected retrenchment by many banks, against a background of continuing concern over the credit quality of borrowers, an increased emphasis on the efficient use of capital and slow economic growth. These factors were reflected in poor reported results by banks in a number of countries, including the United Kingdom. Market expectations are for Japanese banks' pre-tax profits to be lower than in 1991/92, reflecting continuing weakness in the Japanese economy and further provisions and write-offs. (However, within this, operating profits are expected to increase, owing to the effect of falling interest rates on margins.) By contrast, US banks continued to report high profits, against a background of buoyant securities and foreign exchange markets and some further

**Chart 5**
**Banks' share prices relative to local equity markets**




Source: Datastream.

cost-cutting. As a result, US bank share prices further outperformed the rest of the equity market, as shown in Chart 5. UK banks' share prices also rose strongly owing largely to expectations that the banking sector would be among the first to benefit from economic recovery.

*Derivative markets*

Despite lower price volatility in some markets, the derivative markets developed further in the first quarter, and inter-exchange competition continued to increase. Turnover on major futures exchanges grew strongly, notably in interest rate futures and some equity derivatives. In London, total exchange-traded turnover rose by over one fifth in the first quarter and was almost 30% higher than in the same period last year. Turnover on LIFFE was up by around one third, with growth of over 60% in trading of Italian interest rate products, reflecting uncertainty in the underlying cash market. In over-the-counter (OTC) markets, record eurobond issues stimulated swap activity and helped to keep dollar swap spreads low.

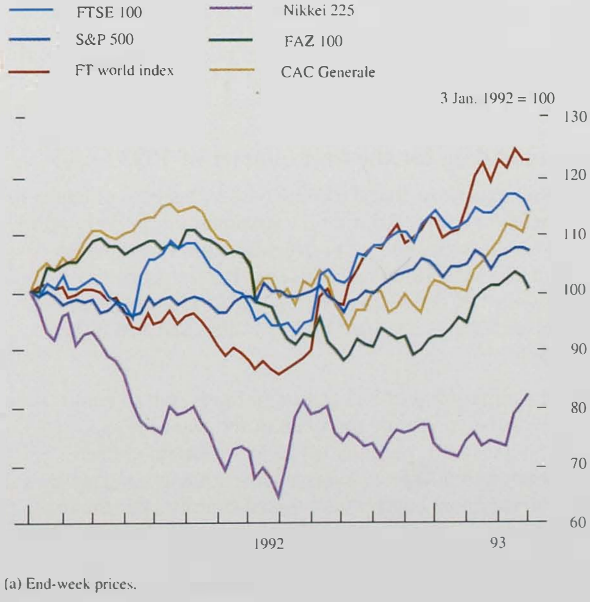
More new derivative products and techniques were launched on exchanges and OTC markets during the quarter, in response to growing international competition, regulatory changes and increasing demand for refined techniques of risk control and international investment. LIFFE added two contracts to its range of European products: a medium-term German government bond future ('Bobl') and a ten-year Spanish government bond future ('Bonos'). LIFFE's new German contract completes its coverage of the DM yield curve, intensifying competition with Frankfurt's Deutsche Terminbörse (DTB). Trading in LIFFE's DM bond contracts reached record levels in March. The Spanish contract competes directly with an existing contract on the Spanish electronic futures exchange.

There were two major moves during the quarter to connect exchanges more closely. MATIF launched two contracts on GLOBEX, the worldwide electronic trading system developed by the Chicago Mercantile Exchange and Reuters. These are the first products to be listed on GLOBEX by a European exchange. The DTB and MATIF announced that they intended to link their markets to give their members joint access to contracts currently traded on only one of the exchanges, by using a modified version of the DTB's automated trading system. Other European exchanges may be invited to join the network.

## Equity markets

Major stock markets strengthened in the first quarter of 1993 (see Chart 6); the FT world index rose 6% in local currency

**Chart 6**
**Equity indices** (a)




(a) End-week prices.

# International activity of banks in the BIS reporting area

The growth in international activity of banks in the BIS reporting area slowed in the fourth quarter (see table). Interbank lending between reporting banks fell by $19 billion, the first ever fourth-quarter decline, as Japanese banks continued to retrench; their lending fell by $43 billion (mostly in yen), more than could be accounted for by the possible unwinding of positions built up at their mid-year accounting period in September. On local markets, foreign currency lending fell by $31 billion, more than accounted for by Sweden (a drop of $19 billion), Japan ($15 billion) and the Benelux countries ($10 billion). Total lending in foreign currencies fell by $13 billion. Lending was lower in several currencies including yen ($10 billion), the Swiss franc ($5 billion), sterling ($3 billion) and the Ecu ($2.6 billion). By contrast, lending in US dollars rose sharply ($23 billion).

