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2. The international banking market

Banks shifted funds from debt securities into the international interbank market in the fourth quarter of 2002. This shift appeared to constitute a move towards shorter-term maturities. Nevertheless, some banks continued to invest in government debt. In contrast to the robust lending between banks, lending to corporations and other non-bank entities remained flat. Over the course of 2002, the euro gained further ground vis-à-vis the US dollar and other currencies in both cross-border credit and deposits.

Funds flowed out of emerging markets, largely in the form of a sharp contraction in claims. Despite an improvement in credit conditions in the fourth quarter, the outflow from Latin America, particularly from Argentina and Brazil, continued. The Asia-Pacific region also experienced a noticeably large outflow, owing in part to reduced repo activity in a few countries. Banks channelled further funds to emerging Europe, particularly to those countries in accession negotiations with the European Union.

Interbank lending dominates flows in the fourth quarter

Interbank activity drove cross-border bank flows in the fourth quarter of 2002. Virtually all of the growth in total claims was accounted for by lending to other banks, as banks in the BIS reporting area shifted out of longer-term securities. In seasonally unadjusted terms, the outstanding stock of total cross-border claims rose by $371 billion, to $13.4 trillion (Table 2.1). Banks deposited $432 billion in other banks, and moved out of international debt securities, which increased the year-over-year growth in total claims to 6%, from 5% in the third quarter.

Fourth quarter loan flows are driven by lending to banks ...

While credit activity in the global market has long been dominated by lending between banks, interbank loan flows in the fourth quarter were large by historical standards (Graph 2.1). The recycling of funds in the interbank market helps banks to reposition funds geographically during periods of weak corporate demand. Claims on banks, including both claims on unrelated banks and claims on own offices, have ranged between 65% and 77% of total claims since at least 1980. On average, each dollar lent to corporations and other non-bank entities has historically been associated with $1.90 placed in the interbank market. However, each dollar lent to non-banks in the fourth quarter was associated with $20 placed in the interbank market.

Cross-border claims of BIS reporting banks

Exchange rate adjusted changes in amounts outstanding, in billions of US dollars[1]

	2001	2002	2001	2002				Stocks at end-Dec 2002
	Year	Year	Q4	Q1	Q2	Q3	Q4	
Total claims	859.4	794.3	236.8	57.4	225.8	140.0	371.2	13,425.6
By instrument								
Loans and deposits	612.2	540.1	165.5	–0.5	83.6	42.3	414.7	10,103.3
Securities[2]	247.2	254.2	71.3	57.9	142.2	97.6	–43.5	3,322.3
By currency								
US dollar	423.7	335.9	184.5	51.1	185.0	–104.1	204.0	5,618.4
Euro	439.3	488.2	–12.2	44.4	98.3	221.2	124.3	4,478.6
Japanese yen	–65.2	–38.7	6.5	–81.4	5.3	15.8	21.6	740.4
Other currencies[3]	61.6	8.9	58.0	43.3	–62.8	7.1	21.3	2,588.2
By sector of borrower								
Banks	417.3	495.1	142.1	9.5	146.3	–14.3	353.7	8,858.5
Non-banks	442.1	299.2	94.7	47.9	79.5	154.3	17.5	4,567.1
By residency of non-bank borrower								
Advanced economies	384.8	302.5	82.8	44.6	46.6	139.0	72.4	3,528.4
Euro area	139.0	123.0	34.3	51.5	8.4	48.6	14.5	1,542.8
Japan	–3.7	4.1	9.5	–2.3	6.3	–0.4	0.5	123.4
United States	183.4	136.0	34.2	–17.3	40.1	55.5	57.6	1,272.7
Offshore centres	55.0	17.9	8.2	–7.7	36.9	16.8	–28.2	468.3
Emerging economies	2.5	–17.3	3.6	9.4	–4.9	2.4	–24.2	507.2
Unallocated[4]	–0.1	–3.9	0.1	1.5	0.8	–3.9	–2.4	63.2
Memo: Local claims[5]	*76.4*	*37.0*	*–14.1*	*69.8*	*–40.9*	*–25.9*	*33.9*	*1,732.8*

[1] Not adjusted for seasonal effects. [2] Mainly debt securities. Other assets account for less than 5% of total claims outstanding. [3] Including unallocated currencies. [4] Including claims on international organisations. [5] Foreign currency claims on residents of the country in which the reporting bank is domiciled.

