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2. The international banking market

New lending to all sectors, but especially to banks, led to a relatively large expansion in BIS reporting banks' cross-border claims in the fourth quarter of 2004. Much of the swelling in interbank activity reflected intra-euro area lending and the channelling of US dollars to banks in major financial centres. Claims on non-bank borrowers rose as well, partially the result of new loans to borrowers in offshore and other major financial centres, but primarily reflecting greater credit to non-banks in Japan and the United States.

Emerging market economies experienced a net inflow of funds, although differences across regions were apparent. Large placements of deposits with BIS reporting banks were behind a net outflow from Latin America, while repatriation of deposits by banks in China and Korea contributed to a net inflow to Asia-Pacific. In emerging Europe, a noticeable rise in claims on all sectors by euro area banks offset the placement of deposits abroad by banks in Russia, and contributed to a second consecutive net inflow.

Over the longer term, BIS reporting banks have channelled funds into investment in debt securities. This shift has coincided with growth in the euro area bond market and an expanding external deficit in the United States. The BIS statistics also provide evidence suggesting that the degree of foreign bank participation in national lending markets has been edging upwards in recent years. While foreign banks continue to play a smaller role in domestic lending in the euro area than in the United States, cross-border claims account for a growing share of total credit to non-banks in most industrialised countries.

Interbank lending fuels claim growth in fourth quarter

Greater interbank activity, as well as a second consecutive quarter of strong growth in credit to the non-bank sector, boosted BIS reporting banks' cross-border claims in the fourth quarter of 2004. Total cross-border claims rose by a relatively robust $571 billion to $19.2 trillion (Table 2.1), pushing the year-over-year growth in total claims up slightly to 14% (Graph 2.1).

A surge in claims due to greater interbank activity …

Interbank activity swelled in the fourth quarter of 2004. Over half of the total rise in claims, or $338 billion, resulted from interbank lending, primarily in the US dollar segment of the market. Much of the $227 billion rise in US dollar denominated interbank claims reflected greater loans to banks in offshore centres. A rise in intra-euro area interbank activity offset reduced claims on

Cross-border claims of BIS reporting banks

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

	2002	2003	2003	2004				Stocks at end-Dec 2004
	Year	Year	Q4	Q1	Q2	Q3	Q4	
Total cross-border claims	740.1	1,075.1	315.8	1,228.8	240.2	235.1	571.0	19,192.9
on banks	425.0	530.2	277.1	819.8	191.5	33.3	338.1	12,261.3
on non-banks	315.2	544.9	38.7	409.0	48.7	201.7	232.8	6,931.7
Loans: banks	395.1	452.2	249.5	722.6	120.7	–102.1	259.1	10,427.2
non-banks	103.8	276.4	17.9	200.4	–22.8	52.1	113.2	3,496.1
Securities: banks	36.3	75.6	34.9	75.7	56.5	24.0	44.9	1,360.8
non-banks	202.2	208.5	6.7	189.9	32.1	136.9	48.1	2,968.0
Total claims by currency								
US dollar	260.3	584.2	259.6	612.9	33.5	–26.6	292.0	7,744.9
Euro	458.0	503.4	53.6	399.1	87.0	216.0	139.5	7,713.1
Yen	–62.8	–128.9	–45.2	–21.3	57.5	106.7	–23.2	1,156.1
Other currencies[2]	84.5	116.5	47.8	238.1	62.2	–61.0	162.7	2,578.8
By residency of non-bank borrower								
Advanced economies	315.1	458.8	47.1	348.2	15.7	138.5	127.0	5,387.0
Euro area	117.4	157.3	–17.7	151.1	33.2	10.3	42.1	2,467.5
Japan	4.1	38.4	–5.2	0.1	21.4	15.5	35.6	268.4
United States	153.1	179.6	53.0	91.3	–38.9	47.1	28.5	1,664.1
Offshore centres	18.8	99.8	–10.2	41.6	33.9	61.7	54.5	845.5
Emerging economies	–16.5	5.0	3.1	23.9	1.9	0.0	18.8	609.5
Unallocated[3]	–1.0	–19.8	1.1	–1.5	–0.2	–1.4	32.2	58.1
Memo: Local claims[4]	*44.5*	*414.9*	*94.0*	*188.6*	*34.8*	*6.8*	*–14.7*	*2,648.9*

[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

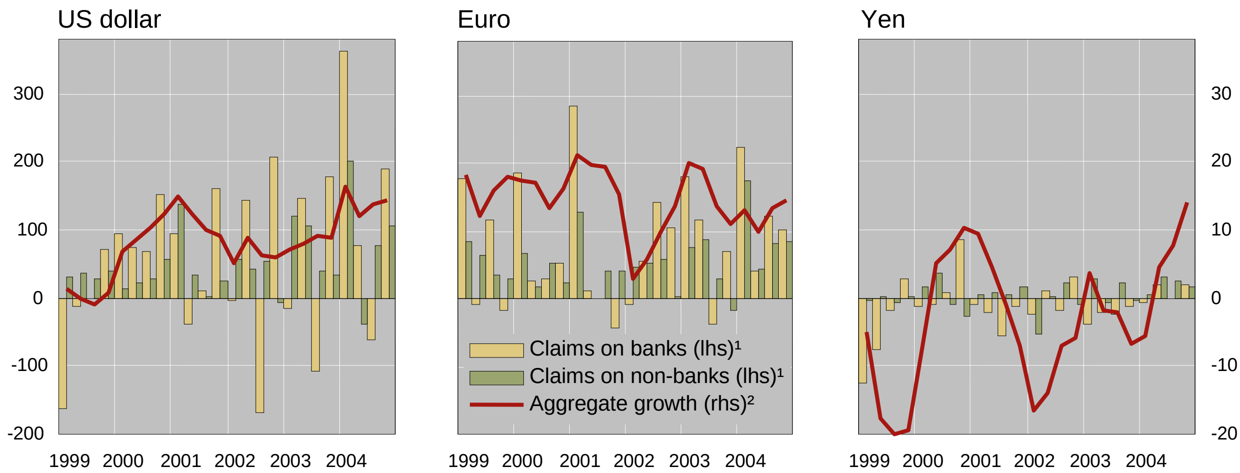
banks in the United States and the United Kingdom, contributing to a $58 billion rise in euro-denominated interbank claims.

Claims on non-bank borrowers also expanded noticeably, for a second consecutive quarter. Driven by new loans, total claims on these borrowers rose by $233 billion to $6.9 trillion. Over a quarter of these claims flowed to non-bank borrowers in offshore centres and the United Kingdom, areas with considerable non-bank financial activity. As a result, outstanding claims on borrowers in these areas accounted for 21% of total claims on non-bank borrowers in the fourth quarter, up from 19% a year earlier and 17% in the fourth quarter of 2002.