The expansion of banks' lending to countries outside the BIS reporting area slowed from $19 billion in the third quarter to $11 billion. This mainly represented lower borrowing by non-OPEC Asian countries, in particular Taiwan ($2.6 billion). Within non-OPEC Latin American countries lending rose to Argentina ($1.7 billion), Brazil ($0.7 billion) and Chile ($0.5 billion) and borrowing by Mexico fell ($1.3 billion).

## The London market—fourth quarter 1992

Cross-border business of banks in the United Kingdom rose strongly during the fourth quarter of 1992, with funds received from and lent to overseas countries up by $36.6 billion and $10.3 billion respectively (see chart). This continues the upsurge in the third quarter, mainly in September at the time of the turbulence in the currency markets. In total, cross-border business grew by over $80 billion (around 9%) in the second half of 1992.

The major factor was a continuing increase in business with banks within the BIS reporting area, particularly in Europe and the United States. Banks in the United Kingdom received increased funds from banks in France ($14.4 billion), Spain ($5.1 billion) and the United States ($7.2 billion) and sent more funds to banks in France ($6.9 billion), Germany ($4.7 billion) and the United States ($4.1 billion). By contrast, business with Japan continued to fall; deposits from and lending to Japan decreased by $6 billion and $3.8 billion respectively.

Business with non-banks within the BIS reporting area also increased. German non-banks placed an additional $7.7 billion of deposits with banks in the United Kingdom, more than accounting for the small increase overall. Over half of the increased lending was to Canada ($1.8 billion) and Italy ($2.1 billion), with the remainder well spread.

Outside the BIS reporting area, business declined slightly. But deposits from Latin America rose by $1.3 billion to $10.3 billion, sustaining the strong increase in the third quarter.

## Provisional data for the first quarter of 1993

Provisional data show that the cross-border business of banks in the United Kingdom fell during the first quarter of 1993, with funds received from and lent to overseas countries down by $4 billion and $10 billion respectively. Foreign currency business with UK residents also fell, so that total international liabilities and claims declined by $11 billion and $16 billion respectively.

There was a sharp fall of $27 billion in funds sent to banks' own offices overseas, reversing the trend of the two previous quarters, but this was partially offset by a continued rise ($24 billion) in holdings of overseas investments. Japanese banks' international business decreased sharply after the rise, against the recent trend, in the previous quarter; American banks showed a marginal decline. By contrast, British banks' international business increased (funds received and lent up by $8 billion and $6 billion respectively) and other EC banks, notably German, increased funds received and lent by $18 billion.

