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II. Highlights of international financing

1. The international banking market

International banks continued to invest heavily in international debt securities in the fourth quarter of 1999, although they resumed lending to non-banks as well. While retrenchment from offshore centres also came to an end with a build-up of interbank positions in the Caribbean, interbank lending between developed countries slowed, following a surge in the previous quarter (see the table below). These developments were reflected in a pickup of dollar and yen positions, while euro positions declined slightly for the first time. Emerging market borrowers in Latin America continued to show a preference for securities financing over bank credit and those in Asia continued to repay their loans. End-year data from the BIS consolidated statistics indicate that most emerging market borrowers continued to lengthen the average maturity of their borrowing.

Main features of cross-border claims of BIS reporting banks[1]

In billions of US dollars

	1998	1999	1998	1999				Stocks at end-Dec 1999
	Year	Year	Q4	Q1	Q2	Q3	Q4	
Claims on developed countries	**567.3**	**449.9**	**61.2**	**94.2**	**56.8**	**193.9**	**105.0**	**7,562.9**
of which: intra-euro 11	*295.4*	*256.2*	*103.2*	*133.2*	*37.9*	*82.5*	*2.5*	*1,505.1*
Interbank loans	288.7	29.9	– 16.6	– 15.4	– 82.2	123.5	4.1	4,416.7
Loans to non-banks	24.2	103.4	14.1	6.9	66.8	5.4	24.3	1,319.0
Securities[2]	254.4	316.6	63.8	102.8	72.3	65.0	76.6	1,827.3
Claims on offshore centres	**– 178.0**	**– 105.6**	**– 72.5**	**– 68.9**	**– 45.0**	**– 26.4**	**34.7**	**1,207.9**
Interbank loans	– 172.0	– 139.3	– 24.2	– 77.0	– 51.8	– 47.7	37.2	858.4
Loans to non-banks	– 27.1	6.3	– 50.5	2.1	0.9	12.7	– 9.3	224.8
Securities[2]	21.0	27.4	2.2	6.1	5.9	8.6	6.7	124.7
Claims on developing countries[3]	**– 83.0**	**– 71.2**	**– 25.6**	**– 9.4**	**– 20.7**	**– 34.6**	**– 6.5**	**857.1**
Interbank loans	– 63.9	– 61.6	– 8.5	– 11.3	– 19.7	– 22.3	– 8.3	340.5
Loans to non-banks	– 12.4	– 14.6	– 12.2	2.4	– 3.6	– 12.4	– 1.0	389.9
Securities[2]	– 6.8	4.9	– 4.9	– 0.5	2.6	0.1	2.8	126.8
Unallocated	**– 33.9**	**– 20.0**	**– 10.2**	**– 3.0**	**– 0.3**	**– 13.4**	**– 3.3**	**195.6**
Total	**272.4**	**253.1**	**– 47.1**	**13.0**	**– 9.2**	**119.5**	**129.9**	**9,823.5**
Interbank loans	28.1	– 219.9	– 55.4	– 111.2	– 153.5	34.7	10.1	5,684.0
Loans to non-banks	– 26.9	92.2	– 58.8	– 0.7	61.5	5.0	26.4	1,966.8
Securities[2]	271.2	380.7	67.1	124.9	82.7	79.8	93.4	2,172.7
Memorandum item: Syndicated credits[4]	*902.0*	*957.1*	*219.8*	*172.5*	*271.1*	*264.3*	*249.2*	

[1] Changes in amounts outstanding excluding exchange rate valuation effects. [2] Partly estimated. The data include other assets, which account for less than 5% of the total claims outstanding. [3] Including eastern European countries. [4] Announced new facilities.

Securities financing continues to outpace loans to developed countries

Banks' net purchases of cross-border securities remained buoyant, with the bulk of the $77 billion uptake in the fourth quarter of 1999 comprising purchases of European securities by European banks ($48 billion). For the year as a whole, reporting banks overwhelmingly purchased European securities ($296 billion) and modest amounts of securities issued by US residents ($23 billion) while selling those issued in Japan (-$30 billion).

By contrast, cross-border *interbank* loans in developed countries slowed towards year-end, making the surge in the third quarter even more exceptional. This was partly related to unusually large repayments from emerging markets and non-bank borrowers in the United States, which resulted in a temporary expansion of interbank balance sheets as banks passed these funds around in a portfolio adjustment process. In addition, there may have been a build-up of liquid positions ahead of the changeover to 2000. As in the international securities markets, this precautionary activity appears to have been completed during the third quarter, with national monetary authorities standing by to supply additional liquidity in domestic currency at year-end if necessary.

