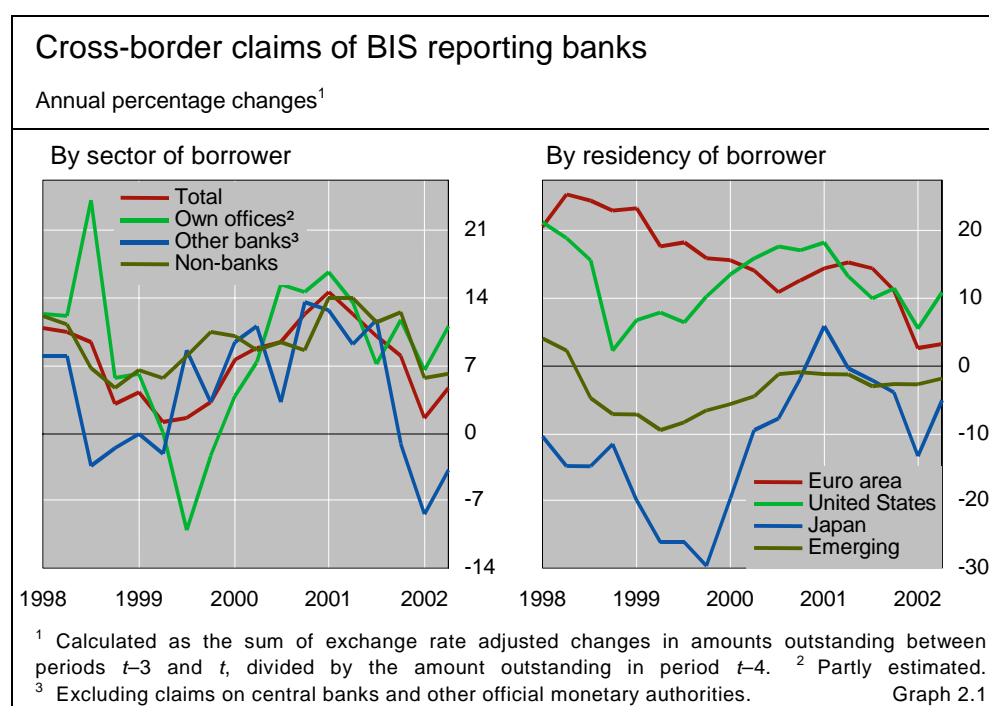


## 2. The international banking market

Following several quarters of decelerating growth, international banking activity began to stabilise in the second quarter of 2002. The retrenchment of Japanese banks and the fall-off in the growth of German banks' cross-border claims showed signs of settling down. The annual rate of increase in credit to governments and other non-bank borrowers was unchanged from the first quarter at 6%. The growth of credit to non-banks continued to outpace that of credit to banks, contributing to a shift in the sectoral composition of banks' international balance sheets towards non-banks.

In emerging markets, banks cut back their claims on Brazil and other countries with high public debt burdens. Faced with difficult financing conditions, residents of Brazil met their need for dollar liquidity by withdrawing funds from banks in the BIS reporting area. By contrast, cross-border claims on stronger credits such as Korea and Mexico increased, contributing to the third consecutive quarter of net inflows into emerging markets.



Cross-border claims of BIS reporting banks								
Exchange rate adjusted changes in amounts outstanding, in billions of US dollars <sup>1</sup>								
	2000	2001	2001			2002		Stocks at end-Jun 2002
	Year	Year	Q2	Q3	Q4	Q1	Q2	
Total claims	1,221.5	852.9	-95.7	-12.6	230.9	46.9	242.8	12,539.8
By instrument								
Loans and deposits	738.0	606.4	-105.1	-52.1	159.6	-8.6	101.4	9,382.5
Securities <sup>2</sup>	483.5	246.5	9.4	39.5	71.3	55.5	141.4	3,157.3
By currency								
US dollar	513.0	423.7	-5.2	13.3	184.5	48.2	190.4	5,475.4
Euro	455.6	439.3	8.2	46.5	-12.2	43.6	105.9	3,913.7
Japanese yen	94.6	-65.3	-14.9	-50.9	6.6	-81.5	5.1	703.7
Other <sup>3</sup>	158.3	55.2	107.6	-21.5	-52.0	36.6	-58.6	2,447.0
By sector of borrower								
Own offices <sup>4</sup>	523.0	451.4	-73.7	-22.8	350.0	3.9	80.0	4,339.4
Other banks <sup>4,5</sup>	409.7	-40.6	-82.4	-3.3	-213.8	-0.3	83.8	3,925.3
Non-banks	288.8	442.1	60.4	13.5	94.7	43.3	79.0	4,275.1
By residency of borrower								
Advanced economies	1,126.4	799.6	-72.2	4.8	197.9	39.5	210.2	9,806.9
Euro area	389.0	368.7	18.8	9.2	8.4	55.2	35.2	3,997.8
Japan	-12.0	-23.3	-25.1	-24.6	28.0	-52.3	22.0	516.3
United States	309.0	236.6	16.6	16.6	73.8	14.4	132.8	2,515.4
Offshore centres	51.5	55.2	-23.3	3.1	24.9	-7.3	24.3	1,542.9
Emerging economies	-7.9	-23.3	-4.1	-18.6	1.4	-2.9	3.4	887.9
Unallocated <sup>6</sup>	51.5	21.3	4.4	-2.0	6.8	17.7	4.9	302.2
<i>Memo: Local claims<sup>7</sup></i>	<i>207.1</i>	<i>88.9</i>	<i>-31.0</i>	<i>-1.2</i>	<i>-1.6</i>	<i>65.5</i>	<i>-41.4</i>	<i>1,666.4</i>