… and credit to non-banks in the United States and Japan

Excluding the claims on these financial centres, claims on non-banks in Japan and the United States rose the most in the fourth quarter. Banks in the United Kingdom and the United States contributed to a total of $15 billion in new loans and $21 billion in purchases of debt securities and equities issued by non-bank borrowers in Japan. This was the fourth consecutive rise in claims on these borrowers, pushing total claims on non-banks in Japan to $268 billion. A rise in claims on non-bank borrowers in the United States was also

Cross-border claims by sector and currency



[1] Exchange rate adjusted quarterly changes in amounts outstanding, in billions of US dollars. [2] Annual changes, in per cent, 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. Graph 2.1

noteworthy. Total claims on these borrowers rose by $29 billion, the result of investment in debt securities and equities.[1]

Banks channel deposits into debt securities

Greater investment in debt securities ...

Since at least the mid-1990s, BIS reporting banks' balance sheets have gravitated away from the traditional loan business and towards investment in securities. That is, the deposits placed in BIS reporting banks worldwide have increasingly been used to finance purchases of bonds in both the euro and the US dollar segments of the market. Overall, the net stock of debt security claims of BIS reporting banks has quadrupled, rising from $604 billion at end-1995 to $2.4 trillion in the most recent quarter (Graph 2.2). At the same time, the net loan position of all BIS reporting banks – ie their total loans to all borrowers net of deposits received – fell from –$422 billion in mid-1995 to –$2.3 trillion in the most recent quarter.

... has coincided with growth in euro area bond markets...

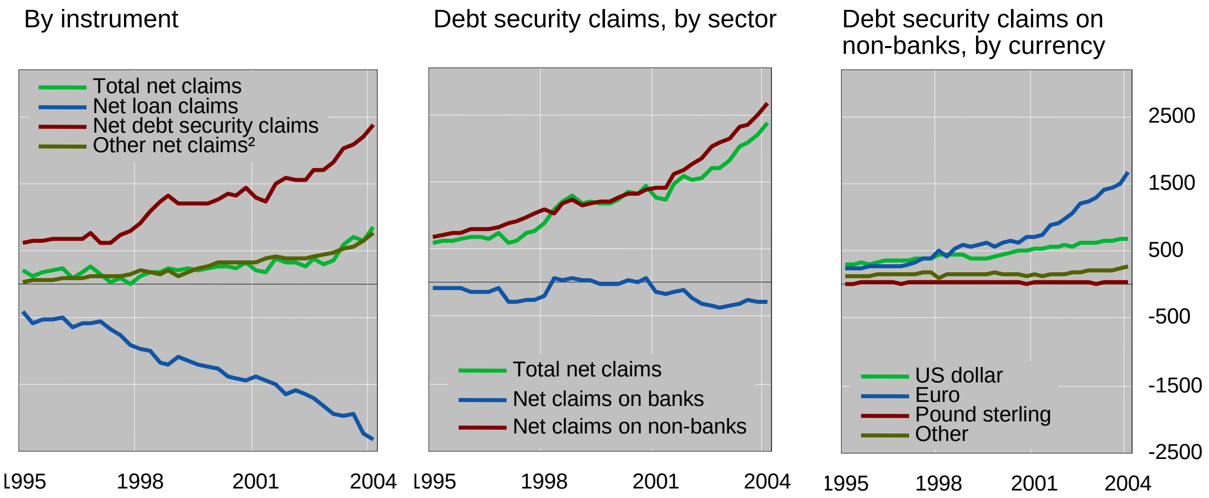
This net investment in debt securities has been most noticeable in the euro segment of the international banking market, mirroring the rise in euro area bond issuance since the introduction of the common currency (Graph 2.2, right-hand panel). Since 2000, euro area non-financial corporations have gravitated towards bond financing, while the outstanding stock of euro area government debt has continued to rise (Graph 2.3, left-hand panel).[2] The rise

1 Overall, the growth in loans to non-banks in the United States was flat from the previous quarter; a $56 billion contraction in loans from banks in offshore centres was offset by greater loan credit from banks in the United Kingdom, Japan, Switzerland and the euro area.

2 ECB data on the main liabilities of euro area non-financial corporations indicate that outstanding securities debt rose from €363 billion in the first quarter of 2000 to €613 billion in the third quarter of 2004, or from 11% to 14% of their main liabilities. Over this same period,

Net claims[1] of BIS reporting banks

In billions of US dollars



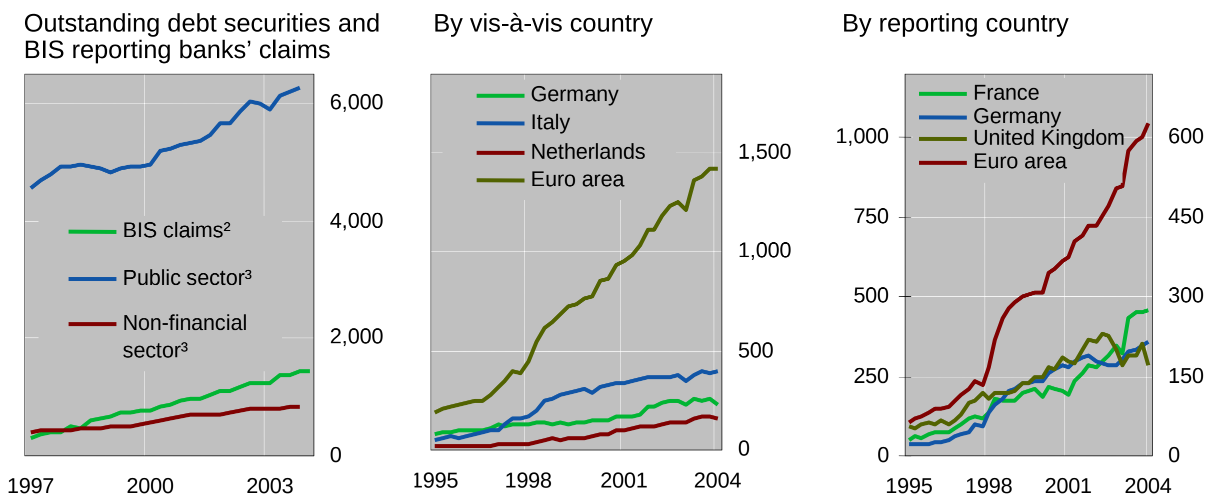
[1] Difference between outstanding claims and liabilities of BIS reporting banks vis-à-vis all countries. [2] Primarily equity claims.

Graph 2.2

in euro area bond issuance has been reflected in the composition of BIS reporting banks' balance sheets. Their net stock of euro-denominated debt security claims on euro area non-banks has more than doubled since 2002, rising from $631 billion in the first quarter of that year to $1.4 trillion in the most recent quarter. Investment in bonds issued by Italian residents is the most substantial, followed by those of German and Dutch residents (Graph 2.3, centre panel).

