Highlights of the BIS international statistics[1]

The BIS, in cooperation with central banks and monetary authorities worldwide, compiles and disseminates several data sets on activity in international financial markets. This chapter summarises the latest data for the international banking market, available up to the first quarter of 2013. One box analyses the renewed cross-border expansion of Japanese banks. A second discusses the issuance of debt securities by Brazilian and Chinese financial and non-financial corporations in offshore financial centres.

During the first quarter of 2013, the cross-border claims of BIS reporting banks remained broadly unchanged. This reflected two major diverging trends in international banking markets. First, a decline in cross-border claims on banks, especially those located in the euro area, was largely offset by an expansion of claims on non-banks. Second, cross-border claims on advanced economies declined, while those on borrowers in emerging market economies increased sharply. Cross-border credit to China, Brazil and Russia expanded at a record pace, with banks absorbing the lion's share of the new funds. As a result, the share of interbank credit to emerging market economies as a percentage of total international interbank claims reached its highest level on record. The marked increase in cross-border credit to these economies in the first quarter of 2013 underpins a longer-term trend. Especially in emerging Asia and Latin America, countries generally have been affected less by the global financial crisis. This has been reflected in stronger growth of cross-border credit to these regions in recent years.

Japanese banks have returned recently as the world's largest providers of cross-border credit (see Box 1). They have increasingly been lending out of their offices abroad, whereas the share of cross-border claims booked in Japan has been declining. On a consolidated basis, Japanese banks' international expansion has been concentrated in claims on offshore centres and emerging market economies. Their international advance has been funded largely through sources in Japan.

Financial and non-financial corporations headquartered in emerging market economies have overtaken firms from the advanced economies as the largest group of issuers of corporate debt securities in offshore financial centres (OFCs). Box 2 shows that the surge in issuance is primarily due to borrowers in just two countries,

[1] This article was prepared by Adrian van Rixtel (adrian.vanrixtel@bis.org). Statistical support was provided by Pablo García, Koon Goh, Branimir Gruić and Jeff Slee.

China and Brazil. Issuing bonds through controlled entities in OFCs allows them to reach an investor base that would find it hard to invest locally.

The international banking market in the first quarter of 2013

The cross-border claims of BIS reporting banks declined by just $28 billion (0.1%) between end-December 2012 and end-March 2013 (Graph 1, top left-hand panel).[2] Cross-border claims denominated in euros fell by $145 billion or 1.4%, and those in sterling by $57 billion or 4.0%, while those in Japanese yen increased by $55 billion or 4.3% (Graph 1, top right-hand panel). The latter brought the cumulative increase of cross-border claims denominated in yen since the first quarter of 2012 to $114 billion, reflecting the cross-border expansion of Japanese banks (see also Box 1).

International banking activity in the first quarter of 2013 continued to be characterised by lower credit to banks and higher lending to non-banks. Cross-border claims on banks and related offices fell by $137 billion or 0.8% (Graph 1, bottom left-hand panel), whereas those on non-bank borrowers increased by $110 billion or 0.9% (Graph 1, bottom right-hand panel). This marked the fifth consecutive quarter of the redirection of lending between these counterparty sectors and brought the cumulative reduction in interbank positions since end-September 2011 to $2.2 trillion. This large contraction in cross-border interbank activity was mainly the result of reduced inter-office positions.

Cross-border credit across reporting regions showed diverging trends in the first quarter of 2013. Cross-border claims on advanced economies fell by $341 billion (1.5%). In contrast, claims on borrowers in emerging economies increased sharply by $267 billion (8.4%).