<sup>1</sup> Not adjusted for seasonal effects. <sup>2</sup> Mainly debt securities. Other assets account for less than 5% of total claims outstanding. <sup>3</sup> Including unallocated currencies. <sup>4</sup> Partly estimated. Owing to errors and omissions, claims reported above may differ from data reported in Table 8 in the Statistical Annex. <sup>5</sup> Borrowers other than own offices, official monetary authorities (eg central banks) and non-banks. <sup>6</sup> Including claims on international organisations. <sup>7</sup> Foreign currency claims on residents of the country in which the reporting bank is domiciled. Table 2.1

## Activity stabilises after several quarters of declines

The annual growth rate of cross-border bank credit rose to 4½% in the second quarter following four quarters of deceleration (Graph 2.1). In seasonally unadjusted terms, the outstanding stock of cross-border claims booked by banks in the BIS reporting area increased by \$243 billion between end-March and end-June 2002, to \$12.5 trillion (Table 2.1).

Among the largest economies, the growth of cross-border credit was again fastest vis-à-vis the United States (Graph 2.1). The annual growth of claims on US borrowers returned to the 11% year-on-year growth trend evident in late 2001, after unusually depressed growth in the first quarter. Claims were boosted by cross-border purchases of debt securities issued by US residents. In particular, Japanese banks, which had reduced their holdings of US debt securities in late 2001 and early 2002, stepped up their purchases in the second quarter. Interbank and inter-office activity between the United States and banking centres in the Caribbean also supported the growth of claims.

Cross-border claims on US borrowers continue to increase ...

... while those on Japan contract

In Japan too, the trend in cross-border activity apparent in late 2001 re-emerged. Claims on Japanese borrowers contracted by 5% in the second quarter, less than the 13% fall in the first but in line with the rate of decline in the second half of 2001. Increased purchases of Japanese government bonds contributed to a modest acceleration in the annual growth of cross-border credit to non-banks in Japan, to 2% (see below). Furthermore, Swiss, French and Dutch banks channelled substantial amounts to their own offices in Japan, and Japanese banks resumed borrowing from other unrelated banks.

Intra-euro area activity expands relatively rapidly

The continued growth of cross-border claims on the euro area was underpinned by intra-euro area activity. Claims on euro area borrowers booked by banks located inside the euro area expanded by a relatively strong 9% year over year in the second quarter. By contrast, claims booked by banks located outside the euro area, which had expanded at double digit rates in the three years following the introduction of the euro, contracted by 2% in the second quarter. The unwinding of interbank and inter-office positions booked in London accounted for much of the weakness in lending by banks outside the euro area.

Notwithstanding the increase in total claims in the second quarter, developments in the international banking market seem more consistent with a stabilisation of activity than with the beginning of a new expansion. First, the annual growth rate of cross-border claims on non-bank borrowers was more or less unchanged in the second quarter at 6%. Since non-banks are the ultimate users of bank credit, changes in claims on non-banks reflect underlying activity better than interbank flows. The contraction in cross-border credit to unrelated banks did slow in the second quarter, to 4% year over year compared to 8% in the first, and the annual growth of claims on banks' own offices accelerated to 11% from 7%. Nevertheless, given the strong growth in deposits in the major economies and the slower increase in credit to non-bank customers, this modest pick up in interbank and inter-office activity is unlikely to have been driven by a strengthening of demand for bank funding (Graph 2.2).