Following a very quiet third quarter, net loans to *non-banks* in developed countries picked up again in the fourth quarter, partly due to strong loan demand in the United States. The $24 billion net increase was more than accounted for by lending to US residents ($34 billion), mainly by banks in Japan. Meanwhile, non-bank borrowers in Europe repaid $14 billion, half of which came from borrowers in Germany.

Interbank transactions with offshore centres surge

The fourth quarter rise in claims vis-à-vis the Cayman Islands ($45 billion) was largely the result of a surge in interbank loans ($38 billion). Commercial banks in the United States and the United Kingdom placed funds with own affiliates there, while Japanese banks appear to have used branches in the Cayman Islands in a bid to restructure their balance sheets. Japanese banks had set up special purpose vehicles (SPVs) in the Caribbean centre to reduce their assets and thus improve their capital adequacy ratios. The loans were sold to the SPVs, which issued commercial paper collateralised by these loans. The commercial paper was then purchased by other Japanese banks.

Fourth quarter data suggest that the reversal of the round-tripping of funds from Japan through Asian offshore centres may have slowed. Bank claims on Singapore rose at year-end ($3.3 billion), while those on Hong Kong fell only marginally ($0.7 billion). Commercial banks' total claims on offshore centres had fallen by $108 billion in 1999, following a $173 billion decline the previous year. Hong Kong and Singapore had more than accounted for the retreat, as both centres were affected by Japan's withdrawal from the offshore yen market.

The latest *consolidated international banking statistics* confirm the prevalence of foreign branch activity in offshore centres. Data on net transfers to ultimate risk, which allow a restatement of international claims for implicit and explicit guarantees, indicate that BIS reporting banks' exposures to offshore centres were in fact 25% lower than indicated by total consolidated claims on these centres.[2]

Emerging markets continue to repay

Emerging market borrowers continued to shun international banks in the fourth quarter as they had for most of the year. Borrowers repaid $71 billion in total claims during the year, with the bulk of

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2 For more detail on ultimate risk statistics, refer to the press release on the BIS consolidated international banking statistics published on 12 May 2000 (www.bis.org/publ). For an explanation of the differences between the BIS locational and consolidated banking statistics, see the box on page 16 entitled "A tale of two statistics: the BIS locational and consolidated international banking statistics".

Syndicated credits in the first quarter of 2000

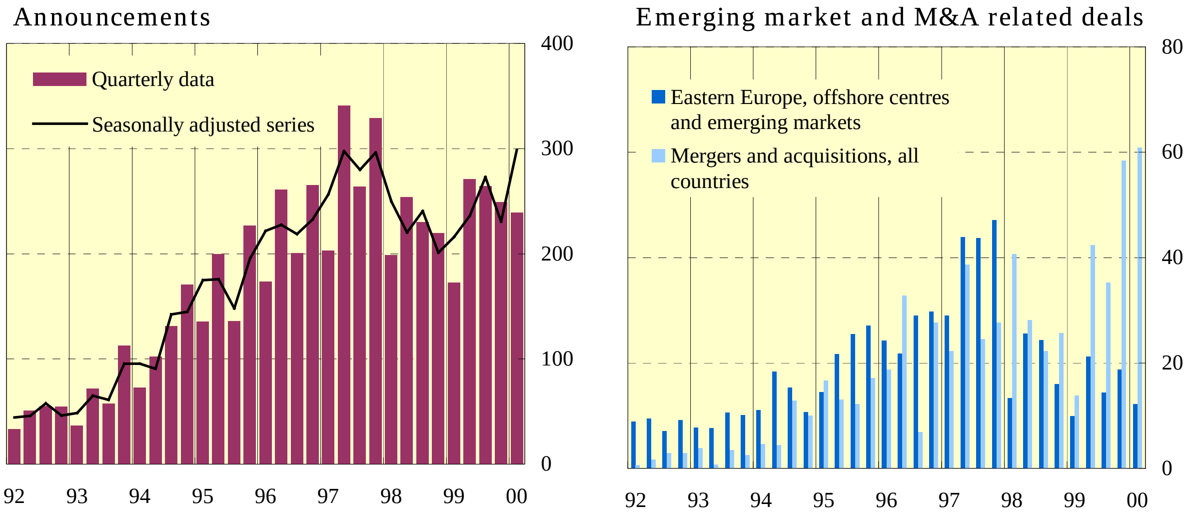
Blaise Gadanecz

International syndicated credit facilities amounted to $239 billion, a 4% decline from the previous quarter. However, the first quarter is traditionally a calm one; on a seasonally adjusted basis, there was a 30% increase in announcements.