Credit to advanced economies

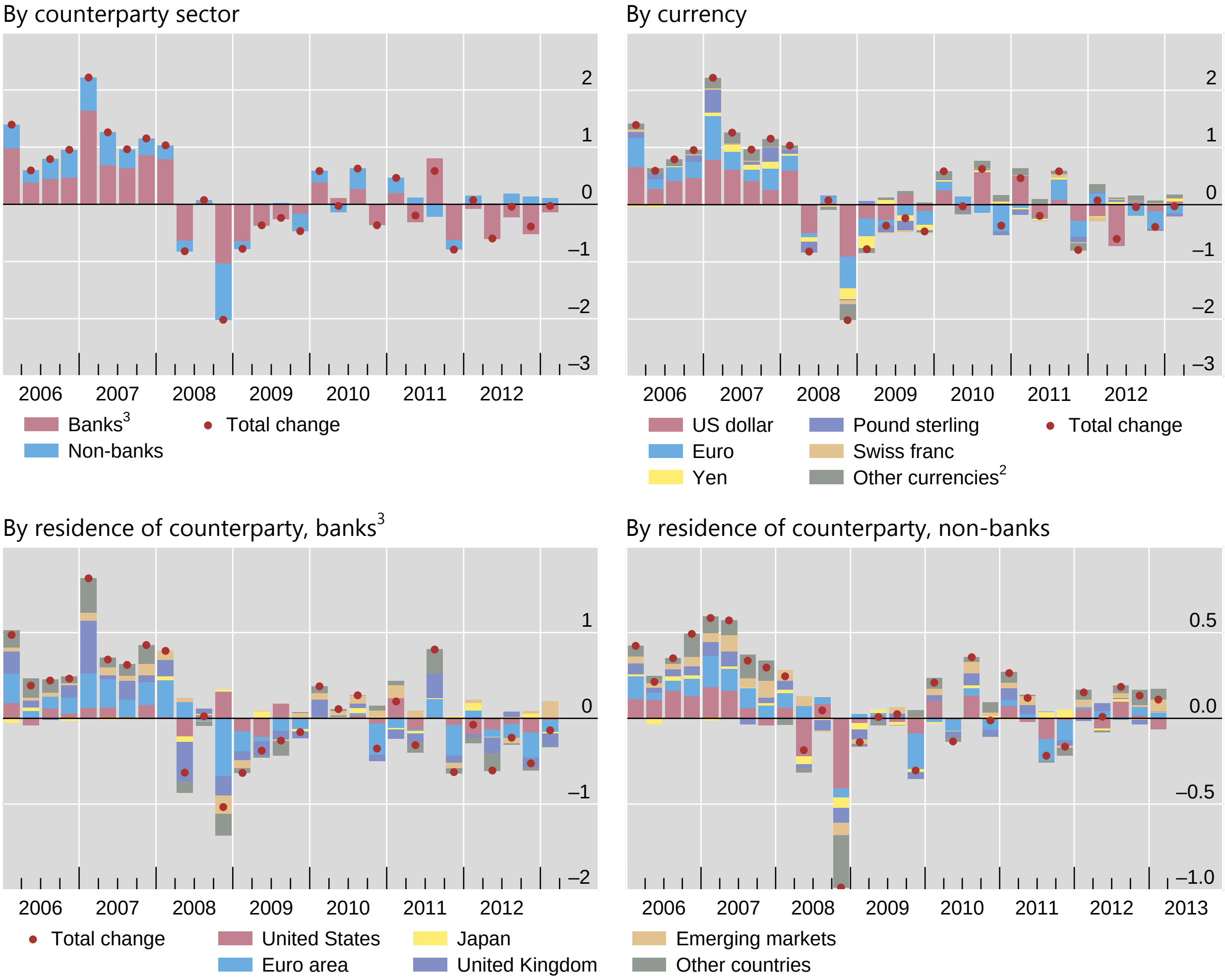
The decline in cross-border claims on advanced economies mainly reflected further contractions in interbank lending. According to the locational banking statistics by residence, claims on banks and related offices in advanced economies fell by $328 billion (2.4%) between end-2012 and end-March 2013.

The retreat in international interbank activity was most pronounced in Europe. Interbank claims (including inter-office positions) on banks in the United Kingdom fell the most, by $143 billion or 4.0% (Graph 1, bottom left-hand panel), reflecting reduced funding from banks in the United States, the Netherlands and Germany. Cross-border interbank credit to banks in the euro area contracted by $138 billion (2.7%), the fourth consecutive quarterly decline. This brought the cumulative reduction in interbank credit to the euro area to $597 billion since the easing of market tensions in the third quarter of 2012. This is well above the decline of only $146 billion seen during the second half of 2011 and first half of 2012, when the euro area crisis was at its most acute. Further deleveraging of banks in the euro

2 The analysis in this section is based on the BIS locational banking statistics by residence, unless stated otherwise. In these statistics, creditors and debtors are classified according to their residence (as in the balance of payments statistics), not according to their nationality. All reported flows in cross-border claims have been adjusted for exchange rate fluctuations and breaks in series.

Changes in cross-border claims[1]

Exchange rate and break-adjusted changes, in trillions of US dollars — Graph 1



[1] BIS reporting banks' cross-border claims include inter-office claims. [2] Includes unallocated currencies. [3] Includes claims unallocated by counterparty sector.

Source: BIS locational banking statistics by residence.

area, partly related to the changing regulatory environment and the adjustment of business models, may explain why interbank activity has so far not regained previous levels, despite the waning of the euro area crisis. The fall in the first quarter of 2013 mostly reflected lower lending to banks in Germany, the Netherlands and Italy, while claims on banks in France, Spain and Luxembourg increased.

Cross-border claims on banks in the United States declined for a sixth quarter in a row, although the size of the contraction ($18 billion or 0.8%) was smaller than in previous quarters. Those on banks in Japan also fell (by $21 billion or 2.9%). The continued decline in cross-border interbank lending may be related to a shift in banks' funding models from interbank borrowing to borrowing from non-banks. The BIS locational banking statistics by residence show that, in terms of amounts outstanding, cross-border liabilities to the non-bank sector as a share of total cross-border liabilities increased strongly for banks in advanced economies in recent years.