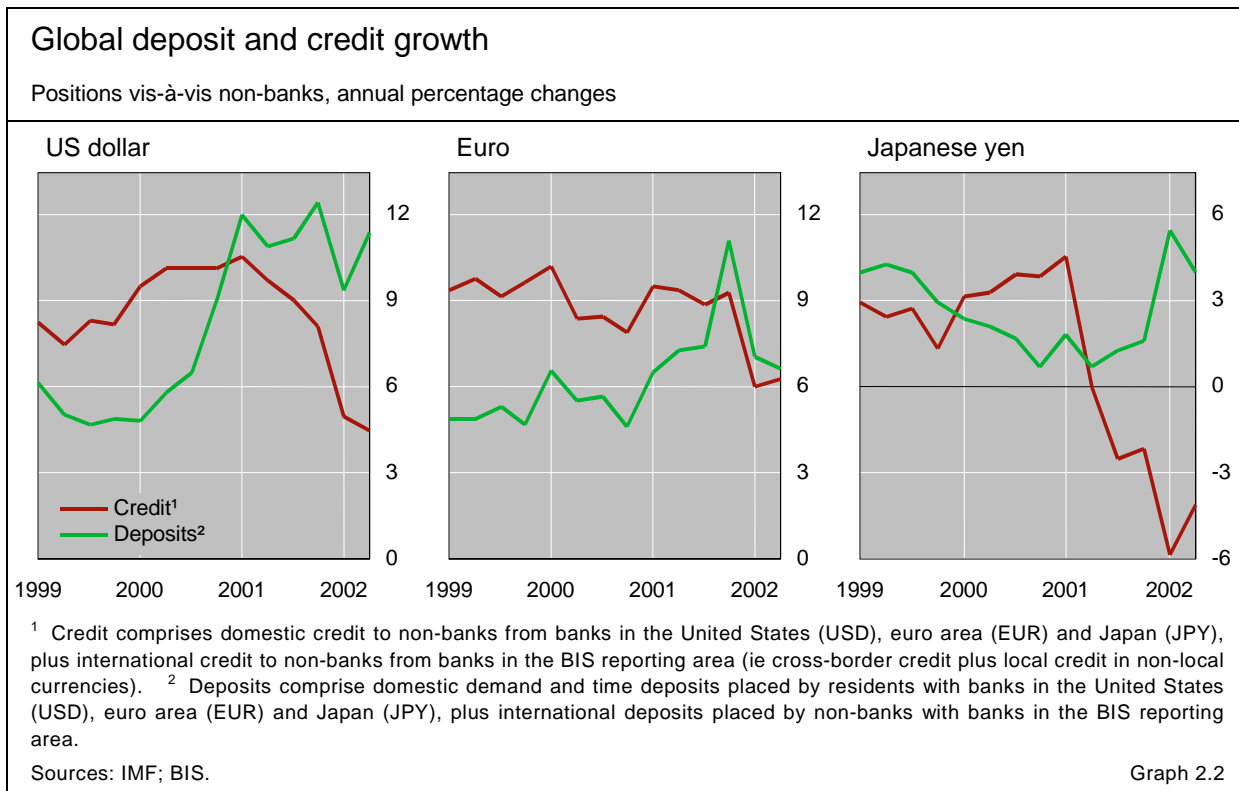
Growth of domestic and international credit to non-banks stabilises

Second, a similar stabilisation of activity was evident in domestic banking markets in the second quarter. In particular, in the euro area and the United States the growth of credit to non-bank borrowers appeared to level out, while in Japan the contraction in credit slowed. Domestic credit accounts for virtually all – 97% – of yen-denominated bank claims on non-banks outstanding globally. International activity is more important in the euro and US dollar markets, where domestic credit accounts for 84% and 79%, respectively, of outstanding global claims on non-banks.

Third, syndicated lending data suggest that credit growth remained moderate in the third quarter of 2002. Gross signings of international facilities were down modestly from year-earlier levels for the fifth consecutive quarter, and refinancings accounted for a larger proportion of signings (see “International syndicated credits in the third quarter of 2002” on page 26). Note, however, that syndicated credits data are not necessarily a reliable proxy for future bank lending.<sup>1</sup>

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<sup>1</sup> Blaise Gadanecz and Karsten von Kleist (2002): “Do syndicated credits anticipate BIS consolidated banking data?”, *BIS Quarterly Review*, March, pp 65–74.



## Cross-border activity of Japanese and German banks

Other developments consistent with a stabilisation in international banking activity include signs of a slowdown in the retrenchment of Japanese banks. The annual rate of decline of Japanese banks' cross-border claims decelerated slightly in the second quarter to 12% (Graph 2.3). Claims on non-banks began to level out, reinforced by purchases of US debt securities, and interbank activity stabilised after a precipitous drop in late 2001 and early 2002. However, inter-office positions contracted by 6% year over year, after a full year with little change.

Contraction in Japanese banks' international activity slows

The international activity of German banks also began to stabilise in the second quarter. German banks' cross-border claims on non-bank borrowers contracted for the first time in over a decade, falling by 2% year over year in the second quarter. However, this was driven by the relocation of a large Pfandbrief bank from Germany to Ireland and the consequent reclassification of its claims as those of an Irish bank. Adjusted for this reorganisation, the growth of German banks' cross-border claims on non-banks was more or less unchanged. Interbank claims were down by 14% year over year, but inter-office claims continued to expand rapidly.

Although the growth of German banks' total cross-border claims had not turned negative as of the second quarter of 2002, their contribution to the expansion of international banking activity was negligible compared with earlier periods (Graph 2.3). Propelled by an increase in cross-border activity in Europe, the annual growth rate of German banks' cross-border claims had averaged 17% over the 1998–2000 period. Indeed, German banks alone had accounted for as much as one third of the increase in total cross-border claims