Table 2.1

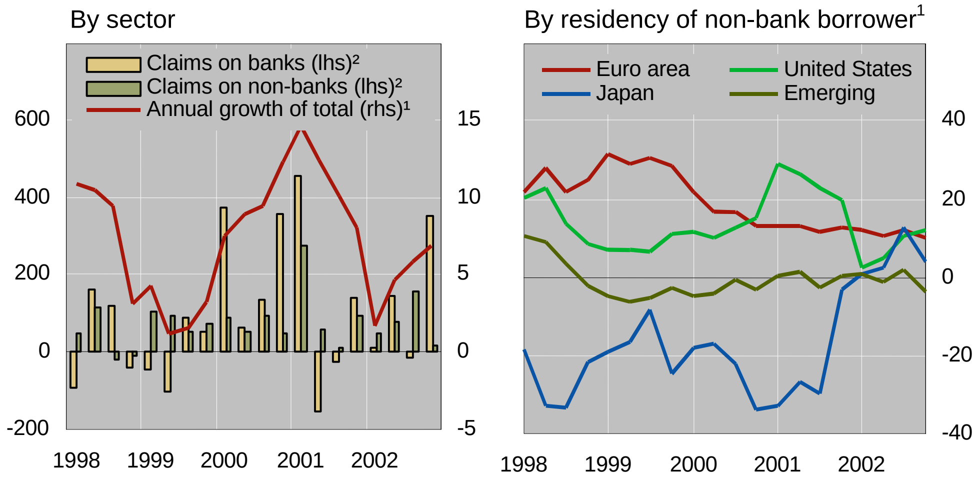
Banks transferred funds out of Europe and into banks in the United States and Japan in the fourth quarter. Much of this reflected inter-office activity. Banks in offshore centres, Switzerland, Germany and France parked funds in the United States, fuelling a $121 billion increase in loans to the US banking sector. Concurrently, banks in the United States repatriated deposits from banks in the United Kingdom, Germany and France, contributing to a $68 billion net flow from banks in the European Union into the US banking system. Banks in Europe also deposited funds in banks in Japan, resulting in the largest increase in new loans ($62 billion) to the Japanese banking sector since the fourth quarter of 2000. Much of this reflected inter-office activity by Japanese banks located in the United Kingdom.

... much of which reflects inter-office transfers out of Europe

At the same time, banks shifted out of international debt securities, which generally carry a greater degree of interest rate risk than short-term bank deposits. The move out of securities and into short-term deposits possibly reflected bank uncertainty over long-term yield movements at a time when government bond yields were at historically low levels. In some developed countries, however, banks continued to purchase government securities, thus

Cross-border claims by sector and residency

Annual percentage changes



[1] Calculated as the sum of exchange rate adjusted changes in amounts outstanding between periods t–3 and t, divided by the amount outstanding in period t–4. [2] Exchange rate adjusted changes in amounts outstanding, in billions of US dollars

Graph 2.1

supporting debt security claims on non-banks. However, debt security claims on banks dropped by $52 billion, pushing the total quarterly change in debt security investment into negative territory for the first time since 1996, when the BIS began tracking these instruments. Banks in offshore centres and in the United Kingdom drove much of this decline by unloading $38.8 billion and $10.8 billion, respectively, in debt security claims on banks. Banks in the euro zone, primarily in France, the Netherlands, Ireland, Italy and Spain, also sold off a combined $7.2 billion in debt security claims on other banks.

Weak lending to non-banks reflects weak corporate demand

Weak demand led to a decline in loans to corporations and other non-bank borrowers in the fourth quarter. Loans to non-banks fell by $17 billion, the first contraction in a year, as a result of reduced lending to non-bank entities in offshore centres and Japan. Claims on US non-bank borrowers actually grew by $58 billion, supported by increased loans from banks in offshore centres and purchases of public sector debt securities. However, lending to corporations and other non-bank entities in the euro zone remained subdued. Total claims on non-banks in the developed European economies rose by $16 billion in the fourth quarter, far below the $46 billion average expansion over the previous four quarters. In particular, claims on French, Swedish, Italian and Swiss non-bank borrowers decreased, while claims on non-bank borrowers in Germany and the United Kingdom rose only modestly. In addition, loans to corporations and other non-bank entities in Japan contracted for the first time in five quarters (by $10 billion), driving the year-over-year growth in claims on non-banks down to 4% from 12% in the previous quarter (Graph 2.1).

Banks continue to favour government securities over loans

Banks in some developed countries, particularly Japan, continued to shift into government securities in the fourth quarter. The BIS consolidated statistics, which net out inter-office positions, indicate that claims on the public sector accounted for 14% of international claims of banks in developed countries in the fourth quarter of 2002, up from 12% in the first quarter. Reporting area banks' consolidated claims on the public sector totalled $1.2 trillion in the fourth quarter, and were boosted by purchases of Italian, Spanish, Japanese and German government securities.