Box 1

The return of Japanese banks

Adrian van Rixtel and Jeff Slee

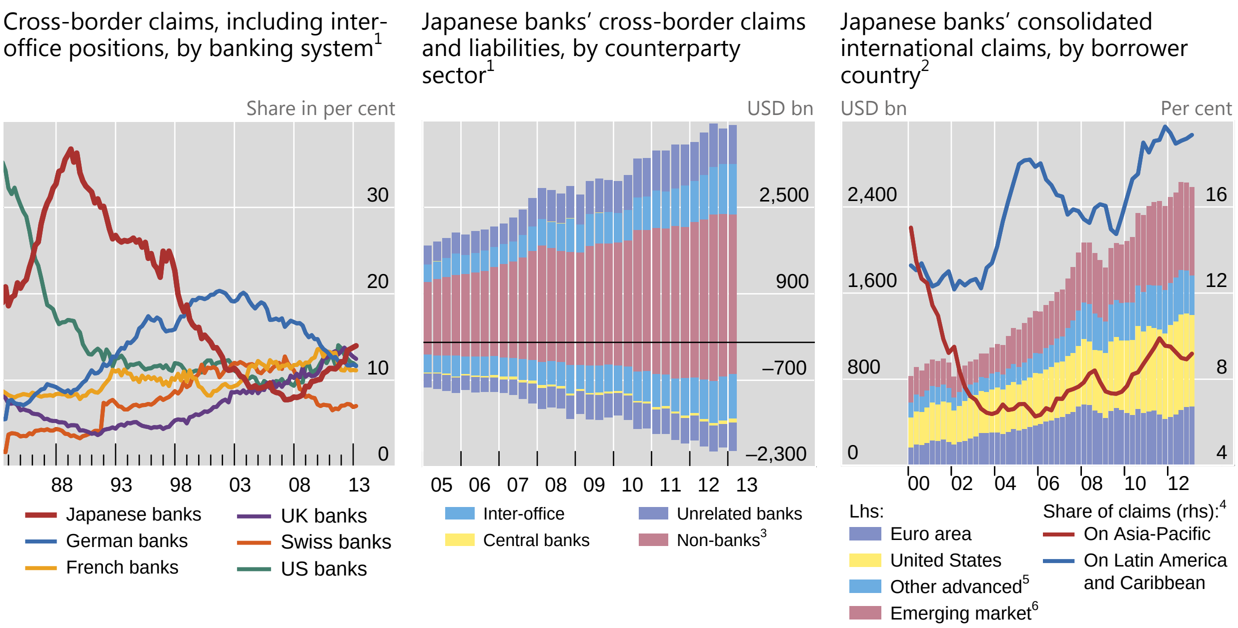
Japanese banks have recently become once again the biggest suppliers of cross-border bank credit. The BIS consolidated banking statistics show that in 2011 Japanese banks replaced German banks as the world's largest international lenders. Japanese banks' share in the consolidated international claims of all BIS reporting banks rose from 8% in early 2007, prior to the start of the global financial crisis, to 13% at end-March 2013. On a consolidated basis, US banks were the next largest cross-border lenders, with a market share of about 12% at end-March 2013, followed by German banks at 11%.①

This marks a return of Japanese banks to the position that they held in the international banking market in the second half of the 1980s. According to the locational banking statistics, which include inter-office activity, Japanese banks' share of the cross-border claims of all BIS reporting banks peaked at no less than 36% in 1989 (Graph A, left-hand panel).② At that time, Japanese banks funded loans to borrowers in Japan through their overseas offices in order to avoid regulatory restrictions at home.③ They also provided a major share of commercial and industrial loans to US and emerging market borrowers, especially in Asia.④ But the severe banking crisis of the 1990s, in combination with banking deregulation at home, reversed Japanese banks' cross-border expansion sharply. Their market share reached a low in 2007 before rebounding.

The recent international expansion of Japanese banks reflects higher lending to offshore financial centres, emerging market economies and the United States (Graph A, right-hand panel). The increase in cross-border claims on offshore centres was driven mainly by claims on centres in the Caribbean, while Asia and Latin America were the main recipients of the increased credit to emerging market economies. As a result, Japanese banks' claims on borrowers in Latin America and the Caribbean increased to almost 20% of their consolidated international claims at end-March 2013, from 15% in late 2009 (Graph A, right-hand panel). In contrast, the share of claims on advanced

Japanese banks' cross-border activities

Graph A



[1] Cross-border claims of banking offices located in BIS reporting countries, including claims of banks' foreign offices on residents of the home country. [2] Cross-border claims in all currencies plus local claims in foreign currencies, excluding inter-office positions and excluding claims on residents of the home country (Japan). [3] Including positions unallocated by sector. [4] Claims on counterparties located in Asia-Pacific and Latin America and the Caribbean, including offshore centres in those regions, as a percentage of consolidated international claims. [5] Excluding Japan. [6] Including offshore financial centres.

Sources: BIS locational banking statistics by nationality; BIS consolidated banking statistics (immediate borrower basis).

economies fell from a high of 74% in late 2009 to 68% most recently. This was mainly driven by a retreat from the euro area, although Japanese banks' consolidated international claims on this region have been picking up gradually since the second quarter of 2012.

The locational statistics show that Japanese banks funded their cross-border expansion mainly through financing raised in Japan. While their cross-border claims increased to $4 trillion in the first quarter of 2013, their cross-border funding was only $2 trillion (Graph A, centre panel). The result is a cross-border funding gap of $2 trillion, which needs to be covered by domestic sources, notably through their large deposit base.⑤ Of the funding that Japanese banks raise from cross-border sources, the largest part is borrowed from non-banks.

The increase in cross-border lending by Japanese banks was accomplished partly through greater use of their global office network. These banks had closed or downsized many of their foreign offices in the wake of the banking crisis of the 1990s and conducted cross-border business increasingly from Japan. In fact, the share of cross-border claims booked in Japan in the total cross-border claims of Japanese banks reached its highest level in 2008, but since then has gradually declined. This development has been mirrored in a marked increase in cross-border claims booked by Japanese banks in their offices in the United States and other advanced economies.