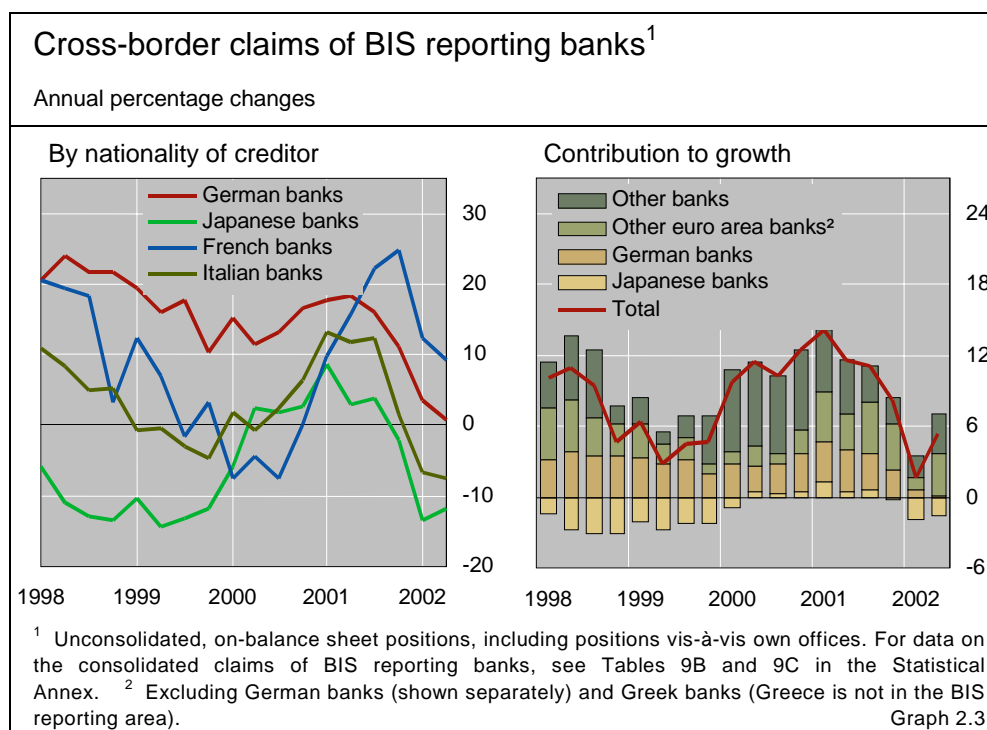
German banks are no longer driving the growth of international banking ...

during this period. The growth of German banks' cross-border activity began to decelerate in mid-2001, in tandem with the deceleration in credit to European borrowers. By early 2002, German banks were clearly no longer driving the growth of international banking.

While the slowdown in the growth of German banks' cross-border claims had the largest impact on overall international banking activity, Italian and Spanish banks experienced an even more pronounced slowdown relative to other euro area banks. The annual growth rate of Italian banks' cross-border claims declined from over 10% in early 2001 to -7% in the second quarter of 2002, and that of Spanish banks fell from 20% to -2%. At the same time, the cross-border claims of Belgian, Dutch, French and some other euro area banks continued to expand relatively rapidly – faster than the annual increase for euro area banks as a group but slower than in previous periods.

Much of the slowdown in the growth of euro area banks' claims reflects weak demand for credit, related to both the general economic downturn in the euro area and elsewhere and the decline in financing for telecommunications firms and merger and acquisition activities.<sup>2</sup> For some banks, the slowdown was amplified by the adoption of a more cautious approach to the granting of credit. A deterioration in the credit quality of many borrowers over the past year, large numbers of defaults and bankruptcies, and narrow lending margins led some banks to cut back on their exposures and increase their interest rates on loans. German banks in particular seem to be exercising greater restraint in their lending activities.<sup>3</sup>

... and seem to be exercising greater restraint in lending



<sup>2</sup> Bank for International Settlements (2002): "The international banking market", *BIS Quarterly Review*, June, pp 14–15.

<sup>3</sup> Deutsche Bundesbank (2002): "The development of bank lending to the private sector", *Monthly Report*, October, pp 31–46.

## Shift in the sectoral composition of claims towards non-banks

During the most recent cycle in international banking activity, the growth rate of cross-border credit to banks decelerated more sharply than the growth of credit to non-bank borrowers. Consequently, there has been a significant shift in the sectoral composition of banks' international balance sheets. The BIS consolidated banking statistics net out inter-office positions, and thus capture the end borrower more accurately than the locational statistics. According to these statistics, claims on unrelated banks fell to 45.3% of banks' outstanding international claims at end-June 2002 from 46.6% at end-June 2001, with a commensurate increase in the share of claims on non-banks. In particular, claims on corporations and other non-bank private sector borrowers increased by 1 percentage point to 40.7%, and claims on the public sector increased by ½ percentage point to 12.2%.

The sectoral shift was especially pronounced vis-à-vis borrowers in the euro area, where the share of claims on other unrelated banks fell by 5 percentage points between end-June 2001 and end-June 2002, to 47.5% of consolidated international claims. In recent quarters, cross-border credit to non-banks in the euro area has continued to increase – mainly in the form of purchases of debt securities – even as the growth of credit to banks has slowed. Indeed, whereas claims on non-banks in the euro area rose by 11% year over year in the second quarter, total cross-border claims on the euro area rose by only 3%. Euro-denominated inter-office activity continues to expand at an annual growth rate of approximately 20%, suggesting that credit to unrelated banks accounts for most of the weakness in the growth of total claims on the euro area.