Net euro-denominated debt security claims[1] on euro area non-banks

In billions of US dollars



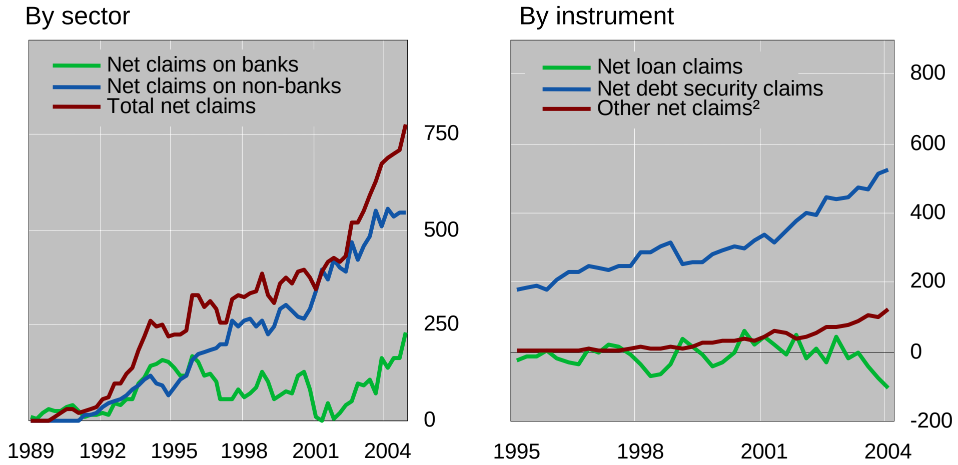
[1] Difference between outstanding debt security claims and liabilities. [2] Outstanding stock of BIS reporting banks' international debt security claims vis-à-vis the euro area, at constant fourth quarter 2004 exchange rates. [3] Outstanding stock of debt securities issued by euro area public sector and non-financial entities updated to the third quarter of 2004, at constant fourth quarter 2004 exchange rates. Source: ECB *Monthly Bulletin*.

Graph 2.3

the outstanding stock of securities debt of euro area governments rose from €3.6 trillion to €4.6 trillion, or from 80% to 83% of their main liabilities.

Net US dollar claims[1] on non-banks in the United States

In billions of US dollars



[1] Difference between outstanding claims and liabilities of BIS reporting banks vis-à-vis the United States. [2] Primarily equity claims. Graph 2.4

... and rising US external deficits

A similar, albeit smaller, rise in net investment in debt securities has also been evident in the US dollar segment of the market. BIS reporting banks have invested primarily in securities issued by borrowers in the United States, helping to fund the growing US external deficit. The net claim position of BIS reporting banks vis-à-vis all sectors in the United States surpassed $800 billion in the fourth quarter, from a near zero balance in 1991 (Graph 2.4). While the US banking sector remains a net user of funds from the international banking system, the level of net claims on this sector has remained relatively flat since 1994. In contrast, net debt security claims on non-banks in the United States have grown over this period, reaching $637 billion in the fourth quarter of 2004 from $359 billion in the second quarter of 2002 and $194 billion at end-1995.

Repatriation of deposits contributes to inflow to emerging markets

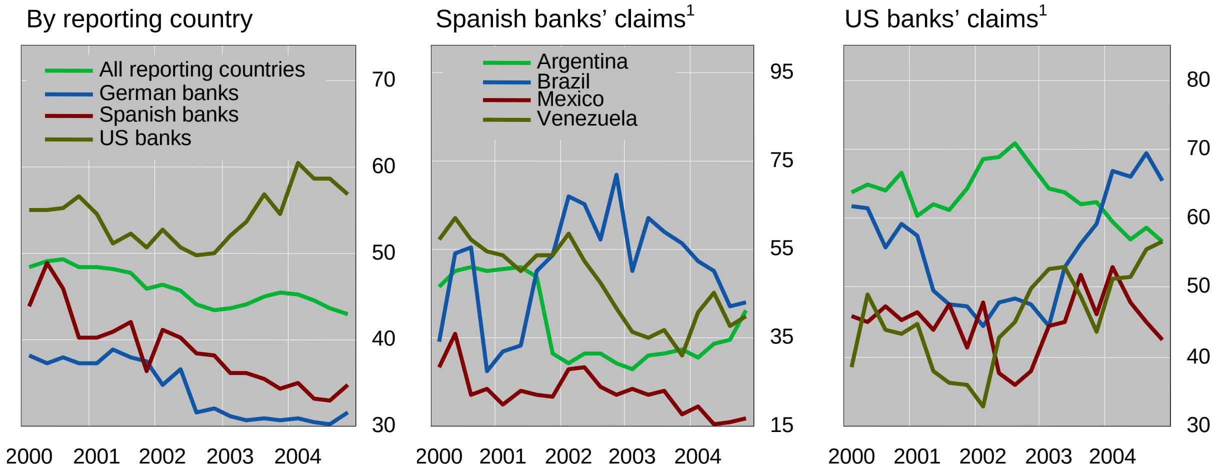
An overall net inflow to emerging economies masked significant differences in net claim flows across regions. The largest net inflow occurred in Asia-Pacific, the result of increased claims on all sectors in the region and large deposit repatriations by banks in China and Korea. New claims on non-banks in the new EU member states and Russia outweighed the placement of deposits abroad, yielding a net inflow to emerging Europe as well. In contrast, funds flowed out of Latin America for the 11th consecutive quarter, this time owing to reduced claims as well as a large placement of deposits in BIS reporting banks.

Short-term lending to Latin America trends downwards

A net outflow of funds from Latin America in the most recent quarter was primarily the result of a relatively large placement of deposits in BIS reporting banks. Overall, total liabilities vis-à-vis the region rose by $7 billion to

Short-term consolidated international claims on Latin America

As a percentage of total international claims



[1] By vis-à-vis country.

Graph 2.5

$289 billion, contributing to a $9 billion net outflow.[3] On the claim side, BIS reporting banks reduced credit to the region by $2 billion, the third consecutive quarterly decline. This pushed down claims on the region to 22% of total claims on emerging markets, from 27% a year earlier.

Short-term lending in Latin America has fallen

Since 2000, short-term credit to the region has trended downwards as a share of total international claims (Graph 2.5). While this trend is evident in several borrowing countries, it has primarily reflected reduced short-term positions on borrowers in Argentina. The BIS consolidated banking statistics, which provide a maturity breakdown, indicate that the US dollar value of the stock of *international* claims on the region has fallen by $69 billion since the fourth quarter of 2000, almost half of which was accounted for by reduced short-term credit to residents of Argentina.[4] As a result, short-term claims accounted for 43% of total international claims on the region in the most recent quarter, down from 45% a year earlier and 48% at end-2000.[5]

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[3] The largest placement of deposits by residents in Latin America was recorded by banks in the United States. While this partially reflected deposits placed by residents of Mexico ($1.6 billion) and Venezuela ($1.3 billion), the bulk of the $7 billion rise for these banks was not allocated to a particular country.

[4] In the BIS consolidated banking statistics, "foreign claims" are composed of "international claims" (cross-border claims in all currencies and foreign currency claims extended locally) and "local currency claims extended locally". The data include a maturity breakdown for international claims, but not for local currency claims, which accounted for 58% of BIS reporting banks' total foreign claims on Latin America (up from 52% a year earlier).

[5] The fall in international claims since end-2000 has been mirrored by a roughly equivalent rise in local currency claims on the region ($72 billion), primarily the result of greater local currency claims on residents of Mexico. As a result, the outstanding stock of all BIS reporting banks' foreign claims (immediate borrower basis) on the region is little changed since end-2000 (totalling $519 billion in the fourth quarter of 2004). Outstanding foreign claims on the region fell between the fourth quarter of 2001 and the third quarter of 2002, but have trended upwards since.