Japanese banks continue to invest in government securities

Japanese banks' overall credit activity was again driven by purchases of US and European government securities, and accounted for much of the expansion in total consolidated claims on the public sector. Japanese banks' consolidated international claims rose to $964 billion in the fourth quarter of 2002, with claims on governments reaching 35% of this total, up from 27% a year earlier. In particular, claims on the US public sector increased to $172 billion, or 45% of Japanese banks' consolidated international claims on the United States. Japanese banks also stepped up lending to euro area governments, particularly to the French, Italian, Spanish and Belgian public sectors. Claims on euro area public sectors reached 51% of Japanese banks' consolidated international claims on the euro area, up from 43% a year earlier.

A similar but less pronounced shift remained evident in other countries as well. Canadian banks purchased $2.9 billion in government securities in the fourth quarter, boosting total consolidated claims on the public sector to $22.4 billion. As a result, claims on the public sector accounted for 15% of Canadian banks' consolidated international claims (up from 12% a year earlier). Likewise, weak lending by US banks over the course of 2002 resulted in an increase in the share of total US international credit flowing to the public sector. US banks reduced their exposure to the non-bank private sector in the fourth quarter of 2002, primarily vis-à-vis offshore centres, Japan and China. As a result, the share of claims on the public sector in US banks' consolidated international claims remained at the relatively elevated 27% level evident since the second quarter, up from 24% a year earlier.

The euro continues to be the currency of choice

The euro continued to gain market share vis-à-vis other major currencies in both the loan and deposit markets over the course of 2002. The stock of euro-denominated claims increased by 15% in 2002 following an equally rapid expansion in 2001. In contrast, the year-over-year growth in US dollar-denominated claims fell to 6% from 9% over the same period. Claims denominated in Japanese yen and Swiss francs continued to contract throughout 2002, at average annual rates of 11% and 7%, respectively, while sterling-denominated claims grew modestly.

The euro captures market share in developed economies ...

Reflecting the rapid growth, the share of euro-denominated claims in total international claims has risen since 1999 (Graph 2.2). On a constant exchange rate basis (which corrects for the appreciation of the euro), euro-denominated claims made up 36% of total claims in the fourth quarter of 2002, up from 30% at the beginning of 1999. Conversely, the share of US dollar-denominated claims fell slightly, from 46% to 45%, and that of yen-denominated claims declined from 10% to 6% over this same period. The use of the pound sterling and the Swiss franc has remained relatively stable at 5% and 3%, respectively.

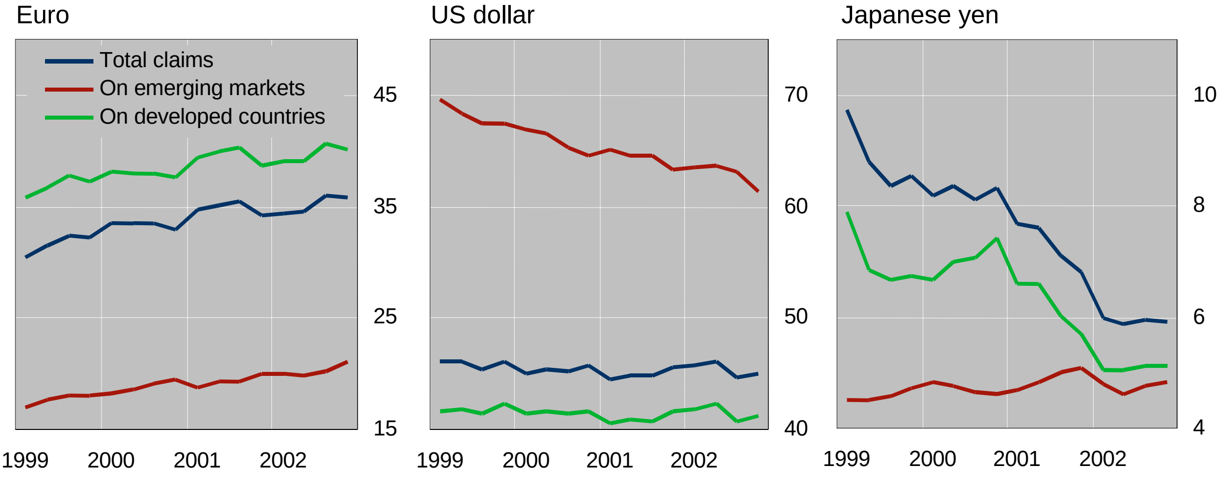
Not surprisingly, the rise in the use of the euro has been significant in the euro area. The year-over-year growth in the stock of US dollar-denominated claims on euro area borrowers was negative throughout 2002, contracting by 1.5%, even as that in euro-denominated claims reached 13% in the fourth quarter. In addition, almost 90% of all syndicated loan signings arranged in 2002 for euro area borrowers were denominated in euros, compared with an average of 75% in 2000 and 2001. On a constant exchange rate basis, US dollar-denominated claims on euro area borrowers fell to 19% of total claims from a peak of 21% a year earlier, while euro-denominated claims rose from 68% to 71% over this same period. This was not driven exclusively by intra-euro area lending; the share of euro-denominated claims in total claims on the euro area by banks located outside the euro area increased to 48% from 45% a year earlier.