① These figures exclude local claims in local currencies, ie credit extended by banks' affiliates located in the same country as the borrower. If local claims are included, then on the basis of consolidated *foreign* claims the market share of Japanese banks equalled 10% at end-March 2013, compared to 13% for UK banks, 11% for US banks and 9% for German banks. ② The consolidated statistics are not available on a comparable basis for the 1980s because prior to 1999 they excluded claims on BIS reporting countries. ③ H Terrell, R Dohner and B Lowrey, "The United States and United Kingdom activities of Japanese banks, 1980–1988", *North American Review of Economics & Finance*, no 1(1), 1990, pp 53–73; A van Rixtel, *Informality and monetary policy in Japan: the political economy of bank performance*, Cambridge University Press, 2002. ④ R McCauley and R Seth, "Foreign bank credit to US corporations: the implications of offshore loans", *Federal Reserve Bank of New York Quarterly Review*, Spring 1992, pp 52–65; R McCauley and S Yeaple, "How lower Japanese asset prices affect Pacific financial markets", *Federal Reserve Bank of New York Quarterly Review*, Spring 1994, pp 19–33. ⑤ Purely domestic positions will be captured in future as part of the enhancements to the BIS international banking statistics.

The decline in cross-border interbank liabilities of banks in the euro area showed a diverging pattern of adjustment across countries, in terms of the reduction in specific interbank sources of funding. The BIS locational banking statistics by nationality, which include a more detailed sectoral breakdown of interbank positions for reporting banks, cast further light on this.[3] Spanish, French and German banks reduced cross-border liabilities mainly through inter-office positions, which accounted for 82%, 65% and 60%, respectively, of the total contraction in their liabilities (Graph 2, left-hand panel). In contrast, Italian banks have lowered their cross-border funding since the second quarter of 2010 mainly through lower borrowing from unrelated banks, which accounted for 90% of the total decline in their cross-border liabilities (Graph 2, right-hand panel).

Credit to emerging market economies

The BIS locational banking statistics show that reporting banks' cross-border claims on borrowers in emerging market economies expanded strongly by $267 billion (8.4%) in the first quarter of 2013.[4] Higher lending to borrowers in Brazil, China and Russia accounted for 85% of the growth. The expansion in cross-border credit to

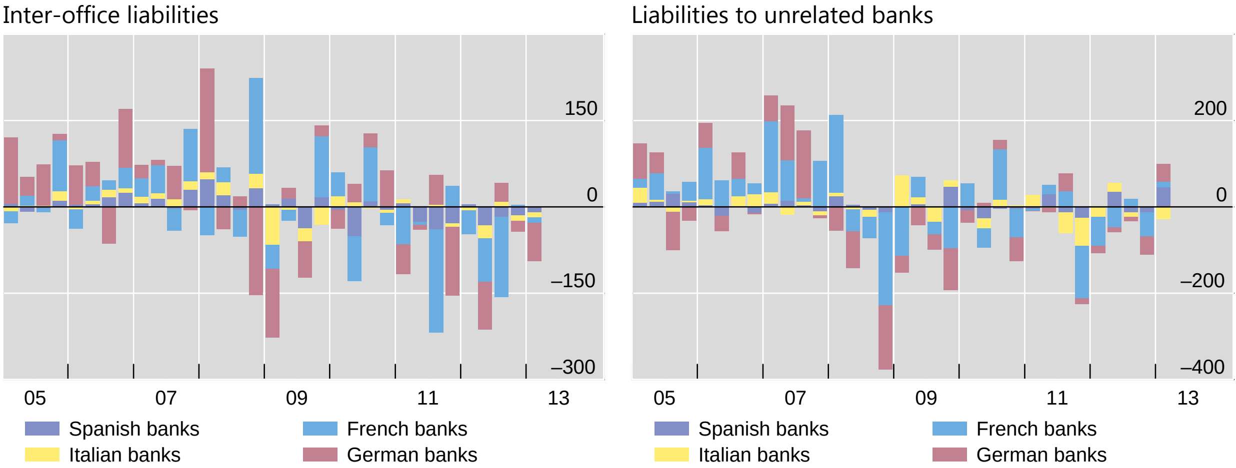
[3] The BIS locational by nationality statistics provide information on the banking activity of all internationally active banks residing in the reporting country grouped by the nationality of the controlling parent institution. These statistics break down positions versus banks into positions versus related foreign offices (inter-office positions), other (or unrelated) banks and official monetary institutions. For more details, see *Guidelines to the international locational banking statistics*.

[4] The BIS locational banking statistics by residence are described in footnote 2.

Changes in gross liabilities, by banking system and counterparty sector[1]

In billions of US dollars

Graph 2



[1] Exchange rate and break-adjusted changes.

Source: BIS locational banking statistics by nationality.

emerging market economies was by far the largest quarterly increase on record, mainly reflecting buoyant interbank lending (up $199 billion or 12%). Cross-border claims on non-banks expanded by $68 billion (4.5%). Around half of the rise in cross-border lending to emerging market economies came from reporting banks in offshore centres. This was mainly driven by banks in Asian offshore centres ($93 billion or 13%), but also by banks in offshore centres in the Caribbean ($35 billion or 21%). The increased lending by banks in these offshore centres was almost fully absorbed by borrowers in China and Brazil. Banks located in the euro area increased their lending to emerging market economies for the first time since the second quarter of 2011. Banks in France, the Netherlands, Germany and Luxembourg accounted for most of this growth.

