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2. The international banking market

In the second quarter of 2003, the increase in claims on corporate and other non-bank borrowers was again overshadowed by flows between banks, much of which reflected inter-office activity and investment in securities issued by other banks. Moreover, the expansion in claims on the non-bank sector was driven by investments in international debt securities, primarily government debt, while flows to this sector in the form of loans remained subdued.

A second consecutive quarter of positive net flows to emerging markets was this time driven by movements in deposits. However, differences across regions were substantial. Large deposit repatriations by banks in China led to a net inflow to the Asia-Pacific region. At the same time, repatriations by banks in Russia were behind the second largest net inflow to the emerging European countries in five years. Conversely, increases in deposits with reporting area banks, especially by banks in Brazil, contributed to the fifth consecutive net outflow from Latin America.

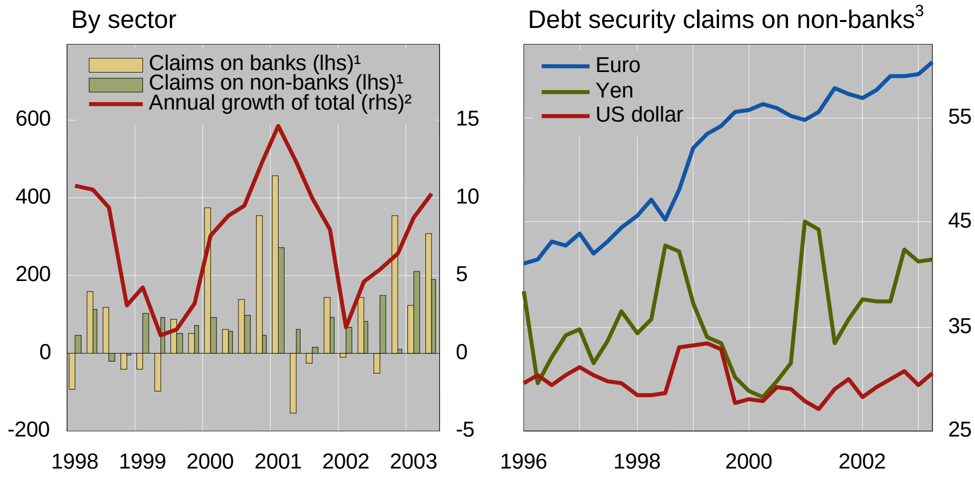
Loans to corporations subdued as banks invest in securities

Banks parked funds in other banks and in debt securities in the second quarter of 2003, reflecting a trend that has been evident since mid-2002. Throughout this period, banks have shifted funds between government securities and the interbank market, while no clear sign of a sustained increase in lending to corporate and other non-bank borrowers has emerged. Claims in the form of *loans* to non-banks remained weak relative to debt security investment in this sector, an indication that corporate borrowing has yet to pick up.

Interbank lending dominates credit flows …

Evidence of the repeated shift between government securities and interbank lending can be seen in Table 2.1, which shows the periodic swelling in interbank claims that has been evident since at least 2001. Peaks in interbank claims seemingly occur every other quarter, including the second quarter of 2003. In seasonally unadjusted terms, interbank lending in the second quarter boosted the outstanding stock of total cross-border claims by $495 billion, to $14.9 trillion. This pushed the year-over-year growth in claims to 10.3% from 8.8% in the previous quarter, the fifth consecutive quarter of accelerating claim growth (Graph 2.1, left-hand panel).

Cross-border claims by sector and instrument



[1] Exchange rate adjusted changes in amounts outstanding, in billions of US dollars. [2] 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, in percentages. [3] As a percentage share of total claims on non-banks.

Graph 2.1

Repo and intragroup activity drives claims on banks

Claims on corporate and other non-bank borrowers were again overshadowed by interbank lending. Claims on banks increased by $304 billion, more than double the long-term average increase of $121 billion, although inter-office lending accounted for over 60% of this. Following a quarter of weak growth, interbank claims of banks in the United Kingdom rose by $104 billion, the third largest increase for that country in the BIS statistics. Much of this reflected intragroup business with counterparties in Germany, Japan, France and Switzerland, and greater lending to banks in the United States.

… especially from banks in the United Kingdom …

Credit to other banks from banks in the United States and Germany was also robust, seemingly driven by repo activity and inter-office claims. Of the $37 billion expansion in claims on banks by banks in the United States, $20 billion was channelled to banks in the United Kingdom, and was explained by an increase in repo agreements. An additional $26 billion flowed to banks in offshore centres, primarily in the Cayman Islands and Jersey, and largely reflected inter-office business (see the box on page 16). Cross-border claims on banks by banks in Germany also grew, by $76 billion, approximately half of which was attributable to interbank lending to banks in the United Kingdom.