... as well as in emerging markets ...

The shift to euro-denominated claims has not been confined to the developed countries, as several emerging market regions have increasingly moved away from the US dollar. On a constant exchange rate basis, US dollar claims sank to 61% of total claims on emerging markets in the fourth quarter of 2002, down from 70% at the beginning of 1999. Over the same period, euro-denominated claims rose from 17% to 21%. Even in Latin America, where the US dollar has long been the currency of choice, claims denominated in euros increased from 5% to 7% of total claims over the past year. This same trend is evident in the Middle East and Africa, as well as in the emerging European economies. US dollar-denominated claims fell from an average of 42% of total claims on emerging Europe in 2000 to 39% in 2002, while euro-denominated claims have risen from an average of 42% in 2000 to 45% over the same period. In addition, the share of euro-denominated syndicated loan signings for

Claims of BIS reporting banks by currency

As a percentage of total claims, at end-December 2002 constant exchange rates



Graph 2.2

emerging European economies has increased to approximately 40% of all facilities arranged for the region in 2001 and 2002, compared with 25% in 1999 and 2000.

... in both claims and liabilities

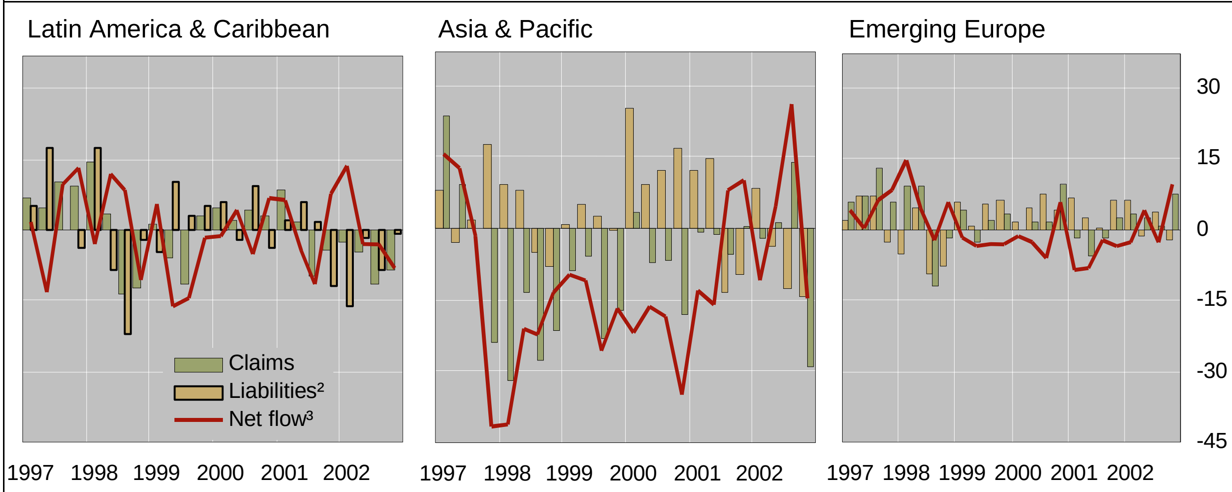
There has also been a noticeable shift in the currency denomination of BIS reporting banks' cross-border liabilities, almost 90% of which are deposits. On a constant exchange rate basis, 49% of reporting banks' liabilities were denominated in US dollars in the fourth quarter of 2002, down from 50% two years earlier, while euro-denominated liabilities rose from 27% to 30% over the same period. This trend has been evident for depositors in the developed countries as well as in most emerging market regions. While the US dollar is still the most widely used currency by depositors in emerging markets, it has been gradually losing ground to the euro. Euro-denominated liabilities vis-à-vis emerging markets rose to 15% of total liabilities in the fourth quarter, up from an average of 13% in 2000 and 2001.