The presence of foreign banks in national credit markets

The integration of financial markets over the past two decades has led to greater participation of foreign banks in national lending markets. However, comprehensive measures that help quantify such a development are hampered by incomplete data. This box explains how the BIS international banking statistics can be combined with IMF data on locally extended credit to provide an estimate of total lending to non-bank residents of major industrialised countries. Furthermore, the box details the construction of three simple indicators of foreign bank participation in national markets. While none of these indicators is perfect, they do, when considered together, paint a fairly consistent picture across developed economies. Broadly speaking, foreign bank participation in national lending markets has been on the rise, although differences across countries are apparent. In addition, foreign banks account for a greater share of total credit to non-bank borrowers in the US and UK lending markets than in the euro area and Japan.

Constructing measures of foreign bank participation

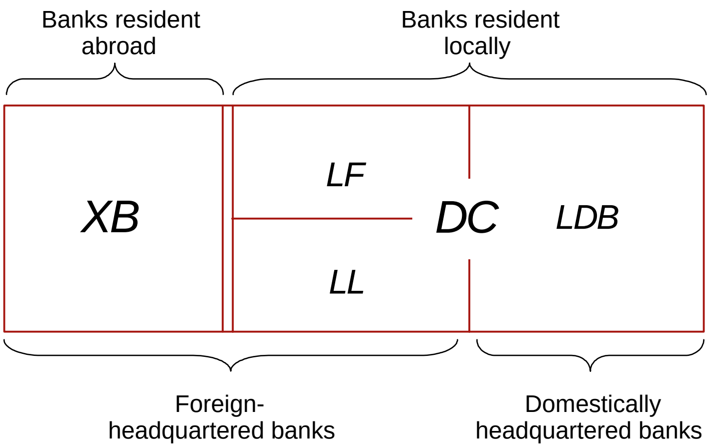
The objective is to estimate the fraction of total credit to resident *non-bank* borrowers that is provided by foreign-headquartered banks. The denominator of the targeted ratio, total credit to non-bank borrowers, corresponds to the large rectangle in the figure below. This is calculated as $(XB + DC)$, where cross-border credit (ie credit extended directly from abroad), ***XB***, is taken from the BIS locational statistics, and domestic credit extended by resident institutions, ***DC***, is taken from the IMF's International Financial Statistics.

The numerator of this ratio, ie the estimated total credit to non-banks from foreign-headquartered banks, is more problematic. Ideally, this should equal the sum of cross-border credit (*XB*) and credit granted by local offices of foreign banks, in local (***LL***) and foreign (***LF***) currency (see figure). Unfortunately, the available data do not allow this to be calculated exactly because of an incomplete sectoral breakdown in the statistics (see below). Nevertheless, the data do suggest two alternatives to the ideal measure.

The first alternative, Measure 1, is an estimate of the share of total bank credit to non-banks that is obtained directly from abroad. This measure equals $XB/(XB + DC)$ and may underestimate the role of foreign institutions because it ignores local lending by foreign bank offices located in the country. At the same time, Measure 1 may overestimate the role of foreign institutions if domestic banks' offices located abroad account for a significant share of the cross-border credit received by domestic non-bank borrowers. The so-called "round-tripping" of loans, which characterised Japanese banks' international lending behaviour until the late 1990s, is a case in point (see below).

The second alternative, Measure 2, relies on the BIS consolidated banking statistics and includes locally extended credit from foreign-headquartered banks. Owing to data limitations,

National market for bank credit



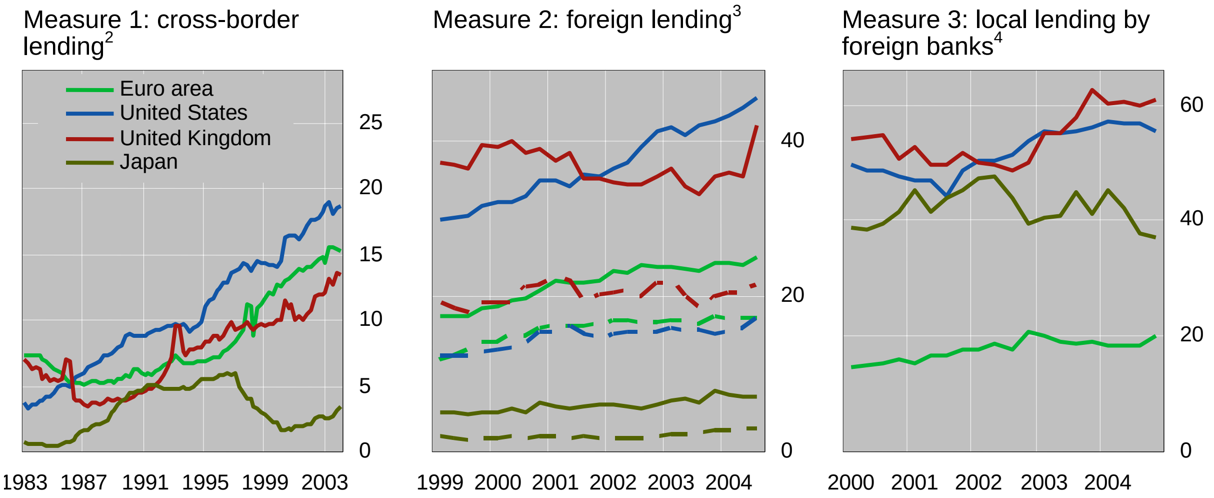
XB = cross-border lending[1]
LF = local lending in foreign currency[2]
LL = local lending in local currency[3, 4]
LDB = local lending by domestic banks
DC = domestic credit[5] = *LF*+*LL*+*LDB*

international claims[3] = *INT* = *XB*+*LF*
foreign claims[3] = *INT*+*LL*

Measure 1 = *XB*/(*XB*+*DC*)
Measure 2 (max) = (*INT*+*LL*)/(*XB*+*DC*)
Measure 2 (min) = *INT*/(*XB*+*DC*)
Measure 3 = (LL+LF)/(INT+LL)

[1] BIS locational banking statistics. [2] BIS locational banking statistics by lender nationality. [3] BIS consolidated banking statistics. [4] The statistics do not disaggregate *LL* by vis-à-vis sector. [5] IMF, *International Financial Statistics*.

Foreign banks' presence in national lending markets[1]



[1] By vis-à-vis region. [2] As a fraction of total credit to non-bank residents: Measure 1 = *XB*/(*XB*+*DC*). [3] Consolidated foreign lending, as a fraction of total credit to non-bank residents. The dashed lines plot Measure 2 (min) = *INT*/(*XB*+*DC*); the solid lines plot Measure 2 (max) = (*INT*+*LL*)/(*XB*+*DC*). [4] As a fraction of total foreign credit to bank and non-bank residents: Measure 3 = (*LL*+*LF*)/(*INT*+*LL*).