Takeover activity was strong in western Europe and this was accompanied by a record $61 billion of merger and acquisition-related international syndicated credit facilities. The two largest deals were both in the telecommunications sector: a €13 billion facility to support the acquisition by the Netherlands' KPN of E-Plus, Germany's third largest wireless carrier, and a €30 billion facility to finance the takeover of Germany's Mannesmann AG by the United Kingdom's Vodafone Airtouch. The Vodafone deal represented the largest ever syndicated loan put in place, supporting the largest hostile takeover bid (€124 billion) in corporate history. The recent spate of European takeovers has reinforced the use of the euro for international syndicated credits at the dollar's expense. While 4% of total deals were denominated in euro area currencies and 85% in US dollars in the second quarter of 1998, the relative use of the US dollar has been following a downward trend since then, falling to 59% in the first quarter of 2000, against 23% for the euro. Syndicated lending to non-industrialised countries remained weak at $12 billion.

Announced facilities in the international syndicated credit market

In billions of US dollars



Sources: Capital DATA; BIS.

repayments occurring in the second and third quarters (see the table on the next page). Recent figures for the fourth quarter highlight increasingly divergent trends across regions. BIS reporting banks continued to receive heavy net repayments from Asia, while resuming lending to Latin America, particularly to Brazil. Major borrowers in eastern Europe such as Hungary and Poland had ready access to bank funds but Russian banks remained shut out of international credit markets.

Data for the fourth quarter of the year show that Korea, China and Thailand accounted for the bulk of the $17 billion decline in bank claims vis-à-vis *Asia*. Korean non-banks stepped up their repayments at year-end, mainly to their US and Japanese bank creditors. Asian borrowers repaid a total of $53 billion to international banks in 1999, with an acceleration in repayments of interbank loans. Cumulative current account surpluses and a reflow of direct and foreign portfolio investment to these countries have largely obviated the need for bank borrowing.

A breakdown of bank claims on Asia by maturity (available from the BIS consolidated banking statistics) suggests that repayments of short-term debt coming due have lengthened the maturity profile of external claims on the region. The proportion of China's long-term bank debt (claims over one year) to total debt outstanding rose from 40% in mid-1998 to 55% at end-1999, while that for

Banks' claims on transition and developing countries[1]

In billions of US dollars

	1998	1999	1998	1999				Stocks at end-Dec 1999
	Year	Year	Q4	Q1	Q2	Q3	Q4	
Total claims	**– 83.0**	**– 71.2**	**– 25.6**	**– 9.4**	**– 20.7**	**– 34.6**	**– 6.5**	**857.1**
Eastern Europe	0.0	– 4.1	– 0.5	– 1.9	– 1.8	– 0.9	0.5	99.3
Russia	– 6.1	– 8.1	– 1.7	– 3.6	– 1.5	– 1.7	– 1.4	43.7
Africa	– 1.5	0.3	– 0.4	2.0	– 0.2	– 0.9	– 0.6	55.9
Asia	– 96.4	– 52.7	– 22.4	– 3.1	– 8.1	– 24.5	– 17.0	315.1
China	– 10.6	– 15.1	– 2.1	– 1.8	– 0.4	– 7.3	– 5.5	67.5
Indonesia	– 14.1	– 6.3	– 3.8	0.8	– 2.1	– 3.7	– 1.3	46.4
Korea	– 32.9	– 5.1	– 7.5	2.0	– 0.1	– 1.3	– 5.7	70.0
Malaysia	– 6.6	– 4.0	– 1.6	– 0.2	– 0.8	– 1.5	– 1.5	20.2
Philippines	– 0.8	– 0.5	1.2	0.0	1.0	– 1.8	1.2	17.1
Thailand	– 28.9	– 16.4	– 8.7	– 5.3	– 2.7	– 5.8	– 2.7	36.4
Latin America	– 8.4	– 16.3	– 12.2	– 2.4	– 7.1	– 11.1	4.4	280.4
Argentina	0.7	0.5	– 2.2	1.5	0.0	– 2.0	1.0	48.2
Brazil	– 10.6	– 8.9	– 8.4	– 6.1	– 3.2	– 3.4	3.8	85.4
Mexico	0.3	– 4.2	– 0.2	0.0	– 1.5	– 1.7	– 1.1	61.0
Middle East	23.3	1.5	9.8	– 3.9	– 3.5	2.8	6.2	106.5

[1] Changes in amounts outstanding excluding exchange rate valuation effects.