Banks invest in government and private sector securities

… as lending to corporations remains subdued

Although the increase in total claims on non-bank borrowers was relatively strong in the second quarter of 2003, clear evidence of a pickup in lending to corporates remained absent. In a period of expanding fiscal deficits and greater government bond issuance, the actual flow of *loans* to non-bank borrowers was obscured by comparatively large investments in debt securities. Total cross-border claims on the non-bank sector rose by a relatively large $192 billion to $5.2 trillion. However, only 9% of this rise was accounted for by actual loans to non-bank borrowers, compared with the long-term average of 46%. A total of $137 billion in purchases of international debt securities, the largest increase in the BIS coverage period, and $38 billion in equity investments by BIS reporting banks were the main factors behind growth in claims on this sector.[1]

Debt security claims have been on the rise …

The rise in debt security claims in the second quarter was a continuation of a longer-term trend that has been evident since at least 1996. The share of debt security claims in total claims vis-à-vis non-banks has risen in recent years, largely driven by increases in euro-denominated claims. International debt securities issued by non-bank borrowers now comprise 42% of total claims on non-banks, up from 40% in the previous quarter and 39% a year earlier. Debt security claims accounted for over 50% of all euro-denominated credit to non-bank borrowers since the first quarter of 1999, mainly in the form of euro area government securities (Graph 2.1, right-hand panel). Roughly 54% of the $1.2 trillion in outstanding euro-denominated debt securities issued by governments and other non-bank borrowers is held within the euro area.

Cross-border claims of BIS reporting banks

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

	2001	2002				2003		Stocks at end-Jun 2003
	Year	Year	Q2	Q3	Q4	Q1	Q2	
Total cross-border claims	859.4	741.8	225.4	93.8	365.3	336.5	495.3	14,853.8
Total claims on banks	417.3	455.0	145.0	–53.6	354.1	125.3	303.7	9,663.6
on non-banks	442.1	286.8	80.4	147.4	11.1	211.2	191.6	5,190.2
Loans: banks	363.0	424.6	73.3	–64.5	432.1	98.7	318.9	8,343.3
non-banks	249.2	76.7	9.8	67.1	–15.9	167.0	16.6	2,787.4
Securities: banks	27.3	36.3	60.6	8.4	–51.9	19.8	–6.0	926.4
non-banks	201.4	202.2	79.0	98.8	27.9	54.0	137.3	2,173.0
Total claims by currency								
US dollar	422.7	320.8	183.7	–114.4	201.9	93.8	248.7	6,095.5
Euro	439.6	463.0	98.5	201.1	119.1	226.8	206.3	5,307.6
Yen	–65.5	–40.0	5.4	16.6	19.4	–16.2	–25.6	697.6
Other currencies[2]	62.5	–2.0	–62.2	–9.5	24.9	32.1	65.9	2,753.1
By residency of non-bank borrower								
Advanced economies	384.8	289.6	46.4	134.2	64.5	159.9	163.3	4,031.0
Euro area	139.0	117.4	9.0	49.7	7.2	56.5	67.8	1,804.6
Japan	–3.7	4.1	6.3	–0.4	0.5	21.5	15.1	164.4
United States	183.4	140.0	39.1	59.1	59.1	25.8	60.2	1,385.1
Offshore centres	55.0	17.7	36.8	16.7	–28.2	79.6	21.3	595.0
Emerging economies	2.5	–17.0	–4.9	2.4	–23.8	–6.3	3.6	517.2
Unallocated[3]	–0.2	–3.5	2.1	–5.9	–1.4	–22.0	3.4	47.0
Memo: Local claims[4]	*76.4*	*38.6*	*–34.2*	*–26.5*	*35.6*	*182.6*	*93.5*	*2,066.2*

[1] Not adjusted for seasonal effects. [2] Including unallocated currencies. [3] Including claims on international organisations. [4] Foreign currency claims on residents of the country in which the reporting bank is domiciled. Table 2.1

[1] The increase in equity investments is partially the result of mark to market accounting in the face of rising equity prices.

Offshore centres, the US dollar and the yen

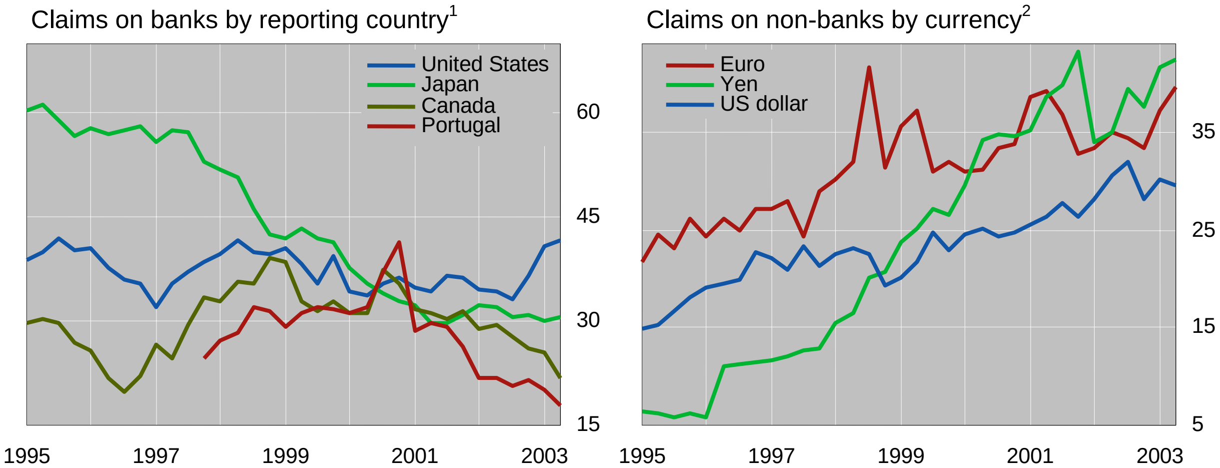
Following a two-year period of sluggish claim growth after the LTCM crisis in 1998, claims on offshore centres have rebounded in recent quarters. Banks in the United States accounted for much of the rise. Total claims on offshore centres by BIS reporting banks totalled $1.8 trillion in the second quarter of 2003, more than double the stock in 1990. Moreover, the share of claims on offshore centres has recently trended upwards, averaging 12% of total claims since end-2001 compared with an average of 11% in 2000 and 2001.