Measure 2 is best considered in two versions, which provide an upper and a lower bound for the fraction of bank credit extended by foreign institutions to domestic non-banks. The larger Measure 2 (max) is constructed as $(INT + LL)/(XB + DC)$.① In this measure, local claims in local currency, LL, complement "international claims", ***INT***, which include cross-border claims in all currencies and local claims in foreign currencies. Unfortunately, the data on *LL* are not broken down by sector and, thus, also include lending to banks (excluding inter-office bank claims). This can lead to an overestimation of the importance of foreign lending in total credit to non-banks. Measure 2 (min), constructed as $INT/(XB + DC)$, provides a lower bound for the true share of foreign lending to non-banks; it would match that share exactly if all local claims in local currency, *LL*, were on resident banks.

A third indicator of foreign bank participation, Measure 3, relies only on the BIS international banking statistics, and pertains to all borrowers (both bank and non-bank). This indicator, which equals $(LL + LF)/(INT + LL)$, captures the extent to which foreign-headquartered banks rely on local offices for their total credit (in both foreign and domestic currency) to a particular country. Local lending in foreign currencies, *LF,* is taken from the BIS international banking statistics, which provide a breakdown of local lending by parent country of resident banks.

Foreign bank participation in major industrialised countries

Applying the above measures to the United States, the United Kingdom, Japan and the euro area countries reveals that the aggregate role of foreign banks in national markets has been on the rise over the last two decades. Measure 1 suggests that cross-border claims have been increasing as a share of total lending in the 15 industrialised economies, reaching 13.5% in the most recent quarter, up from 10% four years earlier and 4% in 1987. Thus, the purely domestic statistics provided by the IMF currently capture less than 87% of total credit to non-bank borrowers in the major industrialised countries.

Incorporating local lending by foreign banks raises the indicator of foreign bank participation in national markets. Specifically, switching from Measure 1 to Measure 2 (min), which accounts for local lending by foreign banks in non-domestic currencies, adds on average 1 percentage point to the cross-border measure and preserves its upward path. Assuming that all the local lending (in all currencies) is extended to non-banks, ie considering Measure 2 (max), almost doubles the aggregate indicator of the relative importance of foreign bank claims. Finally, Measure 3 reveals that lending granted locally stood at 40% of total foreign bank credit to all sectors at end-2004, up from 35% at the beginning of 2000.②

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① This measure is suggested by R N McCauley, J S Ruud and P D Wooldridge, "Globalising international banking", *BIS Quarterly Review*, March 2002. ② Elsewhere, this chapter reports a similar trend in emerging Europe and Latin America.

These aggregate results mask substantial differences across national economies. Measure 1 indicates that cross-border banking in the United States, which currently accounts for 19% of total credit to non-banks in the country, has been considerably larger than in the euro area and the United Kingdom since the second quarter of 1987 (see graph, left-hand panel). In the euro area, the steadily increasing share of cross-border lending has been driven by banks located in the region; intra-euro area lending increased sharply after the introduction of the common currency, accounting for 63% of cross-border lending to the region in the most recent quarter, up from 40% at end-1983. Japan is an outlier country, as cross-border lending has accounted for less than 5% of total credit to non-banks located there. The hump in the measure for Japan, which persisted for most of the 1990s, was partially the result of Japanese banks routing their loans to domestic residents through offshore centres, and thus overestimates the share of cross-border lending by foreign-headquartered banks.

Accounting for local lending by foreign banks reveals pronounced differences in their penetration of the US and UK lending markets, on the one hand, and the euro area markets, on the other. Measures 2 and 3 both indicate that local lending is a substantial share of total foreign credit to non-banks in the United Kingdom. In particular, Measure 2 (min) implies that foreign banks have extended at least 19% of the credit received by non-banks in the country since the first quarter of 2000. This is higher than the average share of 11% over the same period under Measure 1, which considers only credit originating abroad. Likewise, local offices seem to operate a sizeable share of the claims of foreign banks on the United States, although it is quite uncertain what portion of these operations have targeted non-banks: Measures 2 (min) and (max) have on average been 22 percentage points apart since mid-1999.[③] Local lending has the smallest effect on the indicators of foreign bank penetration in the euro area countries. This is consistent with the message of Measure 3 that a stable but small share of total foreign claims on all borrowers in the region (20% in the most recent quarter) has been extended locally.

③ The US international banking statistics do not allow one to distinguish local claims in foreign currencies (LF) from local claims in local currencies (LL). Both items are reported under LL, which is not broken down by vis-à-vis sector. This depresses Measure 2 (min) but raises Measure 2 (max) for non-bank borrowers.

Both US and Spanish banks, the region's largest creditor banking systems, have contributed to this shift, although differences in their regional lending patterns are apparent. The international claims portfolio of both banking systems has shifted away from Argentina and towards Mexico since 2000.[6] Overall, Spanish banks' international claims on the region have gravitated away from short-term lending, reflecting the scaling-back of short-term credit to Argentina and a (relative) rise in longer-term international claims on Brazil, Mexico and Venezuela since 2002 (Graph 2.5, centre panel). Conversely, even as US banks have reduced short-term international claims on residents of Argentina, their overall international claim portfolio vis-à-vis the region has shifted towards shorter-term lending over much of this period (Graph 2.5, right-hand panel).[7]

6 Spanish banks' international claims on Argentina declined from 40% of their total international claims on the region in the second quarter of 2000 to 12% in the most recent quarter. At the same time, their international claims on Mexico increased from 18% to 48%.

7 The outstanding stock of US banks' international claims on Brazil, Colombia and Venezuela has in each case fallen since end-2000. These banks' international claims on Argentina dropped from 19% of their total international claims on the region to 5% over this period, while their claims on Mexico rose from 27% to 46% in the first quarter of 2004, and fell to 40% in the most recent quarter.