### Cross-border business of banks in the BIS reporting area[(a)]

$ billions: changes exclude estimated exchange rate effects

| | 1991 | 1992 | | | | Levels | Changes |
|---|---|---|---|---|---|---|---|
| | Q4 | Q1 | Q2 | Q3 | Q4 | at end Q4 | 1993 Q1(b) |
| **Liabilities to countries:** | | | | | | | |
| BIS reporting area | 40 | -43 | -49 | 133 | 11 | 5,081 | |
| *of which, interbank* | *50* | *-60* | *-54* | *120* | *-3* | *4,124* | |
| Outside BIS reporting area | 3 | -5 | 6 | 14 | -3 | 717 | |
| Unallocated | 17 | 13 | 7 | 1 | 4 | 419 | |
| **Total** | **60** | **-35** | **-36** | **148** | **12** | **6,217** | |
| **Claims on countries:** | | | | | | | |
| BIS reporting area | 104 | -61 | -38 | 207 | 3 | 5,267 | |
| *of which, interbank* | *85* | *-86* | *-73* | *155* | *-19* | *3,986* | |
| Outside BIS reporting area | 17 | 14 | 19 | 19 | 11 | 813 | |
| Unallocated | -8 | 3 | 1 | -3 | 2 | 116 | |
| **Total** | **114** | **-44** | **-18** | **223** | **16** | **6,196** | |
| **Of which transacted by banks in the United Kingdom(c)** | | | | | | | |
| **Liabilities to countries:** | | | | | | | |
| BIS reporting area | - 2.8 | -16.4 | - 8.0 | 40.6 | 35.2 | 845.6 | |
| *of which, interbank* | *1.2* | *-13.7* | *- 3.6* | *34.8* | *29.8* | *419.7* | |
| Outside BIS reporting area | - 2.3 | -1.1 | 4.5 | 1.6 | -2.6 | 161.4 | |
| Unallocated | 0.8 | 1.6 | 4.3 | 9.1 | 4.0 | 110.8 | |
| **Total** | **-4.3** | **-15.9** | **0.8** | **51.3** | **36.6** | **1,117.8** | **-4** |
| **Claims on countries:** | | | | | | | |
| BIS reporting area | -7.6 | -7.6 | 1.4 | 62.8 | 21.3 | 886.8 | |
| *of which, interbank* | *-10.5* | *-16.9* | *- 2.8* | *42.0* | *14.4* | *452.5* | |
| Outside BIS reporting area | -0.5 | 3.3 | 1.1 | 1.1 | -1.3 | 108.6 | |
| Unallocated | -1.8 | 0.7 | 7.7 | 6.6 | -9.7 | 24.3 | |
| **Total** | **-9.9** | **-3.6** | **10.2** | **70.5** | **10.3** | **1,019.7** | **-10** |
| **UK claims by currency** | | | | | | | |
| US dollar | -8.5 | -8.1 | 7.8 | 12.8 | 25.0 | 508.3 | -24.7 |
| Deutschmark | -9.8 | -0.9 | -1.7 | 24.6 | 10.1 | 156.3 | 5.0 |
| Sterling | -2.6 | 1.1 | 6.3 | 23.2 | -5.8 | 86.2 | 2.0 |
| Japanese yen | -11.7 | -3.5 | -11.6 | -3.9 | -12.4 | 67.2 | 2.0 |
| Ecu | -3.4 | 2.1 | -1.9 | 4.6 | -0.8 | 43.8 | . . |
| **UK claims by nationality of banks:** | | | | | | | |
| Japanese | -7.8 | -26.4 | -12.0 | -13.1 | 6.2 | 248.0 | -21 |
| British | 0.9 | 2.9 | 3.0 | 16.0 | 1.6 | 156.2 | 7 |
| German | 2.1 | 4.1 | 3.7 | 25.6 | 2.5 | 131.5 | 10 |
| American | -1.9 | 0.7 | -2.3 | -3.0 | 9.0 | 111.8 | -2 |
| Italian | 2.9 | -0.6 | 1.7 | 5.3 | -3.1 | 79.9 | -3 |
| French | — | 3.5 | -2.6 | 11.0 | 2.1 | 48.2 | 5 |

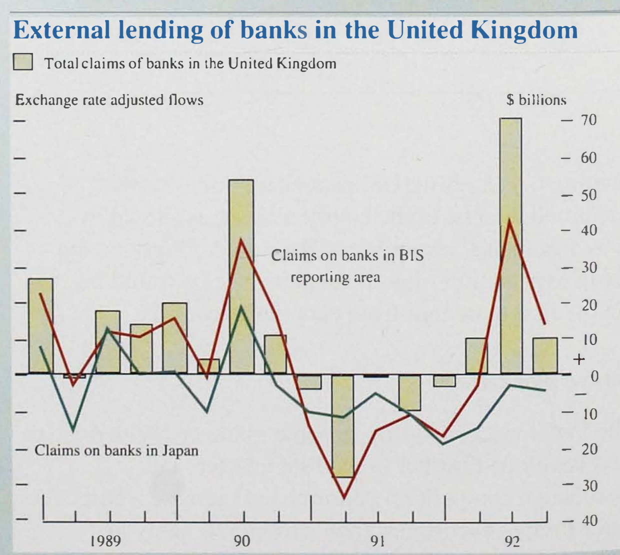
. . not available.

(a) BIS reporting area comprises the G10 countries, plus seven other industrialised countries, plus six offshore centres. More details are given in a press release published by the Bank for International Settlements on 11 May entitled 'International banking and financial market developments'.

(b) 1993 Q1 changes are provisional. Nationality and Q1 changes only relate to monthly reporting banks.

(c) Both UK incorporated banks and UK branches of foreign banks; also includes some other financial institutions. More details by country, currency and sector are given in a press release issued on 24 March 1993.

### External lending of banks in the United Kingdom



terms. US equity markets benefited as in previous quarters from investors switching funds out of low-yielding money-market instruments and into equities. Japanese share prices rose particularly sharply near the end of the quarter, apparently buoyed by expectations of a new fiscal package, increased demand from foreign investors and public sector support.

In the United Kingdom, share prices continued to rise during the first quarter, helped by sterling's depreciation and lower interest rates. The rise was, however, less strong than in the previous quarter, partly reflecting the degree to which expectations of domestic recovery had already been discounted. Hopes of further interest rate cuts in Germany led to rises in equity prices in major continental European markets.

Among the smaller European markets, the Finnish equity market saw some of the largest price increases, with devaluation of the markka encouraging foreign investors to take advantage of new higher limits on their Finnish equity holdings.

The Hong Kong stockmarket rose sharply in the first quarter, as strong economic performance (reflected in increases in reported profits of more than 30% by major domestic banks) more than offset the political concerns which depressed the market during the second half of 1992.