Three consecutive quarters of relatively large increases in claims on offshore centres by banks in the United States, primarily vis-à-vis the Cayman Islands and Jersey, have been largely responsible for the overall rise in offshore centre activity. These recent moves have further established the US banking sector as the biggest user of offshore centres, a position it has held since the fourth quarter of 2000. Total claims of banks in the United States on offshore centres totalled $601 billion in the second quarter of 2003, accounting for roughly one third of all claims on offshore centres. As shown in the left-hand panel of the graph below, the share of total interbank claims originating from banks in the United States that pass through offshore centres reached 42% in the second quarter of 2003 compared with just over 34% a year earlier. More globally, an increasing share of US dollar-denominated claims has filtered through offshore centres in recent quarters. As shown in the graph on the next page, the share of total US dollar-denominated claims passing through offshore centres hit 19% in the first half of 2003, up from 17% throughout 2002 and less than 15% in early 2000. Over half of this is attributable to US dollar activity in the Cayman Islands, whose share of business in this currency has recently approached that of the United Kingdom, and is continuing to rise.[①]

An increasingly large portion of offshore business is vis-à-vis non-bank counterparties such as hedge funds, insurance companies and securities firms. While it is difficult to individually isolate these counterparties in the data, the BIS data do permit an “upper bound” calculation on their total share in offshore activity. As shown in the right-hand panel of the graph below, the share of claims on the non-bank sector in total claims on offshore centres has risen steadily since at least 1995 for

Claims on offshore centres by currency and sector

In percentages



[1] Share of total claims on banks. Developed countries with the largest share of their total claims on offshore centres in 2003 Q2 are listed. [2] Share of total claims on non-banks in offshore centres.

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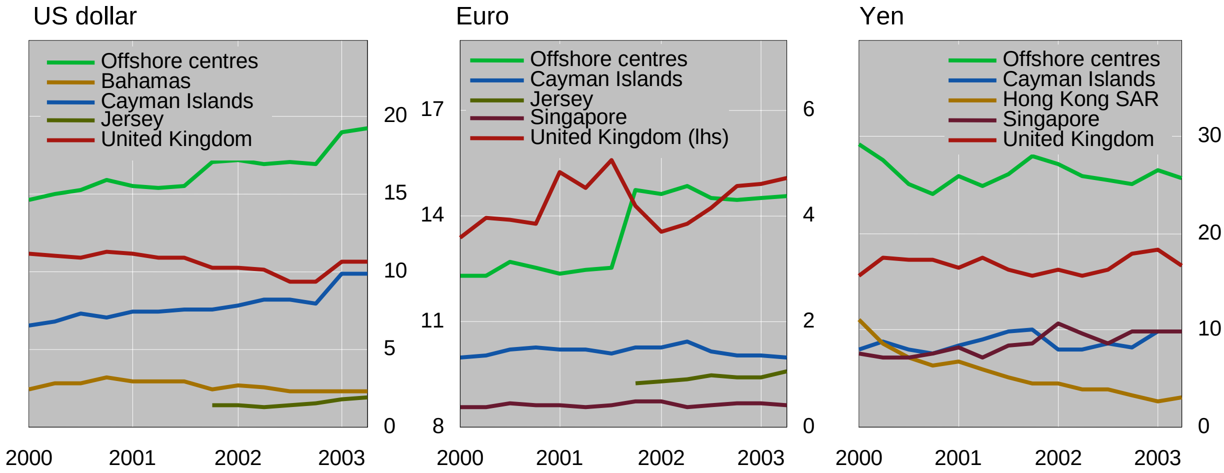
① The sudden drop in the share of euro-denominated claims on the United Kingdom and the corresponding rise in the share on offshore centres shown in the middle panel of the graph below largely reflect reporting changes in the fourth quarter of 2001. Claims vis-à-vis Jersey had previously been reported as claims on the United Kingdom.

Claims on offshore centres and the United Kingdom by currency[1]



[1] Percentage share of total claims in each currency of all currency reporting countries.

all currency denominations. Interestingly, the share of euro-denominated business is more concentrated in non-bank counterparties than is US dollar business, mainly due to the high volume of loans that passes between banks in the United States and their affiliates in the Bahamas and the Cayman Islands. Reflecting this, the share of claims on non-banks in total claims on the Cayman Islands has actually been falling, from 47% to 42% over the last three quarters. Conversely, the shift to non-bank counterparties has been most pronounced in the Bahamas and Bermuda.

Concurrent with the rise in US dollar business, yen-denominated activity in offshore centres has continuously trended downwards since the third quarter of 2001. This is explained to a great extent by the global retrenchment of Japanese banks over the last decade. The share of yen-denominated activity in offshore centres plunged to less than 10% in the second quarter of 2003 from over 36% in 1995. Thirty-five per cent of the total stock of interbank claims of banks in Japan was on banks in offshore centres in the second quarter of 2000, the highest share of all BIS reporting countries at that time.[2] By the second quarter of 2003, however, this share had slipped to just over 30%, second to the United States, and largely reflected a reduction in round-tripping activity through Hong Kong SAR. This unwinding of interbank loan positions contributed to the rise in the share of claims on non-bank financial counterparties in total yen-denominated claims (right-hand panel of the graph on the previous page).