Cross-border bank flows to emerging economies

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

	Banks' positions[1]	2002	2003	2003	2004				Stocks at end-Dec 2004
		Year	Year	Q4	Q1	Q2	Q3	Q4	
Total[2]	Claims	–37.0	64.9	14.7	67.9	26.3	–0.9	35.4	1,180.2
	Liabilities	–45.9	72.1	43.1	107.2	20.9	50.0	19.8	1,457.0
Argentina	Claims	–11.8	–8.5	–2.1	–2.6	–1.1	–1.1	–0.4	18.9
	Liabilities	0.0	–0.8	0.7	0.3	0.1	–0.2	–0.6	24.8
Brazil	Claims	–11.2	–7.2	–9.1	1.8	–4.0	–2.9	–2.2	77.3
	Liabilities	–8.0	14.4	–3.4	5.0	–3.6	–7.0	0.9	53.2
China	Claims	–12.4	13.5	–1.0	13.9	10.0	–3.0	2.4	86.7
	Liabilities	–3.6	–6.4	1.8	21.6	20.5	–2.6	–14.3	116.4
Czech Rep	Claims	2.3	3.7	1.7	–1.7	0.8	0.4	3.1	24.1
	Liabilities	–3.7	–2.4	–0.9	–2.6	2.5	–0.6	1.5	11.4
Indonesia	Claims	–6.0	–4.6	–0.8	0.3	–0.9	0.2	0.7	30.3
	Liabilities	–2.4	0.2	0.3	–0.2	–1.3	–0.1	–0.6	10.4
Korea	Claims	8.2	–1.0	0.1	14.3	–8.5	0.8	5.5	91.0
	Liabilities	0.5	7.3	12.1	21.7	–4.8	2.8	–6.3	54.3
Mexico	Claims	3.1	–0.8	–0.9	7.5	–0.6	–8.0	0.4	65.2
	Liabilities	–11.4	6.2	–0.1	4.0	–0.7	–6.2	–1.8	58.1
Poland	Claims	2.9	3.3	0.4	2.4	2.0	1.6	–0.2	41.8
	Liabilities	–3.1	–0.1	1.2	3.0	3.9	–0.2	4.5	31.1
Russia	Claims	3.6	12.1	5.8	3.4	–0.3	–1.8	7.6	62.3
	Liabilities	9.6	16.2	7.9	5.0	7.8	5.5	5.4	83.8
South Africa	Claims	–0.4	–1.2	–0.7	–0.1	0.5	–0.3	0.2	19.7
	Liabilities	2.7	9.7	2.8	3.9	1.6	0.7	0.5	39.8
Thailand	Claims	–5.0	–1.6	–1.6	–1.0	–0.4	1.7	–0.1	19.5
	Liabilities	–4.6	5.7	3.2	–1.5	1.2	1.7	0.9	20.8
Turkey	Claims	–2.8	5.3	0.1	4.1	3.4	0.0	1.3	55.0
	Liabilities	0.0	–0.4	0.9	2.9	0.9	1.1	1.9	28.2
Memo:									
New EU countries[3]	*Claims*	9.2	20.9	8.5	3.9	6.6	8.4	11.5	160.8
	Liabilities	–5.9	–0.5	0.8	3.2	4.8	0.1	9.4	82.4
OPEC members	*Claims*	–9.9	–6.5	2.0	9.2	1.7	5.0	5.2	156.1
	Liabilities	–8.8	–15.1	12.2	16.5	–1.7	24.2	–5.3	291.8

[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] Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia.

Table 2.2

Credit to EU member countries drives inflow to emerging Europe

A sharp rise in claims on emerging Europe led to a second consecutive net inflow of funds. Total claims on the region jumped by $25 billion, with strong growth in claims on borrowers in the new EU member countries and Russia. This pushed claims on the region to $318 billion, or 27% of total claims on emerging economies, up from 25% in the previous quarter and 24% a year earlier. Liabilities vis-à-vis emerging Europe also rose, yielding a net inflow of $6.5 billion.

Countries that have recently joined the European Union accounted for just under half of the new claims on emerging Europe, with much of the rest extended to Russia. Credit from banks in Germany, Austria and the Netherlands contributed to the $11 billion rise in claims on the new EU member states. Over $4 billion of this reflected increased investment in debt securities issued by residents of these countries, particularly Hungary and Poland. Elsewhere, cross-border claims on Russia experienced their largest quarterly increase ever recorded in the BIS statistics. Total claims on the country rose by $8 billion, with new loans to both the bank and non-bank sectors being extended primarily by banks in the United Kingdom and Germany.

Funds placed abroad primarily reflect central bank activity

Banks in emerging Europe continued to place deposits in BIS reporting banks. In the most recent quarter, deposit liabilities to the region's banking sector rose by $19 billion, as banks in Russia, Poland, the Czech Republic and Hungary deposited funds abroad. The $5 billion rise in deposit liabilities vis-à-vis banks in Russia, primarily US dollar- and euro-denominated deposits, coincided with a 32% jump in the stock of Russia's official reserve assets, which reached $121 billion in the fourth quarter. An estimated 38% of these assets were deposited in banks abroad, suggesting that almost two thirds of the $75 billion stock of deposit liabilities vis-à-vis banks in Russia were central bank deposits.[8]

Lending trends in emerging Europe during the last decade ...

Over the longer term, the growth of claims on emerging Europe has masked two patterns of lending across the region. The BIS consolidated statistics indicate that foreign claims on emerging Europe, which include both cross-border and local lending, have increased by a factor of 4.6 since mid-1994 to reach $545 billion at the end of 2004. It is noteworthy that borrowers from new EU member states (mainly Poland, Hungary and the Czech Republic) accounted for 77% of this increase. In contrast, BIS reporting banks' claims on Russia and Turkey grew somewhat less over the last 11 years (Graph 2.6, left-hand panel).[9] Foreign lending to these two countries rose steadily through most of the 1990s but then plummeted as a result of local financial crises. The outstanding stocks of foreign claims on Russia and Turkey have tracked each other closely over the last four years, and have recovered somewhat since the trough in 2002. Nevertheless, these claims currently account for only 22% of total foreign lending to the region, down from 54% at end-1994.

... distinguish new EU member states from Russia and Turkey

The geographical redistribution of lending to emerging Europe has been mirrored by trends in the maturity of the exposures to the region, and by changes in the portion of foreign lending conducted locally. As shown in the centre panel of Graph 2.6, short-term credit (ie claims with a remaining maturity

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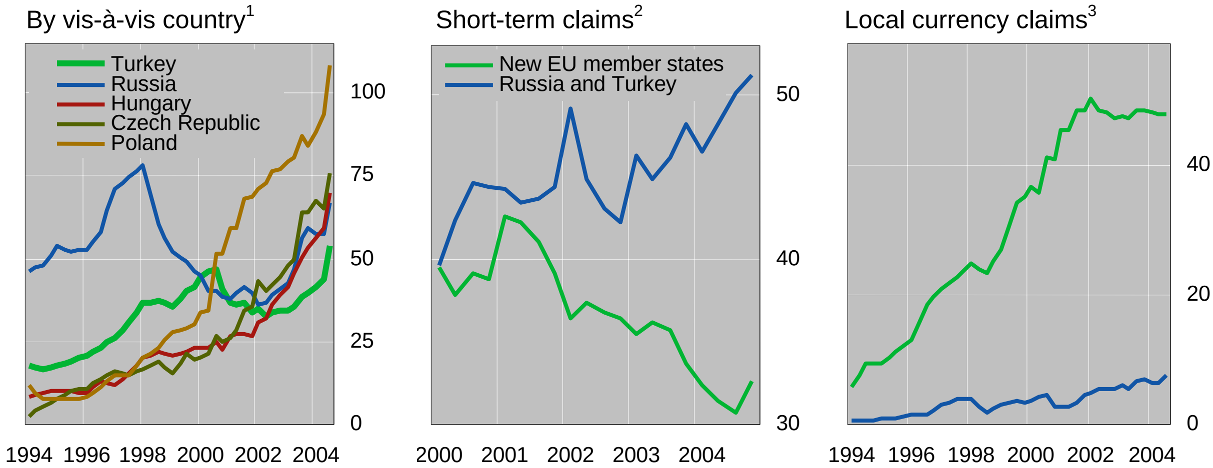
[8] The estimate is based on the end-January 2005 figures for Russia's total official reserve assets and bank deposits held abroad as reported by the Russian central bank.

[9] Since 1994, exposures to Russia, Turkey and the new EU member states have generally accounted for more than 85% of the claims of BIS reporting banks on emerging Europe.