The sharp increase in cross-border credit to emerging market economies was driven mostly by borrowers in Asia-Pacific. Cross-border claims on borrowers in that region went up by $198 billion or 15% (Graph 3, top left-hand panel), to account for 45% of all cross-border claims on emerging markets at the end of March 2013, from 34% just five years ago. Most of the increase reflected higher claims on banks ($148 billion or 18%), while those on non-bank borrowers expanded by $50 billion (9.5%). With cross-border liabilities of BIS reporting banks to counterparties in Asia-Pacific increasing by only $19 billion, the region recorded a large net inflow of funds ($179 billion), especially to banks ($118 billion). This came at a time of increasing signs that the period of rapid credit growth in key economies in emerging Asia, such as China and India, was ending.

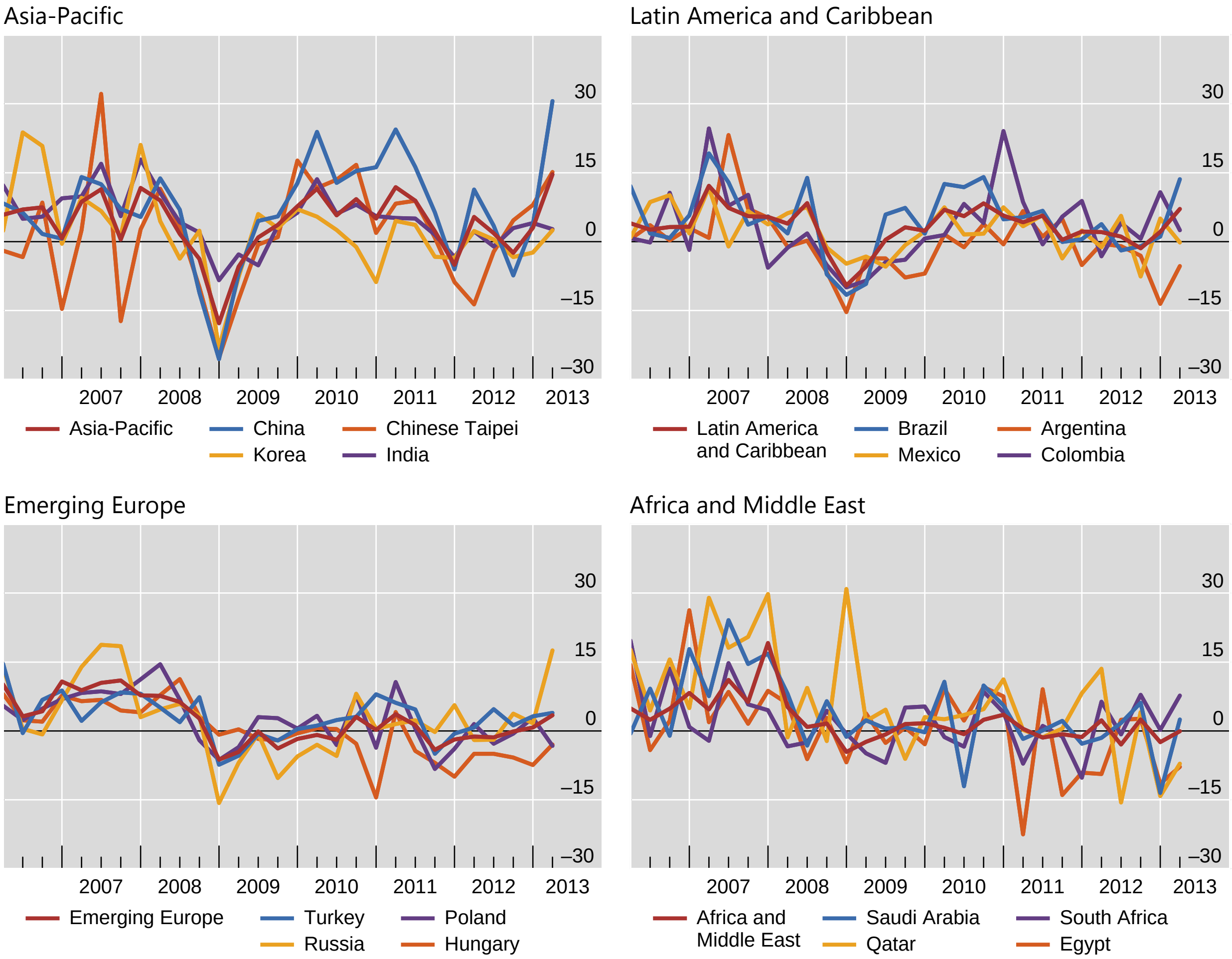
Cross-border credit to borrowers in China increased by $160 billion (31%) and accounted for 81% of the increase in cross-border claims on Asia-Pacific. Lending to banks in China (up $123 billion or 36%) accounted for the larger part of the increase in claims on Chinese residents. The consolidated banking statistics on an immediate borrower basis indicate that international claims on China tend to have shorter maturities than those on other Asia-Pacific countries.[5] Claims on other large economies in Asia also rose (Chinese Taipei: $13 billion or 15%; Thailand: $7.1 billion or 13%; India: $5.9 billion or 2.7%; South Korea: $4.8 billion or 2.5%).

Cross-border credit to borrowers in Latin America and the Caribbean also increased strongly in the first quarter of 2013, by $44 billion or 7.1% (Graph 3, top right-hand panel). Again, this was driven by higher cross-border claims on banks (up $35 billion or 14%). Lending to Brazil expanded most strongly ($39 billion or 14%), especially to banks ($34 billion or 27%). It was the largest quarterly increase to this country on record, 36% larger than the previous record set in the third quarter of 2010. In contrast, cross-border claims on Argentina declined for the sixth consecutive quarter.