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[2] After Japan, the most offshore-intensive banking systems in the second quarter of 2000 were located in the United States (34%), Portugal (32%) and Canada (31%). By the second quarter of 2003, the top four positions were occupied by the United States (42%), Japan (31%), Canada (22%) and Switzerland (20%). The rise of Switzerland into fourth place reflected reporting changes in the fourth quarter of 2001, after which claims vis-à-vis Jersey were reported separately from those on the United Kingdom.

European and Japanese banks were the most active investors in international debt securities in the second quarter of 2003. Overall, banks in the European Union purchased $97 billion in international debt securities, much of which reflected investment in government debt. This was the largest quarterly increase in international debt security claims for this group of countries since the first quarter of 1999, and their second largest ever. Almost 80% of the rise in these claims flowed to non-bank borrowers, primarily in the euro area and the United States. In contrast, only $14 billion of the relatively robust $253 billion increase in loans from banks in the European Union went to non-bank borrowers. On a consolidated basis, which nets out inter-office positions, claims on the public sector by banks in developed Europe rose to 13% of all consolidated international claims on developed countries, up from 12% in the previous six quarters.[2]

… reflecting investments in US and euro area government securities

The investment in debt securities was relatively widespread across reporting countries in the European Union. Banks in the United Kingdom purchased $13 billion in US debt securities, much of it US government debt, and a total of $11 billion in securities issued by euro area banks, primarily those in Italy, Germany, the Netherlands and Ireland. Banks in Belgium and the Netherlands invested in euro area government debt, while banks in Ireland purchased $19.5 billion in securities from non-bank issuers in the United States, Italy and Germany.

Elsewhere, Japanese banks continued to channel funds to the public sector, particularly that in Europe and the United States. Loans to non-bank borrowers from banks in Japan fell in the second quarter by $40 billion, reflecting reduced lending to borrowers in the United States and euro area. However, total claims of banks in Japan were boosted by a $62 billion investment in international debt securities, much of which was comprised of euro area and US government debt. On a consolidated basis, Japanese banks' international claims on the public sector expanded by $44.8 billion, pushing the share of claims on this sector to 38.5% of their total claims from 28.4% a year earlier. Japanese banks' consolidated claims on the US public sector increased by over $10 billion, and those on euro area public sectors, primarily in Germany, France and Italy, by nearly $27 billion.

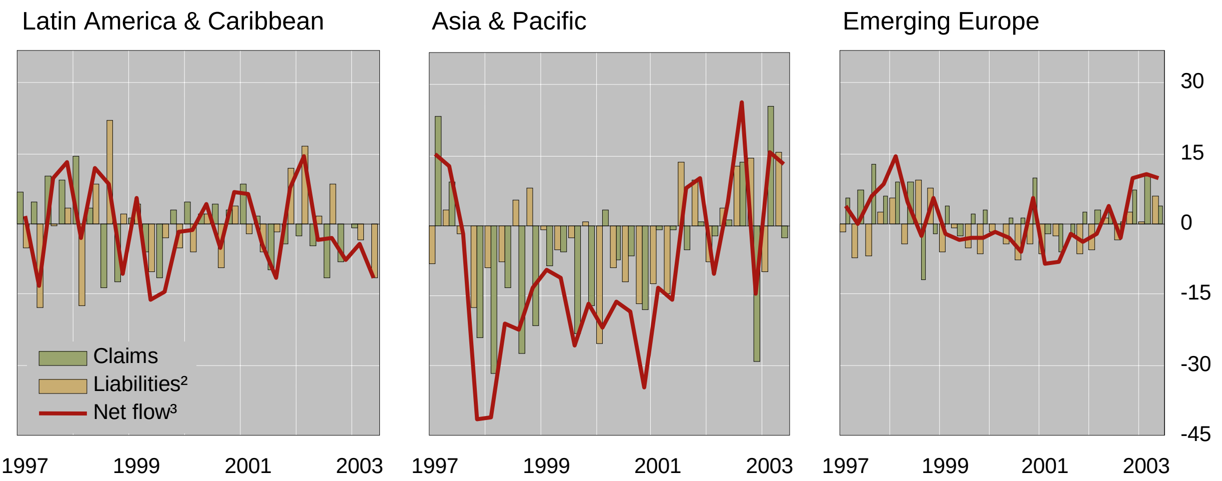
Flows into and out of emerging markets driven by deposits

The net flow of funds into emerging markets from banks in the BIS reporting area was again positive in the second quarter of 2003, although differences across regions were substantial (Graph 2.2). A net inflow of $11 billion reflected a slight decline in claims on emerging markets and a more significant fall in liabilities of reporting banks. These liabilities fell by $14 billion as banks in China, Korea and Russia repatriated deposits. This led to net inflows to the

[2] This calculation excludes France as a reporting country because of changes in accounting practices in the second quarter of 2003.

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 2.2

Asia-Pacific region and emerging Europe, whereas Latin America experienced its fifth consecutive net outflow. The share of cross-border claims on emerging market borrowers continued its downward trend, falling to 6% of total claims of BIS reporting banks from 7% throughout 2002 and 8% throughout 2001.