In the United States, claims on the non-bank private sector increased by 2 percentage points between end-June 2001 and end-June 2002, to 59.2% of consolidated international claims. Banks' purchases of US agency securities and corporate bonds explain much of this increase. Banks' holdings of US Treasury securities and other public sector claims remained more or less stable over this period, at 12% of international claims. US data on international capital flows indicate that, in recent quarters, non-residents' purchases of US agency securities greatly exceeded their purchases of US Treasuries. Non-residents even purchased more corporate securities than Treasuries prior to mid-2002.

In Japan, shifts in the sectoral composition of foreign banks' cross-border or international claims appeared to be offset by shifts in the composition of their local claims. Foreign banks' international claims on the public sector increased by approximately 20% year over year during the second quarter, to 12.3% of outstanding consolidated claims on Japan. Foreign banks also own Japanese government bonds (JGBs) through their local Japanese branches and subsidiaries and, in contrast to banks' cross-border activity, Japanese flow-of-funds data indicate that foreign-owned banks in Japan have reduced their holdings of JGBs over the past year.<sup>4</sup> Indeed, the increase in foreign

Shift towards non-bank borrowers is most pronounced in the euro area

Banks purchase US agency and corporate securities

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<sup>4</sup> Claims on the central government, local governments and public corporations fell to 13% of total assets booked by foreign-owned banks in Japan at end-June 2002, from 23.9% at end-June 2001.

Offsetting shifts in the sectoral composition of cross-border and local claims on Japan

banks' cross-border claims on the public sector seems to have been more than offset by a decline in locally booked claims.

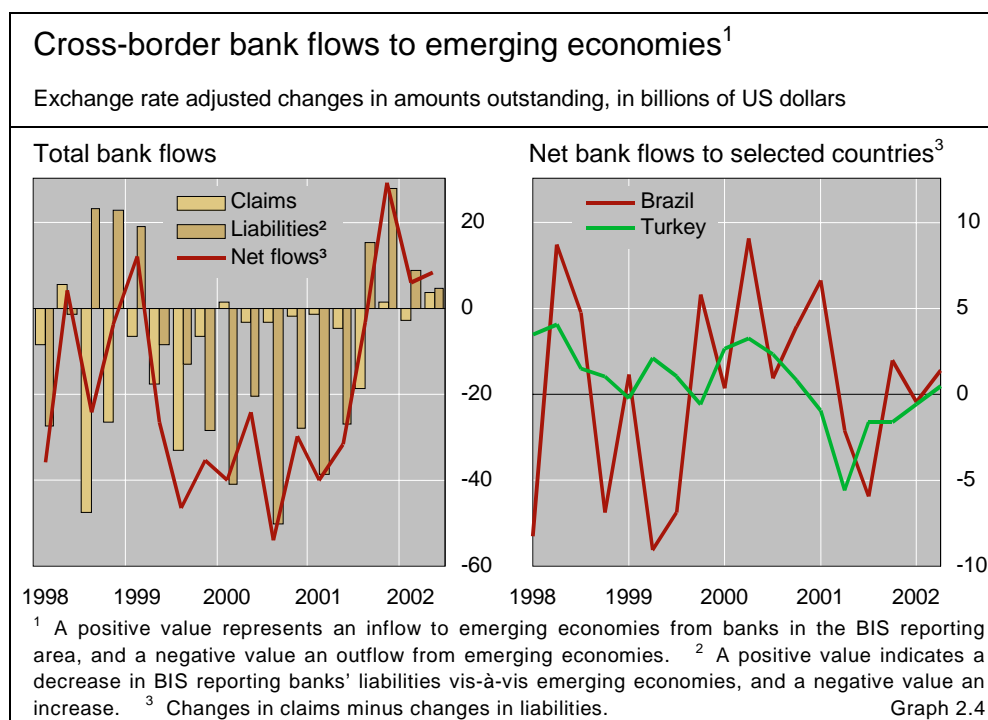
Credit to corporations in Japan appears to have shifted in the opposite direction to public sector claims; foreign banks reduced their cross-border claims on corporations even while increasing their locally booked claims. Credit to the non-bank private sector fell to 20.6% of banks' consolidated international claims at end-June 2002 from 22.4% a year earlier, even as it rose to 51.9% of foreign-owned banks' local assets from 48.5%. Total yen-denominated claims of foreign banks' Japanese offices grew by 10% in the year to end-June 2002, and exceeded foreign banks' consolidated international claims on Japan by more than 60%.

### Banks cut back claims on emerging markets with heavy public debt burdens

The second quarter of 2002 saw the third consecutive period of net inflows from banks in the BIS reporting area to emerging markets. Net inflows totalled \$8 billion, up from \$6 billion in the first quarter (Graph 2.4 and Table 2.2). Residents of emerging markets again drew down deposits placed with banks abroad. At the same time, claims increased slightly, with new lending to stronger credits offsetting cutbacks in claims on countries with high public debt burdens.

Brazil saw the largest cutback in cross-border bank credit, as banks reduced their exposure in response to political uncertainty there. Even though Brazilian residents were relatively active in the syndicated loan market in the second quarter, raising \$1.7 billion, bank claims on Brazil contracted by \$2.4 billion. Credit to non-banks in Brazil accounted for the whole of the

Claims on Brazil and Turkey contract ...