Growth rates of cross-border claims on residents of emerging markets, by region[1]

Quarter-on-quarter changes, in per cent

Graph 3



[1] Quarterly growth rates of BIS reporting banks' cross-border claims (including inter-office claims) in all currencies.

Source: BIS locational banking statistics by residence.

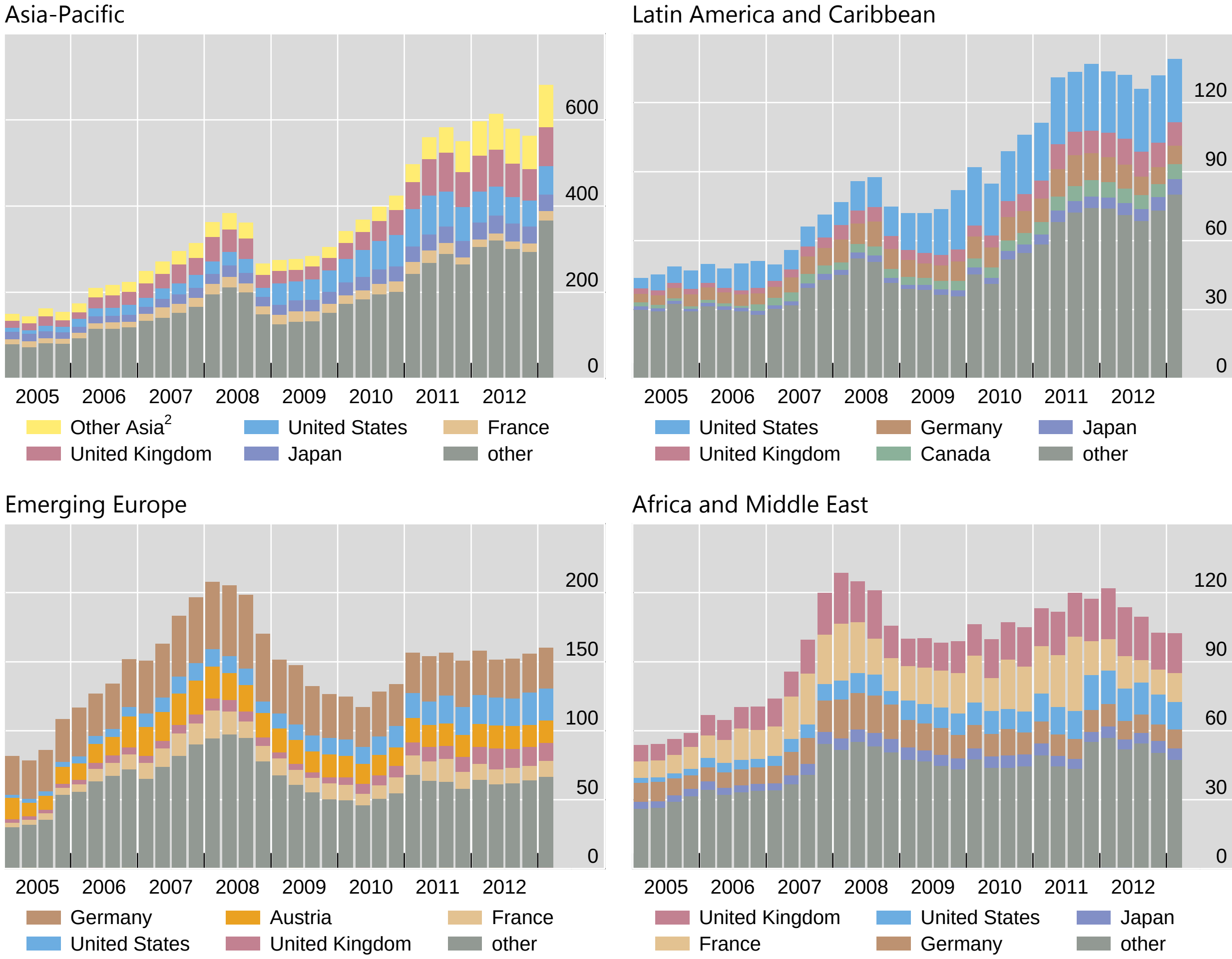
[5] The consolidated banking statistics exclude positions between affiliates of the same banking group. Banks consolidate their inter-office positions and report only their claims on unrelated borrowers. International claims comprise cross-border claims in all currencies and local claims in foreign currencies, where local claims refer to credit extended by banks' affiliates located in the same country as the borrower.

Cross-border claims on the emerging economies of Europe increased in the first quarter of 2013 by $25 billion or 3.4% (Graph 3, bottom left-hand panel). This reflected an increase of $14 billion (3.8%) in lending to banks in the region and of $10 billion (3.0%) to non-banks. The expansion was driven by strong cross-border credit to borrowers in Russia (up $29 billion or 18%), which posted the largest quarterly increase on record. Cross-border claims on Turkey increased by $7.1 billion (3.9%), entirely owing to higher claims on banks. Cross-border claims on the other main economies in the region declined. Those on Hungary fell for the eight quarter in a row, by a cumulative total of $30 billion.