Average rating of emerging market portfolios edges upwards

In addition to the gradual shift away from emerging market lending, reporting area banks have reduced exposure to riskier borrowers *within* emerging markets, as evidenced by the rise in the average rating of their emerging market cross-border portfolios.[3] With the Standard & Poor's sovereign ratings of the regional vis-à-vis countries held constant at their 2002 Q4 level, the average rating of the Latin America portfolio of each of the top four creditor banking systems rose from near CCC+ in the second quarter of 2000 to near B in the second quarter of 2003 (Graph 2.3). As discussed below, this is largely the result of reduced exposure to Argentina and Brazil. Although less pronounced, a rise in the average rating of the top creditors' Asia-Pacific and emerging Europe portfolios also occurred over this period.

Increased deposits result in net outflow from Latin America

The outflow from Latin America continued in the second quarter of 2003, this time due mainly to relatively large increases in deposits placed with banks in the reporting area by residents in Latin America. Although total claims on the region fell for the eighth consecutive quarter, the year-over-year rate of

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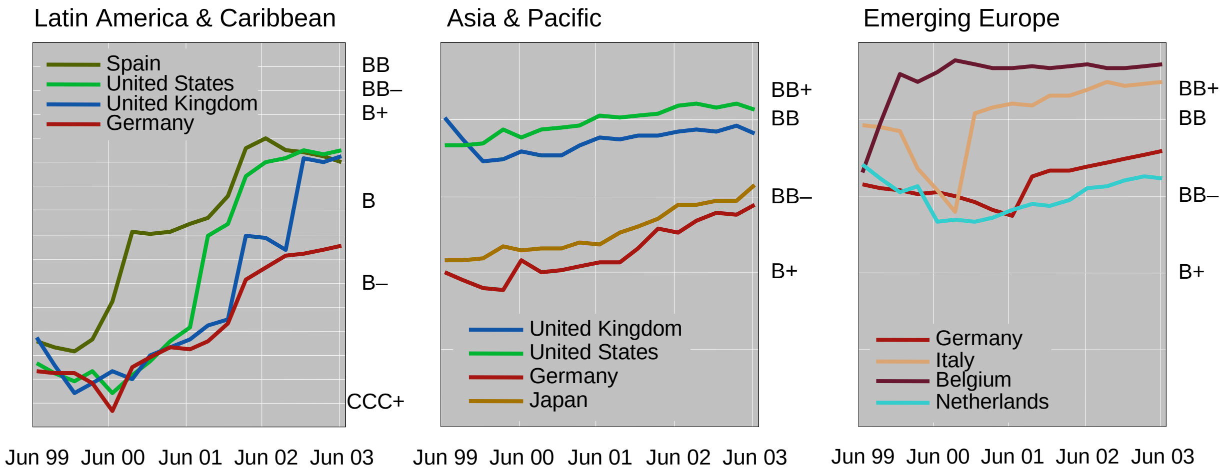
[3] The average rating for a particular reporting country is calculated as the weighted average of the Standard & Poor's sovereign ratings of all vis-à-vis countries to which the reporting country lends. The weights are the share of ultimate risk claims on each vis-à-vis country in total ultimate risk claims of the reporting country. See the September 2003 issue of the *BIS Quarterly Review* for details of the calculation.

Average rating of emerging market portfolios by reporting country[1]



[1] Top four reporting countries with the highest shares of claims on the region. Vis-à-vis country ratings held constant at their 2002 Q4 level.

Graph 2.3

contraction slowed to 7% (from 9% in the previous two quarters), and reflected the improvement in economic conditions in several of the major borrowing countries. The stock of claims on the region fell to $275.5 billion, or 29.6% of total claims on emerging markets (down from 31.5% a year earlier). At the same time, liabilities vis-à-vis Latin America rose by $11 billion as both banks and non-banks in the region increased deposits with reporting area banks.

Claim movements vis-à-vis Latin America are modest …

A decline in claims on Brazilian residents and greater lending to Argentine banks were noteworthy, while claims on most other countries in the region remained stable from the previous quarter. Claims on Brazil fell by $1.7 billion, partially the result of Banco Bilbao Vizcaya Argentaria's sale of its Brazilian branch and a reduction in loans to the Brazilian bank and non-bank sectors from banks in offshore centres. This pushed claims on Brazil down to 32% of total claims on the region, from 33% in the previous quarter and 34% a year earlier. Elsewhere, claims on Argentina rose for the first time since the second quarter of 2001, this time by $1 billion, following increased loans to the Argentine bank sector from banks in offshore centres. The share of claims on Argentina in total claims on Latin America has stabilised at 11% in the last three quarters, after falling from its 1999 fourth quarter peak of 17%.

… while increases in deposits drive the net outflow

It was increases in deposits by banks in Brazil and Mexico that were significant in the second quarter of 2003. Banks in Brazil deposited $3.9 billion with banks in the United States, primarily denominated in US dollars and euros. The liabilities of banks in many European countries as well as in offshore centres vis-à-vis banks in Brazil also grew, although by smaller amounts. Liabilities vis-à-vis banks in Mexico rose by $0.7 billion, as banks in this country increased deposits with banks in the United Kingdom. Similarly, an expansion in deposits with banks in offshore centres by non-banks contributed to the $2.3 billion net outflow from Mexico.