## Cross-border bank flows to emerging economies

Exchange rate adjusted changes in amounts outstanding, in billions of US dollars

	Banks' position <sup>1</sup>	2000	2001	2001			2002		Stocks at end-Jun 2002
		Year	Year	Q2	Q3	Q4	Q1	Q2	
Total <sup>2</sup>	Claims	-7.9	-23.3	-4.7	-18.6	1.4	-2.9	3.4	887.9
	Liabilities	140.1	23.1	26.9	-15.0	-27.6	-8.6	-4.6	1,097.3
Argentina	Claims	1.2	-5.8	1.6	-2.4	-3.3	-4.3	-0.8	36.2
	Liabilities	3.1	-16.7	2.3	-1.9	-11.1	-1.0	0.5	23.3
Brazil	Claims	9.5	0.9	0.1	-1.1	-2.2	1.0	-2.4	95.6
	Liabilities	-4.6	0.4	2.2	4.9	-4.1	1.4	-3.8	45.7
Chile	Claims	0.3	0.2	0.4	-0.9	0.2	-0.3	-0.5	18.3
	Liabilities	-1.5	-1.0	0.2	-0.4	-0.6	0.2	-0.8	14.2
China	Claims	-5.4	-3.5	1.4	-2.6	-0.6	-7.2	0.9	49.7
	Liabilities	35.7	-6.5	3.5	-6.7	-4.0	-7.1	6.6	95.1
Indonesia	Claims	-3.6	-5.4	-1.5	-2.3	-0.8	-1.3	-2.1	33.3
	Liabilities	-1.0	1.1	-0.7	-0.4	0.7	-1.4	-0.3	12.5
Korea	Claims	-4.8	-0.2	-2.4	0.8	-2.0	6.4	1.8	72.4
	Liabilities	-1.7	1.7	-2.2	-2.4	1.7	11.4	-5.6	35.5
Mexico	Claims	-1.0	2.0	-0.2	-3.3	0.6	3.2	1.8	65.6
	Liabilities	6.9	8.8	0.6	4.5	0.6	-14.1	1.3	50.4
Russia	Claims	-6.6	1.3	0.3	0.2	2.1	1.4	0.8	33.1
	Liabilities	7.2	5.2	2.6	-2.8	1.7	3.6	0.0	32.6
Saudi Arabia	Claims	0.1	-2.4	0.1	-1.6	1.0	0.0	0.4	24.9
	Liabilities	10.9	-9.7	-1.4	-5.7	-7.3	-5.4	-0.1	47.2
South Africa	Claims	0.6	-0.4	-0.5	0.8	-1.1	-1.5	0.2	17.2
	Liabilities	0.4	2.1	0.6	1.1	-0.9	0.2	1.4	18.3
Thailand	Claims	-7.8	-3.5	-0.8	-3.1	1.4	-2.2	-0.5	21.2
	Liabilities	1.9	1.3	1.0	-0.5	0.5	-0.7	-1.0	14.2
Turkey	Claims	11.3	-12.0	-5.1	-0.9	-3.7	0.9	-1.5	37.5
	Liabilities	2.3	-2.1	0.4	0.8	-2.1	1.6	-1.9	18.9
<i>Memo:</i>									
EU accession countries <sup>3</sup>	Claims	7.5	6.3	1.7	-0.4	4.1	1.4	1.9	81.7
	Liabilities	5.5	9.9	-0.2	0.9	4.8	-0.3	0.6	66.9
OPEC members	Claims	-11.5	-14.0	-2.5	-5.2	1.1	3.0	-0.2	133.4
	Liabilities	37.7	-2.8	2.1	-9.7	-8.5	-5.5	-2.5	242.0

<sup>1</sup> External on-balance sheet positions of banks in the BIS reporting area. Liabilities mainly comprise deposits. An increase in claims represents an inflow to emerging economies; an increase in liabilities represents an outflow from emerging economies. <sup>2</sup> All emerging economies. For details on additional countries, see Tables 6 and 7 in the Statistical Annex.

<sup>3</sup> Countries in accession negotiations with the European Union, ie Bulgaria, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic and Slovenia.

Table 2.2

decline, with credit to Brazilian banks and foreign banks' Brazilian offices remaining unchanged. At \$95.6 billion at end-June 2002, the outstanding stock of cross-border bank claims on Brazil by far exceeded that on any other emerging market. The BIS consolidated statistics provide a better measure of foreign banks' country risk exposures than the locational statistics. According to these statistics, foreign banks' claims on Brazil, including claims booked by their local Brazilian offices and after netting out claims guaranteed by obligors



outside Brazil, totalled \$122.6 billion at end-June 2002.<sup>5</sup> By this measure, Brazil is second only to Mexico as the largest emerging market exposure of banks in the BIS reporting area.