Thailand climbed from 37% to 44%. Notable exceptions were Korea and India, with the former in particular experiencing a sharp increase in the share of short-term debt. However, as claims are allocated on the basis of remaining maturities, this can be mostly attributed to claims that were originally long-term becoming short-term, rather than a resumption of short-term borrowing.

International bank claims on Latin America rose in the fourth quarter ($4.4 billion) for the first time since the sharp contraction following the Russian currency crisis. Despite the decline in commercial banks' claims on the region for the first three quarters of the year, Latin American countries were not excluded from international capital markets. On the contrary, the region was able to raise $26 billion in international fixed income securities in 1999, taking advantage of a narrowing of credit spreads during the year (see Section 2 of Part II). This would suggest a tendency to rely less on bank lending and more on securities markets for financing needs. Nonetheless, the fourth quarter saw a reflow of bank credit to Brazil ($3.8 billion) for the first time since the second quarter of 1998. Argentina also attracted increased bank funds ($1 billion), mainly in the form of securities purchases. Meanwhile, Mexico continued to make net repayments, 63% of which involved interbank loans.During the second half of the year, detailed data from the consolidated statistics indicate that Latin American borrowers lengthened the average maturity of their debt even as the size of this debt fell. While the locational data show a rise in claims on the region in the fourth quarter, the half-year decline in consolidated exposures is consistent with the locational data measured over the same period (see the table above). A rise in long-term debt was more than offset by large repayments of short-term borrowing. Additional detail on the instrument breakdown of claims to the region from the locational statistics implies that the main short-term repayments were for loans.

The large deposits placed with BIS reporting banks from the *Middle East* in the fourth quarter ($16.6 billion) came mainly from oil-exporting countries.[3] Given the correlation between deposit flows from Middle East oil exporters and the price of oil, a further price rise suggests that deposits from the region may continue to build up.

[3] The United States classifies its assets and liabilities vis-à-vis Middle East oil exporters as "residual Middle East", without providing separate country detail.

In the period under review there were modest increases in net claims on *eastern Europe* for the first time since Russia's currency devaluation, with increased holdings of international securities offset by a decline in bank loans. International financing to eastern Europe during the year was characterised by regional market differentiation. Banks extended credit to Poland ($3.4 billion)[4] and purchased Hungarian securities ($1.1 billion), while continuing to withdraw from Russia (–$8.1 billion). Indeed, bank loans to Poland rose in 1999 amid signs of increasing macroeconomic strains. Notwithstanding the overall drop in claims on Russia, there was evidence of a resumption of lending to the Russian non-bank sector in the latter half of the year. In particular, figures for the fourth quarter show a rise in purchases of Russian non-bank securities ($0.4 billion), mainly by banks in Germany.

The latest figures from the BIS consolidated statistics suggest a general lengthening in the average maturity of debt for Hungary and Poland. European banks now account for a record 84% of exposure to eastern Europe, with German banks holding 43% of outstanding claims on the region.

Lending shifts from euros to dollars and yen

Data on the currency composition of lending flows in the fourth quarter of 1999 show a sharp shift in international lending from euros to US dollars and yen (see the table below). The data cover banks' foreign currency positions with residents as well as cross-border positions that involve a foreign currency for either lender or borrower. Hence, the reported flows exclude transactions in euros between countries within the euro area (these intra-euro 11 transactions are instead shown as a memorandum item). Lending in dollars surged to $98 billion during the quarter, continuing a recovery in dollar business that began in the second quarter. This business had previously been in decline because of the currency's shrinking role in the interbank market. Lending in yen rose to $32 billion after an extended period of repayments associated with international retrenchment by Japanese banks. By contrast, lending in euros turned negative for the first time in the new currency's existence.

Composition of foreign currency bank lending[1]

In billions of US dollars

	1997	1998	1999					Stocks at end-Dec 1999
	Year	Year	Year	Q1	Q2	Q3	Q4	
US dollar	648.7	84.9	27.0	–114.7	17.2	26.8	97.7	4,491.9
Euro[2]	178.8	99.5	228.1	153.1	9.4	89.7	– 24.1	1,644.3
Japanese yen	182.8	– 38.1	–213.6	–146.5	– 74.7	– 24.5	32.1	952.5
Pound sterling	89.3	49.4	16.5	23.7	1.0	5.5	– 13.7	464.5
Swiss franc	33.1	23.5	38.0	22.5	0.0	15.1	0.3	321.2
Other and unallocated	105.3	–153.6	– 54.0	..	– 3.4	– 52.0	1.4	1,869.8
Total	**1,238.0**	**65.6**	**3.7**	**–100.1**	**– 50.5**	**60.6**	**93.7**	**9, 744.2**
Memorandum item: Cross-border domestic currency intra-euro 11 positions	*95.8*	*196.8*	*288.9*	*142.2*	*51.1*	*86.1*	*9.5*	*1,233.1*