Cross-border bank flows to emerging economies

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

	Banks' positions[1]	2001	2002				2003		Stocks at end-Jun 2003
		Year	Year	Q2	Q3	Q4	Q1	Q2	
Total[2]	Claims	–27.0	–36.9	1.1	–0.3	–37.0	33.0	–3.7	931.6
	Liabilities	20.3	–45.9	–6.4	–18.4	–10.8	11.0	–14.3	1,115.3
Argentina	Claims	–5.8	–11.8	–0.8	–4.5	–2.3	–1.9	0.9	30.6
	Liabilities	–16.7	0.0	0.5	0.3	0.2	0.6	0.1	26.2
Brazil	Claims	0.9	–11.2	–2.4	–3.5	–6.3	2.2	–1.7	89.1
	Liabilities	0.4	–8.0	–3.8	–1.4	–4.3	3.3	6.6	51.2
China	Claims	–3.5	–12.4	1.0	4.1	–10.2	16.0	–6.4	54.7
	Liabilities	–6.5	–3.6	6.4	–1.0	–1.9	1.4	–11.3	84.1
Czech Rep	Claims	0.9	2.3	2.0	0.5	0.3	0.7	0.5	15.6
	Liabilities	3.4	–3.7	1.9	–1.3	–2.7	–1.8	0.1	10.2
Indonesia	Claims	–5.4	–6.0	–2.1	–1.3	–1.2	–1.1	–1.0	29.9
	Liabilities	1.1	–2.4	–0.3	–0.2	–0.5	0.4	–0.1	12.4
Korea	Claims	–0.2	8.2	1.8	6.5	–6.4	2.3	–1.6	75.8
	Liabilities	1.7	0.5	–5.6	–0.4	–4.8	–0.8	–6.1	24.9
Mexico	Claims	2.0	3.1	1.7	–1.9	0.0	–0.5	–0.1	64.4
	Liabilities	8.8	–11.4	1.3	–0.3	1.7	4.5	2.2	61.7
Poland	Claims	2.3	2.9	0.1	1.1	–0.4	0.9	0.9	29.4
	Liabilities	2.8	–3.1	–1.1	–0.8	–2.5	0.8	–1.1	17.5
Russia	Claims	1.3	3.6	0.8	–1.1	2.4	1.8	1.7	39.3
	Liabilities	5.2	9.6	0.0	4.0	2.0	5.6	–4.4	41.1
South Africa	Claims	–0.4	–0.4	0.2	–0.6	1.5	–0.4	0.8	19.2
	Liabilities	2.1	2.7	1.3	–0.4	1.4	0.6	4.8	26.9
Thailand	Claims	–3.5	–5.0	–0.5	–0.5	–1.8	–0.3	0.3	19.3
	Liabilities	1.3	–4.6	–1.3	–1.4	–1.2	2.5	–0.9	13.1
Turkey	Claims	–12.0	–2.8	–1.5	–2.1	–0.1	2.4	–0.5	39.2
	Liabilities	–2.1	0.0	–1.9	–0.2	0.5	–3.9	1.5	17.8
Memo:									
EU accession countries[3]	*Claims*	*6.3*	*10.1*	*1.9*	*3.4*	*3.3*	*5.7*	*1.4*	*103.4*
	Liabilities	*9.9*	*–6.4*	*0.5*	*–1.3*	*–5.4*	*–2.1*	*–1.2*	*60.5*
OPEC members	*Claims*	*–13.7*	*–9.8*	*–0.6*	*–4.4*	*–8.2*	*–0.3*	*–6.5*	*124.6*
	Liabilities	*–2.9*	*–8.8*	*–3.1*	*–1.2*	*1.6*	*–5.2*	*–13.6*	*239.6*

[1] 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. [2] All emerging economies. For details on additional countries, see Tables 6 and 7 in the Statistical Annex. [3] Bulgaria, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia.

Table 2.2

Closing the gap: Asia-Pacific moves closer to net zero position

Funds flowed into the Asia-Pacific region for the second consecutive quarter, largely as a result of changes on the liability side of the balance sheet. Claims on the region actually declined by $2.8 billion to $292.9 billion, mainly reflecting reduced repo activity. Offsetting this decrease in claims, a relatively large repatriation of deposits ($14.8 billion) by banks in the region, primarily those in

China, Korea and Taiwan (China),[4] drove the net inflow of $12.9 billion. Reflecting the ongoing repatriation of deposits, liabilities vis-à-vis residents in the region fell to 31% of total liabilities vis-à-vis emerging markets, down from 32% in the previous quarter and 34% a year earlier.

Repo activity with banks in the United States was again a significant determinant of regional claim flows. The claims of banks in the United States on the region's bank sector fell by $12 billion, the result of reduced credit to banks in Korea, as well as decreases in repo transactions with banks in China and Taiwan. This drop in claims was partly offset by increased interbank loans from banks in offshore centres.