... leading Brazilian and Turkish residents to withdraw deposits

Faced with a cutback in cross-border credit, residents of Brazil met their need for dollar liquidity in the second quarter by withdrawing funds from abroad. This resulted in a net inflow of funds to Brazil from banks in the reporting area of \$1.4 billion (Graph 2.4). Withdrawals by corporations and other non-banks accounted for nearly half of the \$3.8 billion repatriated by Brazilian residents. At end-June 2002, the external assets of Brazilian residents held with banks offshore totalled \$45.7 billion.

In Turkey too, a large withdrawal of deposits held abroad led to a net inflow of funds. In fact, in the second quarter bank flows to Turkey turned positive for the first time since the onset of the crisis in 2001. Claims, however, contracted again, by \$1.5 billion, following a small increase in the first quarter. Whereas during 2001 interbank credits accounted for much of the contraction in claims on Turkey, in the second quarter of 2002 lending to non-bank borrowers fell the most.

Claims on Argentina, Indonesia and the Philippines fall

Countries in Southeast Asia also saw large cutbacks in claims. Cross-border credit to residents of Indonesia contracted for the 13th consecutive quarter, resulting in net outflows of \$1.8 billion. Following several quarters of increases, claims on the Philippines contracted by \$1.4 billion. Banks and investors have become concerned about the fiscal situation in the country. Spreads on the government's international bonds began to widen in May, around the same time that Brazilian spreads started to increase, and by the end of September they had increased by more than 125 basis points to approximately 500 basis points. Net bank flows to Malaysia also turned negative after four quarters of inflows. However, in contrast to Indonesia and the Philippines, this mainly reflects weak demand for dollar funding rather than concerns about Malaysian borrowers' creditworthiness.

The contraction in claims on Argentina slowed in the second quarter to \$0.8 billion from declines of \$2 billion or more during the previous three quarters. Claims on banks and own offices in Argentina increased for the first time since the second quarter of 2001, rising by \$1.3 billion. However, claims on non-bank borrowers fell by \$2.1 billion as banks in the reporting area continued to cut back or write off their exposures.

In contrast to the situation in most other Latin American countries, claims on residents of Mexico increased by \$1.8 billion during the second quarter. The increase was driven by new loans to non-bank borrowers. Mexican corporations raised large sums in the syndicated loan market in the third quarter, suggesting that the pickup in lending to non-banks seen in the first half of 2002 continued in the third quarter (see "International syndicated credits in the third quarter of 2002" on page 26). Inflows to non-banks were mostly offset by outflows from banks, as banks in Mexico channelled dollars into banks

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<sup>5</sup> "BIS consolidated banking statistics for the second quarter of 2002", BIS Press Release 25/2002E, 23 October 2002.

abroad. Banks in Mexico remained net creditors to the international banking system even after the central bank's portfolio reallocation in the first quarter: net claims of BIS reporting banks on banks and own offices in Mexico equalled -\$15.2 billion at end-June 2002. By contrast, the net debtor position of the non-bank sector in Mexico has increased substantially in recent quarters. The net stock of claims on non-banks in Mexico stood at \$30.5 billion at end-June 2002, up from \$22.1 billion a year earlier.

Mexican non-banks continue to borrow

Bank flows to EU accession countries remained positive in the second quarter. Poland accounted for most of the \$1.3 billion net inflow to the region, as banks and own offices in Poland drew down their placements abroad. A \$2 billion increase in total claims on EU accession countries was driven by the Czech Republic. It mainly reflected a Belgian bank's purchase of a local Czech bank and was offset by a roughly equivalent drop in interbank liabilities.

In Northeast Asia, the depreciation of the US dollar and low US interest rates contributed to strong inflows of dollar credit from banks in the reporting area. The largest inflows were to Korea and Taiwan (China), of \$7.3 billion and \$4.4 billion, respectively. Branches of foreign banks were responsible for approximately half of the inflow to Korea. The consolidated banking statistics suggest that they swapped the funds into Korean won to support an expansion of local currency lending; in won terms, the local currency claims of foreign banks in Korea increased by 19% year over year in the second quarter. In Taiwan, households and businesses exchanged maturing dollar deposits at local banks for local currency, and banks financed the outflow by borrowing from banks abroad.

Large inflows to Korea and Taiwan

In mainland China, corporations reportedly accelerated the repatriation of export proceeds and delayed payments for imports, thereby shifting funds from offshore dollar accounts to onshore renminbi accounts. Delayed payments for imports contributed to a \$3.6 billion increase in claims on non-banks in China. Despite this increase, the second quarter saw residents of China again channel large amounts to banks in the reporting area. In particular, Chinese banks transferred over \$3 billion to their own offices in banking centres in the Caribbean.

Net bank flows into the Middle East and Africa were positive for the fourth consecutive quarter, although at \$0.8 billion they were a fraction of their previous level. Drawdowns of deposits boosted inflows to Israel to \$2.1 billion. Residents of South Africa and Syria placed significant amounts abroad, resulting in outflows from those countries of \$1.2 billion and \$1.1 billion, respectively.