Consolidated claims on emerging Europe



[1] Total foreign (international and local currency) claims in billions of US dollars. [2] By vis-à-vis region. As a share of total international claims. [3] By vis-à-vis region. As a share of total foreign claims.
Graph 2.6

of up to one year) was distributed evenly between the two groups of countries in the region at the beginning of 2000. Since then, however, such credit has increased by about 10 percentage points as a share of total international lending to Russia and Turkey, while dropping by a similar relative amount in the new EU member states. In parallel with these developments, claims transacted locally and in local currency grew as a share of total foreign claims on the new EU member states, and have plateaued at just under 50% since the second quarter of 2001 (Graph 2.6, right-hand panel). By contrast, virtually all of the foreign lending to both Russia and Turkey has remained cross-border and in foreign currencies.[10]

Despite the similarity in the patterns of foreign lending to Russia and Turkey, there are differences between these countries from the perspective of international lenders. Russia doubled its current account surplus over the last two years and maintained its status as a net creditor to the international banking system (with the stock of net cross-border claims of BIS reporting banks at –$22 billion in the fourth quarter of 2004). By contrast, Turkey, which has been a net debtor to BIS reporting banks since end-1996, saw its current account deficit surge over the last two years. These differences are reflected in the fact that BIS reporting banks' claims on Russia tend to be longer-term and have increased faster than those on Turkey since mid-2002.

Banks in China and Korea bring their deposits home

A net inflow to Asia-Pacific in the fourth quarter was primarily the result of deposit repatriations by several of the largest borrowers in the region. This

[10] The principal creditors to emerging Europe (German, French, Italian and Belgian banks) have all reorganised their claims on the region in a similar way. Furthermore, banks headquartered in Germany, which currently account for 30% of foreign lending to emerging Europe, have transferred 36% of their outstanding claims on Russia and Turkey to non-bank guarantors. This contrasts with the virtual absence of such risk transfers in 1999.

inflow of funds from the international banking system occurred in spite of the overall capital outflow and current account surpluses in many countries in Asia-Pacific. On balance, BIS reporting banks' liabilities to banks in the region dropped for the first time in six quarters, by $10 billion, as large deposit repatriations by banks in China and Korea offset increased placements abroad by banks in Malaysia, Taiwan (China)[11] and, to a lesser extent, India. In some cases, the change in deposit liabilities seemed to reflect central bank activity. New credit to borrowers in the region was muted. The rise in claims that did materialise ($8 billion) primarily reflected investment in equity and debt securities, and pushed total claims on Asia-Pacific to $404 billion, or 34% of total claims on emerging markets (from 35% in the previous quarter).

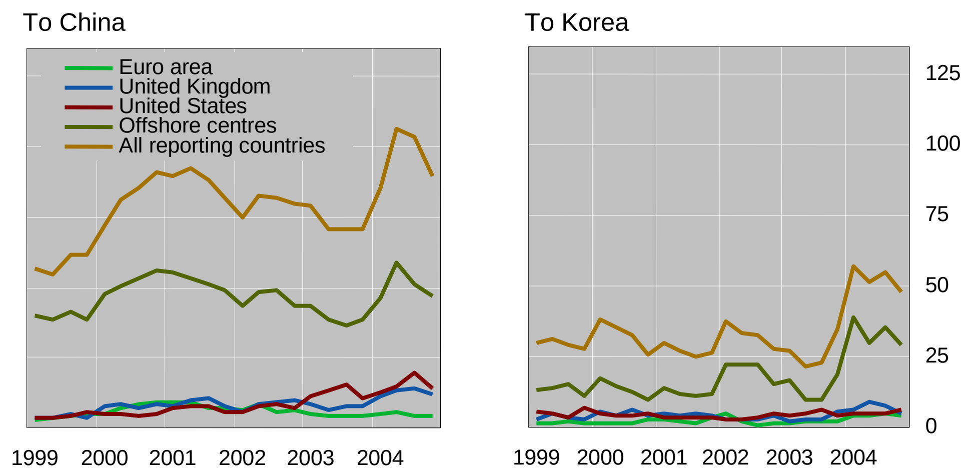
Banks in China and Korea draw down deposits in BIS reporting banks ...

The banking system in China drew down its offshore deposits the most. Chinese banks repatriated $16 billion in deposits, primarily from BIS reporting banks in offshore centres, the United States and the United Kingdom (Graph 2.7, left-hand panel). One possible factor behind this repatriation was tighter restrictions adopted in July 2004 which limited the ability of foreign banks operating in China to borrow foreign currency offshore. As a result, banks in China may have been repatriating the funds previously deposited in banks abroad to meet demand for dollar credits in China. Deposit liabilities vis-à-vis all sectors in China fell to $116 billion, or 25% of total liabilities vis-à-vis the region. The currency distribution of deposits repatriated by banks in China closely matched that of existing deposits. As a result, the estimated US dollar share of total deposit liabilities vis-à-vis banks in China remained at 67%, unchanged from the previous quarter, and the shares of other currencies changed little.[12]

Banks in Korea also repatriated deposits in the fourth quarter: $7 billion from BIS reporting banks in offshore centres and an additional $3 billion from

Deposit liabilities to banks in China and Korea

In billions of US dollars



Graph 2.7

[11] Hereinafter Taiwan.

[12] See next footnote.

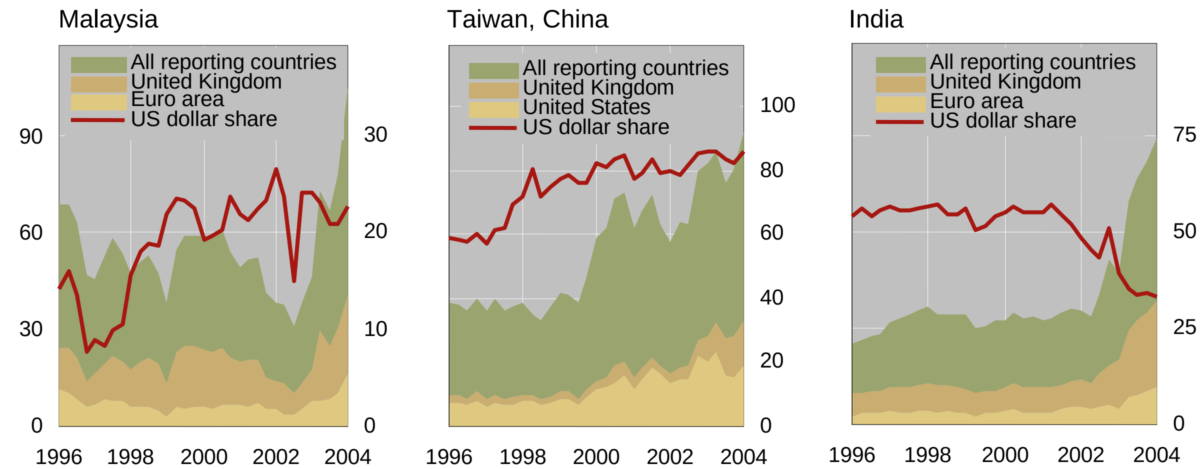
banks in the United Kingdom (Graph 2.7, right-hand panel). At the same time, they increased deposits in banks in the United States and Switzerland by $1 billion and $2 billion respectively. As a result, the estimated share of US dollar deposit liabilities in total liabilities vis-à-vis banks in Korea rose from 78% in the previous quarter to 89% in the most recent quarter.[13] On balance, deposit liabilities of BIS reporting banks vis-à-vis the Korean banking sector fell to $48 billion in the fourth quarter. An estimated 51% of these deposits are accounted for by Korea's foreign exchange reserves held as bank deposits abroad.[14]