In contrast, cross-border claims on Africa and the Middle East remained broadly unchanged (Graph 3, bottom right-hand panel), as modest increases in lending to banks were largely cancelled out by lower claims on non-banks. Claims on South Africa and Saudi Arabia increased ($2.8 billion or 7.7% and $2.0 billion or 2.5%, respectively), while those on the United Arab Emirates and Qatar declined ($4.3 billion or 4.0% and $4.0 billion or 7.1%, respectively.

Interbank claims on emerging market economies, by region[1]

In billions of US dollars — Graph 4



[1] Ranked by the five reporting banking systems with the largest interbank claims on the regions for which data are publicly available. [2] Chinese Taipei, Hong Kong SAR, India, Korea and Singapore.

Source: BIS consolidated banking statistics (immediate borrower basis).

The strong expansion of interbank market activity towards emerging market economies has doubled the share of these countries in total international interbank lending. On a consolidated basis, claims on borrowers resident in these economies reached 14% of total international interbank lending in the first quarter of 2013, twice the level recorded five years ago. This development was mirrored by a decrease in the share of advanced economies to 81%, while that of offshore centres increased to 4%.

Higher lending to banks in Asia-Pacific was the main driver of the increase in international bank lending to emerging market economies. Almost two thirds of all interbank credit to emerging market economies went to banks in that region, compared with 47% five years earlier. This was mirrored by a significant decline in the share of interbank claims on emerging Europe and a more modest decline in that on developing Africa and the Middle East. UK banks and non-Japanese Asian banks in particular increased interbank lending to Asia-Pacific, to $91 billion and $98 billion, respectively, in the first quarter of 2013 (Graph 4, top left-hand panel).

In Latin America, US banks consolidated their position as largest interbank credit providers (Graph 4, top right-hand panel). German banks remained the largest interbank lenders to emerging Europe, although their market share has fallen since 2008, while US and UK banks increased their lending to banks in that region (Graph 4, bottom left-hand panel). French banks reduced their exposures to banks in Africa and the Middle East from the historical high recorded in 2011, followed by UK and US banks (Graph 4, bottom right-hand panel).

Box 2

Emerging market debt securities issuance in offshore centres

Robert N McCauley, Christian Upper and Agustín Villar

Financial and non-financial corporations from emerging market economies (EMEs) have increasingly turned to offshore financial centres (OFCs) to issue debt securities. At the end of June 2013, 25% of all international debt securities outstanding of EME corporates had been issued in OFCs, compared with 22% in the advanced economies (Graph B, left-hand panel). In the 12 months up to mid-2013, EME corporates raised $95 billion in OFCs, around one quarter of their overall issuance during that period. As a consequence, they have overtaken corporations headquartered in advanced economies ($32 billion) as the largest group of issuers in OFCs (Graph B, right-hand panel).

The surge in OFC issuance by EME corporations is primarily due to borrowers headquartered in just two countries, China and Brazil. Chinese firms' borrowing in OFCs shot up from less than $1 billion per annum in 2001 and 2002 to $51 billion in the 12 months up to mid-2013 (Graph C, left-hand panel). This amounts to approximately 70% of all international debt securities issued by Chinese financial and non-financial corporations. Brazilian firms have a much longer history of borrowing abroad, including in OFCs. After raising between $2 billion and $6 billion per year in OFCs between 2001 and 2005, they borrowed almost $20 billion between July 2012 and June 2013 (Graph C, centre panel). This represents 41% of total international issuance by Brazilian firms.

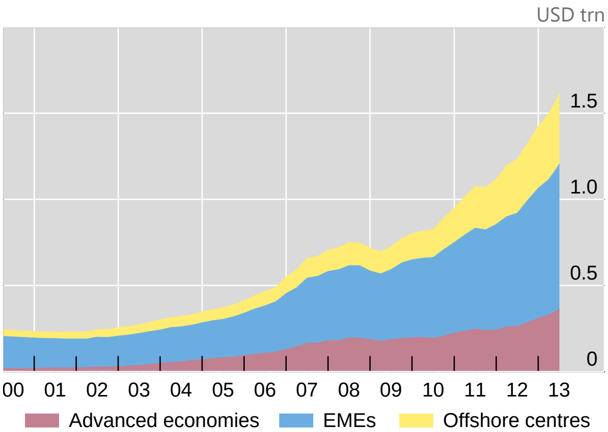
Issuing international bonds through controlled entities in OFCs allows Chinese and Brazilian firms to reach an investor base that would find it hard to invest locally.① Many institutional investors do not have the mandates or the technical capacity to invest in EME domestic bond markets. And even if they do, purchasing bonds issued in OFCs lessens their administrative burden as a more homogeneous regime across investments helps to reduce the hazards of dealing with dozens of tax and legal frameworks. Bonds and other debt securities issued in OFCs are also attractive to some investors for tax-reasons. Many countries apply withholding tax to investors resident in foreign jurisdictions that have an income tax rate lower than 20%. This group includes OFCs, where many funds that invest in emerging markets are registered. Finally, bonds issued by affiliated entities in OFCs may be less likely to be affected by capital controls than domestic securities. That said, this possibility should not be exaggerated: the government can also rule that foreign assets should be repatriated.