The currency composition of banks' outstanding liabilities to emerging markets continued to shift away from the US dollar and towards the euro in the second quarter of 2002. US dollar-denominated deposits made up 59% of outstanding liabilities vis-à-vis the Middle East and Africa at end-June 2002, down from 64.1% a year earlier. Over the same period, euro-denominated deposits rose to 14.2% of outstanding liabilities from 12.7%. Similarly, in emerging Europe US dollar-denominated liabilities fell to 51.3% of the total at end-June 2002 from 56.6% at end-June 2001, while euro-denominated liabilities rose to 29.9% from 26.4%. Liabilities vis-à-vis the Latin American

Deposits shift away from US dollars and towards euros

region, predominantly denominated in US dollars, also displayed a mild shift. The US dollar share fell to 84.4% at end-June 2002, down from 88.1% a year ago, while the euro-denominated share rose to 5.4% from 4% over this same period. The trend in Asia is harder to determine given that a large proportion of Asia's cross-border deposits are placed with banks in Hong Kong SAR and Singapore, which do not report a detailed currency breakdown.

## International syndicated credits in the third quarter of 2002

*Blaise Gadanecz*

Signings of international syndicated loans in the third quarter of 2002 totalled \$320 billion, down only 3% from the same period a year earlier. Refinancing accounted for a large share of activity – 41% in the second quarter compared with 35% a year earlier – suggesting that net new credit was weaker than the gross figures indicate.

Firms from the energy sector were the largest borrowers for the second consecutive quarter. In particular, oil and gas companies and electricity utilities, mainly from the United States, arranged large amounts to refinance maturing loans. A deterioration in the credit quality of many energy firms contributed to a noticeable widening in the drawn spread demanded by banks. The weighted average spread over Libor increased by approximately 15 basis points to 115 basis points between the third quarter of 2001 and the third quarter of 2002.

Telecommunications firms also raised substantial sums in the syndicated loan market in the third quarter, turning to banks for funding as financing conditions in the bond market became more difficult (see “The international debt securities market” on page 27). Telecoms firms signed deals totalling \$33 billion, comparable to volumes in the same period a year ago. The largest facilities were arranged by Telecom Italia for €7.5 billion, Deutsche Telekom for €5 billion and AT&T for \$4 billion. Automobile manufacturers arranged a record \$19 billion in syndicated credits. Volkswagen signed a huge facility for €15 billion and Toyota Motor Credit Corporation a facility for \$4.2 billion.

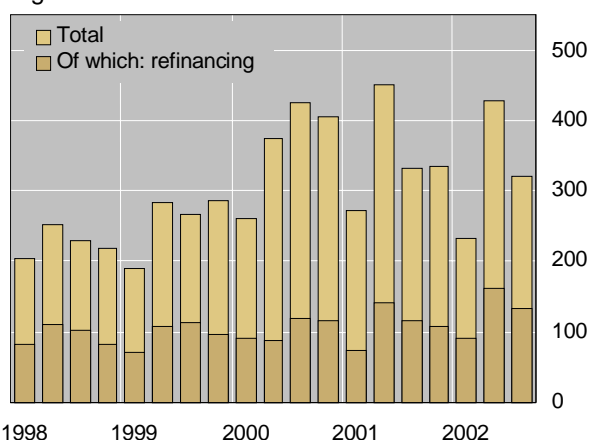
Facilities arranged for emerging market borrowers in the third quarter of 2002 were more or less unchanged compared with the same period a year ago, totalling \$26 billion. Borrowers from South Africa secured the largest amount, including a \$2 billion dollar loan for South African Breweries to finance an acquisition and a \$1 billion facility for the South African Reserve Bank. Tele Invest, a Polish telecoms operator, signed a deal for in excess of \$2 billion to refinance maturing loans. Taiwanese corporations were also active in the syndicated loan market, raising \$1.5 billion, mainly for working capital.

Signings by Latin American borrowers remained weak at \$2.7 billion, a fraction of previous years’ volumes. Borrowers from Mexico were the most active, signing \$1.3 billion in facilities, predominantly for general corporate purposes and refinancing. Brazilian corporations raised only \$0.3 billion, the smallest amount since 1996. Most of these deals were for trade finance, plus a facility for aircraft financing. Chile and Colombia each raised approximately \$0.5 billion.

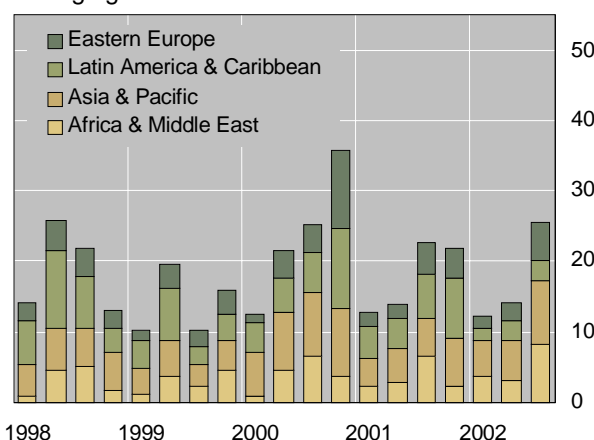
### Activity in the international syndicated credit market

In billions of US dollars

Signed facilities



Emerging market borrowers



Sources: Dealogic Loanware; BIS.