Emerging markets shoulder repayments

The net flow of funds into emerging markets from banks in the BIS reporting area was negative in the fourth quarter, although regional differences were apparent (Graph 2.3). Total claims on emerging markets fell by $37 billion, the largest contraction since the third quarter of 1998. Claims on emerging markets fell to 6.5% of total claims, down from an average of 8% in 2001 and 10% in 1999. Claims on Latin America continued to contract, while a drop in claims on Asia reflected an unwinding of repo positions in a few countries. Conversely, funds flowed into the EU accession countries, driven by both an increase in claims on the region and deposit repatriations (Table 2.2).

Net bank flows to emerging economies[1]

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



[1] A positive value represents an inflow to emerging economies from banks in the BIS reporting area, and a negative value an outflow from emerging economies. [2] A positive value indicates a decrease in BIS reporting banks' liabilities vis-à-vis emerging economies, and a negative value an increase. [3] Changes in claims minus changes in liabilities. Graph 2.3

Cross-border bank flows to emerging economies

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

	Banks' position[1]	2001	2002	2001	2002				Stocks at end-Dec 2002
		Year	Year	Q4	Q1	Q2	Q3	Q4	
Total[2]	Claims	–27.0	–37.3	–0.9	–0.7	1.1	–0.3	–37.4	876.8
	Liabilities	20.3	–43.1	–28.4	–7.3	–6.5	–18.4	–10.8	1,074.4
Argentina	Claims	–5.8	–11.8	–3.3	–4.3	–0.8	–4.5	–2.3	31.2
	Liabilities	–16.7	–0.1	–11.1	–1.0	0.5	0.3	0.2	24.9
Brazil	Claims	0.9	–11.3	–2.2	1.0	–2.4	–3.5	–6.4	87.5
	Liabilities	0.4	–8.0	–4.1	1.4	–3.8	–1.4	–4.2	40.5
Chile	Claims	0.2	0.5	0.2	–0.3	–0.5	–0.1	1.3	19.9
	Liabilities	–1.0	–1.1	–0.6	0.2	–0.8	–0.8	0.3	14.1
China	Claims	–3.5	–12.2	–0.6	–7.3	1.0	4.1	–10.0	44.2
	Liabilities	–6.5	–3.6	–4.0	–7.1	6.4	–1.0	–1.9	92.8
Indonesia	Claims	–5.4	–6.0	–0.8	–1.3	–2.1	–1.3	–1.2	31.2
	Liabilities	1.1	–2.4	0.7	–1.4	–0.3	–0.2	–0.5	11.9
Korea	Claims	–0.2	8.2	–2.0	6.4	1.8	6.5	–6.4	73.0
	Liabilities	1.7	0.5	1.7	11.4	–5.6	–0.4	–4.8	30.6
Mexico	Claims	2.0	3.1	0.6	3.3	1.7	–1.9	–0.1	64.3
	Liabilities	8.8	–11.4	0.6	–14.1	1.3	–0.3	1.7	52.1
Russia	Claims	1.3	3.6	2.1	1.4	0.8	–1.1	2.4	35.0
	Liabilities	5.2	9.6	1.7	3.6	0.0	4.0	2.0	39.0
Saudi Arabia	Claims	–2.4	–5.4	1.0	0.0	0.5	–1.8	–4.2	19.3
	Liabilities	–9.7	–2.1	–7.3	–5.4	–0.1	1.4	2.0	51.2
South Africa	Claims	–0.4	–0.4	–1.1	–1.5	0.2	–0.6	1.5	18.4
	Liabilities	2.1	3.0	–0.9	0.3	1.3	–0.4	1.8	20.2
Thailand	Claims	–3.5	–5.0	1.4	–2.2	–0.5	–0.5	–1.8	19.0
	Liabilities	1.3	–4.6	0.5	–0.7	–1.3	–1.4	–1.2	11.3
Turkey	Claims	–12.0	–2.8	–3.7	0.9	–1.5	–2.1	–0.1	36.1
	Liabilities	–2.1	0.0	–2.1	1.6	–1.9	–0.2	0.5	19.6
Memo:									
EU accession countries[3]	*Claims*	*6.3*	*10.1*	*4.1*	*1.4*	*1.9*	*3.4*	*3.3*	*91.4*
	Liabilities	*9.9*	*–6.4*	*4.8*	*–0.2*	*0.5*	*–1.3*	*–5.4*	*61.8*
OPEC members	*Claims*	*–13.7*	*–10.1*	*1.1*	*3.4*	*–0.6*	*–4.4*	*–8.5*	*125.2*
	Liabilities	*–2.9*	*–8.0*	*–8.8*	*–4.9*	*–3.1*	*–1.2*	*1.2*	*249.4*