On the surface, the picture looks different for China. In contrast to Brazil, Chinese corporations have traditionally financed themselves domestically. At the same time, sustained growth and integration of the Chinese economy increases the demand of international investors for Chinese financial assets. It is therefore often cheaper

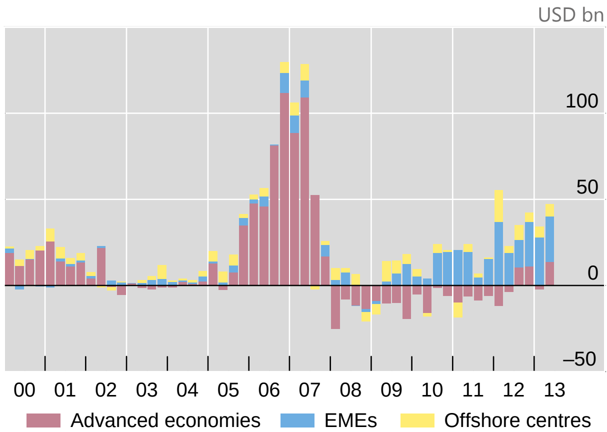
International debt securities by EME financial and non-financial corporations

Graph B

By residence of issuing subsidiary[1]



By nationality of issuers resident in off-shore centres[2]



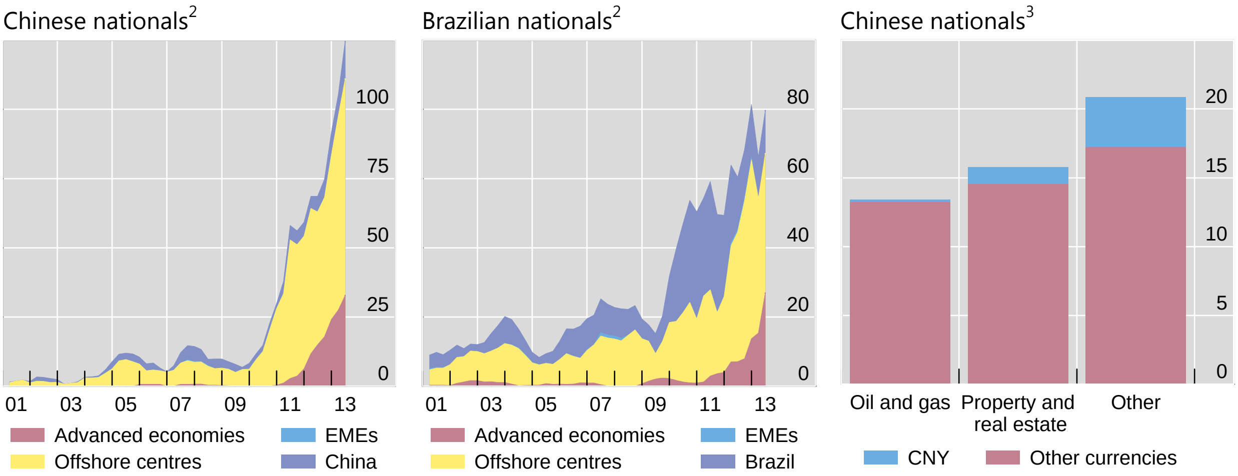
[1] Amounts outstanding. [2] Net issuance.

Sources: IMF; Dealogic; Euroclear; Thomson Reuters; Xtrakter Ltd; BIS calculations.

International debt securities[1]

In billions of US dollars

Graph C



[1] Gross issuance by financial and non-financial corporations headquartered in Brazil or China. [2] Twelve-month moving cumulative issuance, by residence of issuer. [3] Cumulative issuance July 2012–June 2013, by activity of ultimate non-financial owner and currency of denomination.

Sources: IMF; Dealogic; Euroclear; Thomson Reuters; Xtrakter Ltd; BIS calculations.

for Chinese nationals to raise funds abroad than domestically. This is particularly obvious for securities denominated in renminbi, where offshore yields tend to be well below those in China.② As a consequence, a significant share of Chinese corporate debt securities issued in OFCs, 16%, is denominated in renminbi.③ That said, the US dollar remains by far the most important currency of issuance for Chinese firms, accounting for 77% of corporate issuance in OFCs. Again, this could reflect differences in the cost of funding. Dollar-denominated rates are below comparable renminbi rates and many players expect an appreciation of the Chinese currency.

What do Chinese corporations do with the dollars raised by issuing debt securities in OFCs? First, around one third of offshore issuance is by Chinese financial institutions that fund dollar lending in China.④ Second, non-financial issuance could reflect the internationalisation of Chinese firms. Chinese corporations have been purchasing assets around the globe recently, and at least part of these purchases appears to have been financed by borrowing abroad. This could explain the relatively high share of firms in the oil and gas sector in Chinese non-financial corporations' offshore issuance (Graph C, right-hand panel). In addition, a good part of the firms in the "Other" sector appear to be manufacturers with overseas operations. That said, the share of firms in the property and real estate sector is even higher than that of those in oil and gas, suggesting that a sizeable part of the dollars raised abroad have found their way into China.

① For further details see S Black and A Munro, "Why issue bonds offshore?", *BIS Papers*, no 52, 2010, pp 97–144. ② See G Ma and R N McCauley, "Is China or India more financially open?", *Journal of International Money and Finance*, 2013 (forthcoming). ③ The share of domestic currency issuance by Brazilian corporates in OFCs is well below 1%. ④ See D He and R N McCauley, "Transmitting global liquidity to East Asia: policy rates, bond yields, currencies and dollar credit", mimeo, 2013.