... while banks in Malaysia, Taiwan and India place funds abroad

In contrast to China and Korea, banks in Malaysia increased their deposits in BIS reporting banks. In particular, the outstanding stock of foreign exchange reserves placed in banks abroad by the Malaysian central bank grew by $6 billion to $15 billion. This contributed to the $5 billion rise in BIS reporting banks' deposit liabilities vis-à-vis Malaysia's banking sector, with increased US dollar-denominated deposits placed in banks in the United Kingdom, the euro area and offshore centres (Graph 2.8, left-hand panel). As a result, the estimated share of US dollar-denominated deposit liabilities vis-à-vis the Malaysian banking sector rose from 63% in the previous quarter to 69% in the fourth quarter.[15]

Elsewhere, banks in Taiwan and India also placed funds abroad. A $6 billion rise in deposit liabilities vis-à-vis banks in Taiwan pushed total

Deposit liabilities to banks in selected countries [1]



[1] In billions of US dollars (right-hand scale). Estimated US dollar share (left-hand scale) at constant fourth quarter 2004 exchange rates.

Graph 2.8

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[13] These estimates should be interpreted with caution because as much as 51% (59%) of the deposit liabilities vis-à-vis banks in China (Korea) are placed in reporting countries that do not provide a currency breakdown. See the international banking chapter of the March 2005 *BIS Quarterly Review* for a discussion.

[14] The estimate is based on the reported end-January 2005 figures for Korea's foreign exchange reserves held as bank deposits abroad ($25 billion).

[15] See next footnote.

deposit liabilities to banks in the country to $59 billion (Graph 2.8, centre panel). This placement of deposits coincided with an increase in the US dollar value of Taiwan's total foreign exchange reserves, which rose by $9 billion in the fourth quarter of 2004. Similarly, banks in India placed $1.5 billion in sterling deposits in banks in the United Kingdom and the euro area, taking total deposit liabilities vis-à-vis the Indian banking sector to $42 billion (Graph 2.8, right-hand panel). The estimated US dollar share of deposit liabilities to banks in India remained relatively stable compared to the previous two quarters, at 41%.[16] This placement of deposits abroad seems to have been partially the result of central bank activity. India's foreign exchange reserves held as bank deposits abroad increased from $32 billion in the third quarter of 2004 to $35 billion in the fourth, or 83% of total deposit liabilities of BIS reporting banks vis-à-vis the Indian banking sector.

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16 A relatively small share of deposits from banks in Malaysia and India (12% each) is placed in BIS reporting countries that do not report a currency breakdown. The corresponding share for banks in Taiwan is 32%.

International syndicated credits in the first quarter of 2005

Blaise Gadanecz

Having reached an all-time high in the fourth quarter of last year, signings of international syndicated credit facilities were relatively subdued in the first quarter of 2005. Volumes totalled $421 billion, which nevertheless represents a significant year-on-year increase. Activity in the first quarter of each year is normally low; on a seasonally adjusted basis, lending actually grew by 6% from the previous quarter, sustained by refinancing and merger-related deals.

Financing conditions remained relatively favourable in the first quarter for borrowers from industrialised countries. While average Libor spreads on US facilities picked up slightly, average Euribor spreads on European deals fell. Average maturities continued to lengthen, while the percentage of secured facilities remained low, at 9%. Refinancing in western Europe as well as US and European merger-related deals continued to account for a significant part of total activity. However, the largest loans were European: Telecom Italia was granted a €12 billion multi-tranche facility to finance a merger; Électricité de France and Sanofi-Aventis each obtained €8 billion for refinancing and commercial paper support. Despite the profit warning and expected credit downgrade of General Motors, signings by the automobile sector were sustained (dropping sharply from the level of the fourth quarter of 2004, but displaying strong year-on-year growth).

There are signs that banks have been willing to commit increasing amounts of funds in the international market for syndicated credits. Indeed, the average amount provided per syndicate participant has increased during the past two years from $30 million to $50 million. At the same time, more banks have been competing for senior arranger positions – senior titles within syndicates where returns are higher (in the form of fees) than for junior participants. The ratio of senior arrangers to junior providers per loan has been on the increase, rising to an all-time high of 0.6 in the first quarter of 2005, although this may also reflect “title inflation”.

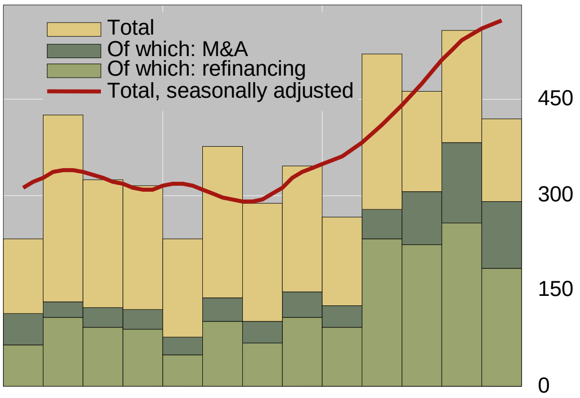
At $29 billion, lending to emerging markets was weaker than in the previous quarter but still grew year-on-year. Activity in Asia was boosted to $9.5 billion by Korean borrowers, especially from the banking, retail, transport and shipping sectors. Fund-raising by a South African government financial entity, as well as refinancing by gold and diamond mining firms in the country, brought lending to the Africa and Middle East region to a high of $9 billion. A Mexican oil corporation rolled over $4 billion, maintaining Latin American volumes at high levels.

Signings by eastern European borrowers were the lowest since the first quarter of 2003, falling to $3.5 billion. The largest recipients were Russian telecoms firms as well as banks, which were granted facilities at slightly higher spreads than during the previous quarters. Libor spreads on eastern European loans, which had been decreasing since the beginning of 2003, rose significantly in the first quarter.

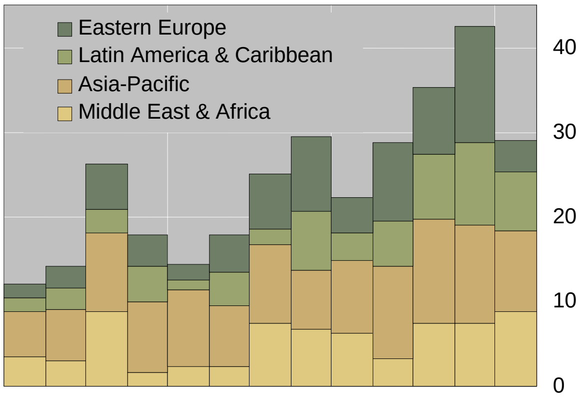
Signings of international syndicated credit facilities

In billions of US dollars

Total signings



Signings by emerging market entities



Sources: Dealogic Loanware; BIS.