[1] External on-balance sheet positions of banks in the BIS reporting area. Liabilities mainly comprise deposits. An increase in claims represents an inflow into emerging economies; an increase in liabilities represents an outflow from emerging economies. [2] All emerging economies. For details on additional countries, see Tables 6 and 7 in the Statistical Annex. [3] Countries in accession negotiations with the European Union, ie Bulgaria, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia.

Table 2.2

Reduced claims on Latin American banks lead to continuation of net outflows

The net flow of funds to Latin America remained negative for the third consecutive quarter, at $7.8 billion. Total claims fell to $272 billion, pushing the year-over-year rate of contraction in claims to 10% from 8% in the previous quarter. Claims on corporations and other non-bank entities stabilised, and signings of syndicated loans to Latin American countries picked up in the fourth quarter, rising to $4.3 billion from $2.7 billion in the third. However, the rate of contraction in claims on the Latin American banking sector increased to 18%

year over year from 13% in the previous quarter. Claims on banks fell by $9 billion, the largest reduction for this sector since 1998.

Outflow from Latin America reflects reduced lending to non-banks in Argentina ...

The net outflow from Argentina was again the largest in the region, although smaller than that experienced in the third quarter. While liabilities vis-à-vis Argentina remained stable, a sixth consecutive quarterly contraction in claims, primarily on the Argentine non-bank sector, led to a net outflow of $2.5 billion. Banks located in many reporting countries cut back their short-term claims on Argentina, with banks in the United States again reducing exposure the most. Claims on Argentina fell to 11% of all claims on the region in the fourth quarter of 2002, down from 14% a year earlier and 16% in the fourth quarter of 2000. In addition, the share of international consolidated claims maturing in one year or less declined to 47% in the fourth quarter, down from 51% a year earlier. Undisbursed credit commitments to Argentina also continued their slide, contracting for the sixth consecutive quarter to $2 billion.

... and to banks in Brazil

Despite the improvement in investor sentiment towards Brazil in the fourth quarter, interbank activity led to the largest outflow of funds in five quarters. The year-over-year rate of contraction in claims on Brazil rose to 12%, almost double that in the previous quarter. Claims on non-banks remained stable, while claims on the banking sector fell by $6.1 billion, the largest decrease since the second quarter of 2001, as banks in offshore centres, the Netherlands and the United States reduced their exposure. While Brazil remains by far the largest emerging market exposure of banks in the BIS reporting area, claims on Brazil fell to 32% of total claims on the region, down from 34% in the previous three quarters. In addition, new syndicated loan signings totalled $0.6 billion in the fourth quarter, down from $2.4 billion a year earlier. However, possibly reflecting the calming of investors' nerves in the fourth quarter, undisbursed credit commitments to Brazil rose following four consecutive quarterly declines.

Like Argentina and Brazil, Mexico also experienced a net outflow of funds for the second consecutive quarter, this time driven by an increase in deposits with reporting area banks. Total claims on Mexico remained stable from the previous quarter, while liabilities grew by $1.7 billion as banks in Mexico deposited funds in banks in the United States.

Claims on Asia-Pacific contract sharply as banks in the United States cut back

Loan cutbacks by US banks lead to outflow from Asia ...

Following a record inflow in the previous quarter, funds flowed out of the Asia-Pacific region in the fourth quarter of 2002. Relatively large movements in a few countries led to a $29 billion fall in claims, the largest contraction since the first quarter of 1998. Much of this decline reflected reduced repo activity between banks in the United States and non-bank entities in Korea, mainland China and Taiwan, China (hereafter Taiwan). As a result, the share of claims on the Asia-Pacific region in total claims on emerging markets returned to its long-term average of 30%, down from 32% in the previous quarter. In addition, the movement towards shorter-term claims evident since the fourth quarter of 2000 appears to have stopped. Claims with a maturity of one year or less fell to 49% of consolidated international claims on the region, from 52% in the previous quarter.

The fall in claims was partially offset as banks in the region continued to repatriate deposits, this time to the tune of $11 billion. Three consecutive quarters of relatively large deposit repatriations have pushed the share of reporting banks' liabilities vis-à-vis the region to 32% of total liabilities vis-à-vis emerging markets, down from 34% in the first quarter.