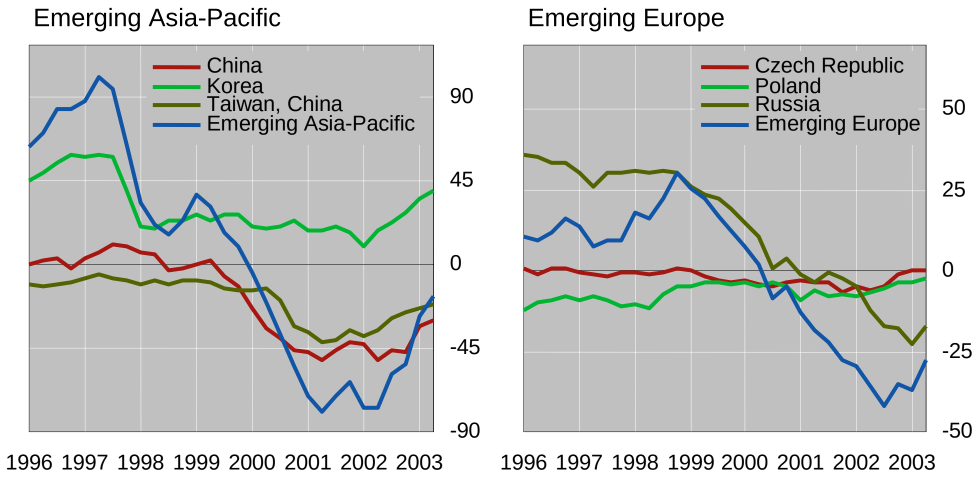
Net claims on the Asia-Pacific region expand ...

The net flow of funds into the Asia-Pacific region, while erratic, has been on average positive over the last six quarters, leading to a noticeable shift in the net claim stock vis-à-vis the region. At its peak in the second quarter of 1997, the net stock of total claims on the region stood at $220 billion. With the onset of the Asian currency crises, banks in the reporting area reduced credit to the region, while banks in the region channelled their excess funds into cross-border deposits. By the first quarter of 2000, banks in the region had become net creditors to the world's banking system (Graph 2.4, left-hand panel).

However, the stock of net claims on the Asia-Pacific region bottomed out in the second quarter of 2001 and has since moved closer to positive territory. This recent rise seems to have coincided with the fall in interest rates since 2000 in the United States and elsewhere. In addition, speculative views on exchange rates have probably joined interest rate differentials as a reason for renewed flows to the region. Increased loans to, as well as deposit

Stock of net claims on banks in emerging markets[1]

In billions of US dollars



[1] Net claims of BIS reporting countries calculated as the total stock of claims on banks minus the total stock of liabilities to banks.

Graph 2.4

[4] Hereinafter referred to as Taiwan.

repatriations by, banks in the region have been largely responsible for the rise in the overall stock of net claims. Deposit liabilities of BIS reporting banks vis-à-vis banks in the region have fallen by 15% (or $33 billion) since the first quarter of 2001, while claims on banks have risen by 15% (or $22 billion) over this same period.

… as banks in China and Korea repatriate deposits …

This overall trend is largely the result of movements vis-à-vis China, Korea and Taiwan. Banks in China have repatriated deposits in eight of the last 10 quarters, including a relatively large $9.1 billion repatriation in the second quarter of 2003. In consequence, cross-border deposits by banks in China fell from a total of $92.5 billion in the second quarter of 2001 to $70.4 billion in the most recent period under review. At the same time, claims on banks in China have trended upwards since the second quarter of 2002. Both trends have pushed the net stock of claims on Chinese banks towards positive territory, implying that the surplus of funds placed in the international banking system by the Chinese banking sector that has been available for the financing of foreign government deficits is shrinking.[5]

… and lending to banks in Taiwan rises

A similar story is emerging in Taiwan and Korea. Claims on Taiwanese banks have continued to rise since the first quarter of 2002. This, combined with the erratic but downward trend over this same period in the stock of deposits placed with BIS reporting banks, has driven up the stock of net claims on the Taiwanese banking sector from –$42 billion in the second quarter of 2001 to –$21.5 billion in the second quarter of 2003. Banks in Korea, which have long been net borrowers from the international banking system, have also contributed to the rise in the stock of net claims vis-à-vis the region. The stock of net claims vis-à-vis Korea’s banking sector increased from $9 billion in the first quarter of 2002 to $39 billion in the second quarter of 2003, fuelled by increased loan flows and five consecutive deposit repatriations. In the most recent quarter under review, banks in Korea repatriated a total of $6.3 billion in deposits, this time from banks in offshore centres.

Deposit repatriations also drive inflows to emerging Europe

Net stock of claims on emerging Europe grows …

As in the Asia-Pacific region, the stock of net claims on emerging Europe has trended upwards in recent quarters, after falling consistently since the fourth quarter of 1998. The region as a whole has long been a net borrower from the international banking community; since the third quarter of 2000, the net borrower status of the region’s non-banks has more than offset the net creditor position of its banks. However, the stock of net claims vis-à-vis banks in emerging Europe has recently moved towards positive territory, further pushing up the stock of net claims on the region as a whole (Graph 2.4, right-hand panel). Over the last year, this has been driven by increased claims on banks in Russia, Hungary, Poland, the Czech Republic and Turkey, as well as by gradual deposit repatriations by banks in many of these countries.

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[5] Official foreign exchange reserves in China increased to $346.5 billion in the second quarter of 2003 from $316 billion in the first, although it is not clear to what extent these reserves were placed as deposits with overseas banks.

In the second quarter of 2003, deposit repatriation by banks located in the region contributed to the second largest quarterly net inflow ($10 billion) since the first quarter of 1998. Banks in Russia and, to a lesser extent, Poland and Slovakia repatriated a total of $7 billion in deposits from banks in the European Union and the United States. This led to the first drop in liabilities vis-à-vis Russia since the third quarter of 2001; the sustained increase in deposits by the Russian banking sector with BIS reporting banks had made Russia the region's largest net creditor to the international banking community since the third quarter of 1998.