[1] Changes in amounts outstanding excluding exchange rate valuation effects. [2] For 1997 and 1998, data relate to five euro legacy currencies (BEF, DEM, FRF, ITL and NLG) and the ECU, which were reported separately. Changes for 1999 Q1 are adjusted on an estimated basis to exclude the shift from "Other and unallocated" to "Euro area currencies" of data for six euro legacy currencies which were previously not reported separately under foreign currency positions (ATS, ESP, FIM, IEP, LUF and PTE).

[4] Total claims on Poland for 1999 exclude a $1 billion equity investment in a Polish bank by another European bank.

Lending flows within the euro area illustrate the dramatic effects of eliminating currency risk. The memorandum item on cross-border intra-euro area positions shows that lending in the 11 domestic currencies within the area doubled between 1997 and 1998, with bank and non-bank borrowers anticipating the changeover to a single currency. These positions surged by a further 47% in 1999 after the introduction of the euro. Flows were mainly in the form of lending between banks themselves in the euro area. By the fourth quarter, this adjustment to the new currency appears to have run its course.

A tale of two statistics: the BIS locational and consolidated international banking statistics

Melissa Fiorelli

The BIS collects and disseminates two different sets of international banking data, both based on information provided by creditor banks. The first set of data, originally introduced in 1964 to monitor the development of eurocurrency markets, is known as the *locational* statistics (Annex Tables 1-8). The second set, the *consolidated* statistics, was launched in 1977 and subsequently expanded following the onset of the Mexican debt crisis in 1982 (Annex Table 9). Once differences in reporting regimes are taken into account, the two sets of data can be used to complement each other in economic analysis.

The locational reporting system collects quarterly data on the gross international financial claims and liabilities of banks resident in a given country. The main purpose of the statistics is to provide information on the role of banks and financial centres in the intermediation of international capital flows. The reporting system is currently comprised of 24 participating countries, namely 18 industrial and six offshore financial centres.[①] The key organisational criteria are the country of residence of the reporting banks and their counterparts as well as the recording of all positions on a gross basis (including those vis-à-vis own affiliates), consistent with the principles underlying the compilation of national accounts, balance of payments and external debt statistics. The currency breakdown allows the approximate calculation of capital flows that take account of exchange rate movements.

The consolidated banking statistics report banks' international financial claims vis-à-vis the rest of the world and provide a measure of the country risk exposure of national banking systems. The data mainly cover claims reported by bank head offices, including the exposures of their foreign affiliates, and are on a worldwide consolidated basis with inter-office accounts being netted out. These statistics provide information on exposures to the country of the immediate borrower and on the reallocation of claims (ie risk transfers) to the country of ultimate risk. The latter is defined as the country where the guarantor of a claim resides. These data are currently collected on a semiannual basis and reported by 18 industrial countries. The consolidated statistics will soon be reported on a quarterly basis, beginning with the data for March 2000.

Because more countries contribute to the locational bank lending data, one would expect the measure of outstanding debt as reported by the locational data to exceed that of the consolidated data. However, the reporting of worldwide positions in the consolidated data tends to compensate for this. While the locational statistics are appropriate for measuring lending flows in a given period, the consolidated statistics are more suited to gauging the size of bank exposures. They also provide additional details, notably on maturity, which can be used to supplement the locational data.

BIS international banking statistics	**Locational**	**Consolidated**
Creditor reporting basis	Residence (host country)	Nationality (home country)
Number of reporting countries	24 (18 industrial and six offshore)	18 industrial
Reported data	External claims and liabilities	Worldwide consolidated claims
Inter-office netting-out	No	Yes
Type of counterparty	Immediate borrower	Immediate and ultimate borrower
Composition of claims by:		
Currency	Yes	No
Type of instrument	Yes (loans, deposits, securities)	No
Sector	Yes (bank, non-banks)	Yes (banks, non-banks, public)
Country of borrower	Yes	Yes
Maturity	No	Yes

① The following industrial countries file reports for the BIS locational and consolidated banking statistics: Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, the Netherlands, Norway, Spain, Sweden, Switzerland, the United Kingdom and the United States. The following offshore financial centres file reports for the BIS locational statistics only: the Bahamas, Bahrain, the Cayman Islands, Hong Kong, the Netherlands Antilles and Singapore.