Over half the net outflow from the region was attributable to activity vis-à-vis China. Claims on China fell by $10 billion, with a reduction in loans from banks in the United States to the Chinese non-bank sector accounting for over half the amount. Much of this reflected an unwinding of repo positions. Moreover, banks in the United Kingdom and offshore centres cut claims on the Chinese banking sector by $3 billion and $1.9 billion, respectively. Claims on China have consistently declined as a share of total claims on the Asia-Pacific region, falling from 21% of total claims at end-2000 to 17% in the fourth quarter of 2002.

... particularly from China, Korea and Taiwan

Taiwan also experienced a net outflow in the fourth quarter. As with China, this outflow reflected a $5 billion cutback in claims by banks in the United States on the Taiwanese non-bank sector. Reversing their relatively large purchases in the first three quarters of 2002, US banks shed $3.1 billion in Taiwanese public sector debt. While US banks remain Taiwan's largest creditors, this contributed to a 51% reduction in US banks' consolidated international claims on Taiwan, and brought claims on the public sector more into line with their historical average. Excluding banks in the United States, claims on Taiwan increased slightly, as banks in France and the Netherlands extended credit to the Taiwanese banking sector.

Activity vis-à-vis Korea was also dominated by reduced lending from banks in the United States. Korea's $1.6 billion net outflow in the fourth quarter was the result of a $6.3 billion contraction in credit from banks in the United States to Korea's non-bank sector, again reflecting an unwinding of repo positions. Banks in Korea also repatriated $5 billion in deposits, partially offsetting the large reduction in claims.

Net inflow to EU accession countries continues

Emerging Europe experiences largest inflow since 1998 ...

The emerging European economies experienced their largest net inflow of funds since the first quarter of 1998, driven by an increase in claims as well as deposit repatriations. Claims on the region rose by $7.2 billion, as reporting area banks extended credit to both the bank and non-bank sectors. Roughly half of this reflected increased lending to the EU accession countries, while a rise in claims on Russia made up much of the difference. At the same time, banks in the region repatriated $2.8 billion in deposits, leading to a net inflow of $9.7 billion.

Claims on the region have continued to shift towards longer maturities. Longer-term claims made up 50% of all international claims on the region in the fourth quarter, up from 48% a year earlier. On a consolidated basis, which nets out inter-office positions, Austrian banks lent to the region's banking sector, while German banks increased exposure to all sectors. German banks remain the region's largest creditors, but accounted for only 30% of consolidated foreign claims in the fourth quarter, down from 34% a year earlier.

While claims on most of the accession countries remained stable, Hungary experienced its largest expansion in claims in the BIS coverage period. Claims rose by $1.6 billion, reflecting investment by banks in the euro area in debt securities issued by the Hungarian non-bank sector. Elsewhere in the group of accession countries, deposit repatriations led to net inflows in several cases. Claims on Poland fell slightly for the first time in five quarters, but the decline was offset by a relatively large repatriation of deposits by the Polish banking sector. This led to the fifth consecutive net inflow for Poland, this time of $2.1 billion. The Czech Republic also experienced its largest net inflow in the BIS coverage period ($3 billion), driven by deposit repatriations from banks in the European Union, mainly in the United Kingdom.

... as banks in Poland and the Czech Republic repatriate deposits

One third of the increase in claims on the emerging European economies was accounted for by Russia. Claims rose by $2.4 billion, primarily reflecting increased US dollar lending to the Russian non-bank sector, although much of this was offset as banks in Russia repatriated deposits. This resulted in a small but positive net inflow in the fourth quarter, following relatively large net outflows in two of the previous three quarters. Total claims on Russia stood at $35 billion, or 20% of all claims on emerging Europe (but down from 23% a year earlier), making Russia the second largest exposure in the region (behind Turkey) of BIS reporting banks. In addition, syndicated loan signings to Russia remained strong in the fourth quarter at $1.2 billion, over half of which was for the oil sector.

Following two quarters of sharp contractions, claims on Turkey stabilised in the fourth quarter of 2002. The year-over-year decline in claims, which averaged 18% in the previous four quarters, fell to 8% in the fourth quarter as claims on both the bank and non-bank sectors decreased slightly. While Turkey remains the largest borrower in the region, claims on Turkey have fallen to 20% of total claims on emerging Europe, down from 23% a year earlier and 29% in the fourth quarter of 2000.