… as banks in Russia repatriate deposits

Greater lending to the region – primarily to banks in Russia, the Czech Republic and Croatia – also contributed to the net inflow. Loans flowed from banks in the United Kingdom to banks in Russia, and from banks in Austria to banks in the Czech Republic. In addition, claims on non-bank borrowers in Poland rose by $0.9 billion, the fourth consecutive increase, as banks in Sweden and, to a lesser extent, Japan purchased Polish government securities.

International syndicated credits in the third quarter of 2003

Blaise Gadanecz

Activity on the international syndicated loan market was subdued in the third quarter of 2003. Signings of facilities fell to $277 billion, which on a seasonally adjusted basis represented a 9% drop from the previous period. Despite preliminary evidence of a turnaround in US financing conditions, US lending volumes remained weak by historical standards. Conversely, European borrowers arranged a high volume of refinancing deals.

Lending to US borrowers remained at comparatively low levels despite evidence from the October Senior Loan Officer Opinion Survey that, overall, domestic banks were not tightening their lending practices. Furthermore, according to the survey, foreign lenders appeared to be slightly easing their standards. These factors had not yet translated into higher signed volumes at the time of writing: at $120 billion, signings remained below the volumes recorded a year earlier. The healthcare, insurance, oil and manufacturing sectors obtained the largest amounts, while the energy industry arranged less than half of the funding secured a year before.

In contrast to US signings, volumes for western European borrowers increased moderately from a year ago. These borrowers closed facilities totalling $108 billion, 75% of which was refinancing, bringing the share of refinancing activity in total European borrowing to a peak. Business was boosted by the transportation, vehicle manufacturing and food sectors. The largest deals were arranged for Volkswagen, which rolled over €10 billion, and for an Italian motorway operator (€8 billion). Alstom SA, which had escaped bankruptcy earlier in the year, obtained in excess of €1.5 billion for debt restructuring.

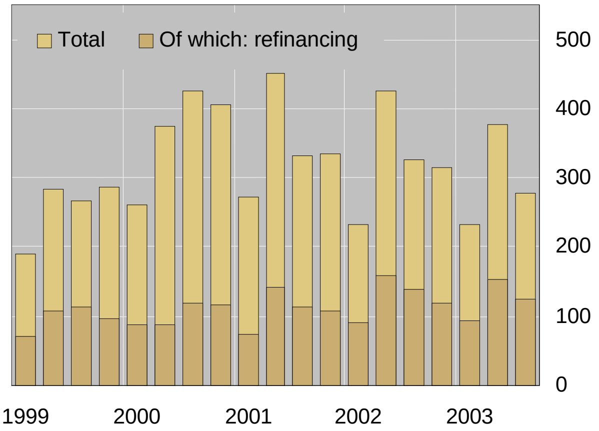
Lending to emerging market borrowers fell back slightly from its level of a year ago, with a slowdown in the Africa and Middle East region and in Latin America offsetting an increase in Europe. In the Africa and Middle East region, activity was driven by trade and project finance deals. De Beers, a UK-listed company with South African roots, refinanced $2.5 billion, and a state-owned oil enterprise from Angola raised $1.2 billion. Only a few borrowers from Latin American countries – Mexico, Chile and Brazil – raised funds, totalling a modest $1.3 billion, with credit mainly directed at entities from the public sector or those dealing in natural resources.

Business in Asia and eastern Europe was more buoyant. A steady volume of lending to Asian, especially Chinese, borrowers, could be observed. The signings of the latter, concentrated in the petrochemical and telecoms sectors, totalled $2.3 billion. Russian entities, mainly oil and metal firms and banks, borrowed $2 billion. Uncertainty in October about the fate of Yukos, the oil corporation for which banks had started to fund a $1 billion acquisition facility in September,[①] shook Russian financial markets. Borrowers have $1.7 billion worth of outstanding international syndicated loan facilities due to mature by end-June 2004. Turkish banks rolled over $1.4 billion, generally at spreads equivalent to those on the facilities being refinanced. Still, for the region as a whole, weighted average Libor margins on eastern European borrowers' facilities remain about twice as high as those on western European ones.

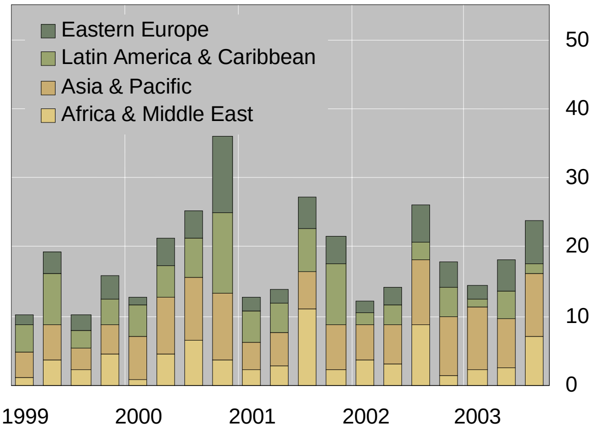
Activity in the international syndicated credit market

In billions of US dollars

Signed facilities



Facilities for emerging economies



Sources: Dealogic Loanware; BIS.

① The deal had not been signed at the time of writing and is not yet included in the data compiled by the BIS.