International syndicated credits in the first quarter of 2003

Blaise Gadanecz

Signings of international syndicated loans declined for the third consecutive quarter. Although lending is traditionally weak in the first quarter, volume still contracted by 7% year on year, to $216 billion. While refinancings remained stable at 39% of total signings, activity related to short-term loans and commercial paper backup lines dropped to historical lows in both absolute and relative terms. Some corporations took advantage of favourable financing conditions to issue large amounts of long-dated bonds (see "The international debt securities market" on page 23). Consistent with the long-term average trend, US borrowers arranged loans worth about twice as much as their European counterparts.

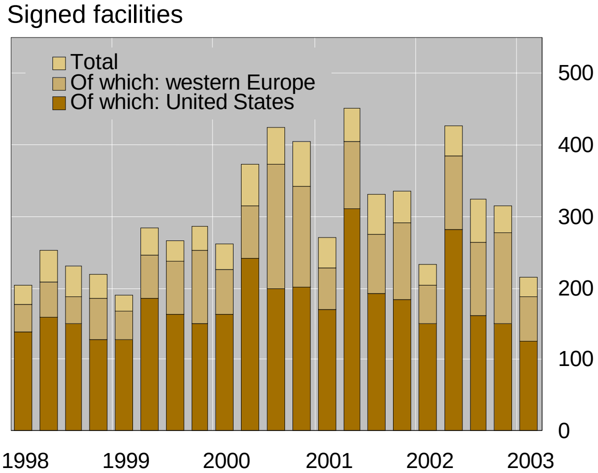
In the United States, healthcare, energy and retail firms were the most active. Some widening of spreads took place, with the weighted average drawn Libor spread on US dollar-denominated facilities rising by more than 40 basis points from the fourth quarter of 2002. More than a third of loans signed by non-first time US borrowers had higher spreads than on the same borrowers' previous financings, especially in the case of energy, telecommunications and electronics firms. This repricing for some US corporations happened just as a Standard & Poor's survey showed a decrease in US credit downgrades relative to upgrades in the first quarter.

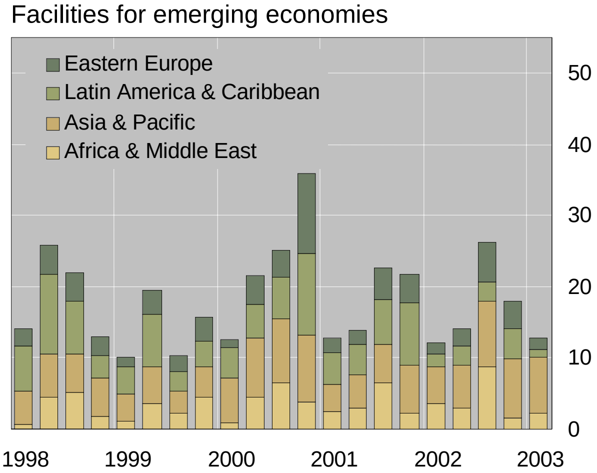
In Europe, activity was dominated by electricity, consumer products and telecommunications firms as well as media conglomerates. The largest borrowers were Electricité de France, which raised €6 billion for working capital and CP support purposes, and Cadbury Schweppes, which borrowed $6.1 billion to fund an acquisition. In addition, France Telecom refinanced a €5 billion revolving credit line. Following lacklustre activity in 2002, there is preliminary evidence of a new wave of international refinancing for telecoms taking place in 2003[1] as more than $50 billion worth of European telecoms facilities are due to mature.

Borrowing by emerging markets was in line with activity in the first quarter of previous years. Of a total of $13 billion of emerging market facilities, Chinese borrowers obtained the largest amounts, including a CNY 25 billion (approx $3 billion) loan for a hydroelectric project – a landmark international deal in that it was denominated in renminbi and arranged and funded entirely by Chinese and Taiwanese banks.[2] Lending to Latin America fell to a historical low of $1.1 billion. Mexican oil, engineering and transport firms were the largest borrowers. Saudi petrochemical and telecoms companies, absent in the previous quarter, raised $0.9 billion. Russian entities, mainly oil, gas and mining companies, arranged $1.1 billion worth of loans. Turkish banks, which had raised $1 billion in the previous quarter, were absent from the market.

Activity in the international syndicated credit market

In billions of US dollars





Sources: Dealogic Loanware; BIS.

[1] In the first quarter of 2003, Telecom Italia launched a €15.5 billion deal to support its merger with Olivetti. However, this facility is not yet included in the data compiled by the BIS as it had not been signed by the end of March 2003. [2] In "Integrating the finances of East Asia", *BIS Quarterly Review*, December 2002, McCauley et al show that local currency loan denomination attracts higher local bank participation.