Highlights of the BIS international statistics

The BIS, in cooperation with central banks and monetary authorities worldwide, compiles and disseminates several datasets on activity in international banking and financial markets. The latest available data on the international banking market refer to the third quarter of 2011. The discussion of international debt securities draws on data for the fourth quarter of 2011.[1]

The international banking market in the third quarter of 2011

The aggregate cross-border claims of BIS reporting banks expanded slightly during the *third quarter of 2011*. The overall rise was exclusively caused by an increase in interbank claims. By contrast, claims on non-banks recorded their largest decline since the fourth quarter of 2009.

Despite the overall increase in cross-border claims during the period, there were several notable signs of a slowdown in international banking activity. First, cross-border lending to non-banks in all major developed economies with the exception of Japan contracted or remained virtually unchanged. Second, internationally active banks reported sharp reductions in their foreign claims on residents of the euro area economies experiencing fiscal difficulties. And last but not least, cross-border claims on emerging market economies declined for the first time in 10 quarters. Internationally active banks reduced lending to the residents of emerging Europe and Africa and the Middle East. The growth rates of cross-border claims on Asia-Pacific and Latin America and the Caribbean did remain positive; nevertheless, they fell considerably relative to those observed during the preceding two years.

[1] This article was prepared by Stefan Avdjiev (banking statistics; stefan.avdjiev@bis.org) and Andreas Schrimpf (international debt securities; andreas.schrimpf@bis.org). From this issue onwards, there will be no commentary on turnover and open interest on the international derivatives exchanges. The data will still be published in the Annex tables to the *BIS Quarterly Review* and at http://www.bis.org/statistics/extderiv.htm. The June and December issues will continue to report the highlights from the semiannual over-the-counter derivatives statistics.

Aggregate cross-border claims record a slight increase[2]

Aggregate cross-border claims increase …

The aggregate cross-border claims of BIS reporting banks rose slightly during the third quarter of 2011. The $610 billion (1.9%) overall increase reflected an $826 billion (4.2%) rise in interbank lending (Graph 1, top left-hand panel). By contrast, claims on non-banks declined by $216 billion (1.8%).

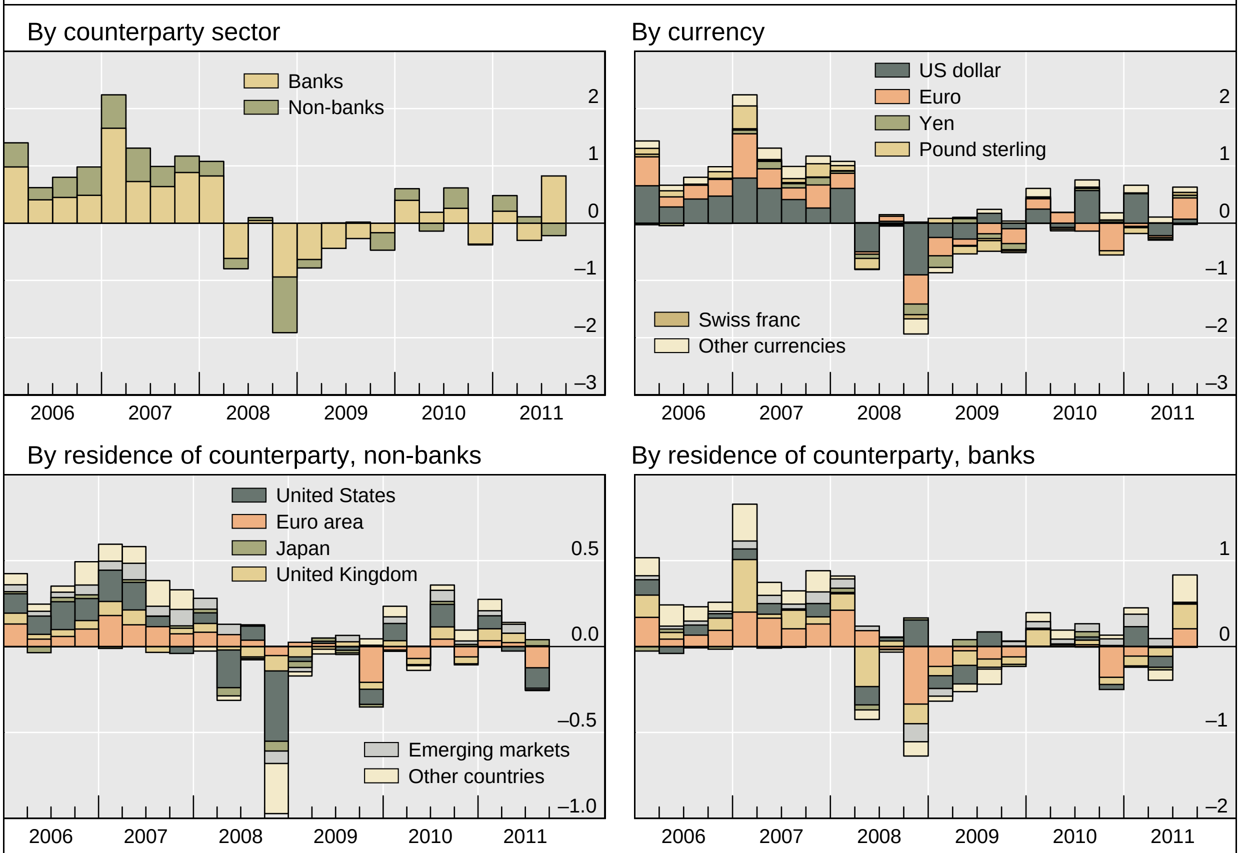
The aggregate growth in cross-border lending went hand in hand with increases in claims denominated in most major currencies (Graph 1, top right-hand panel). In relative terms, claims denominated in Swiss francs grew the most ($52 billion or 10%). Those denominated in yen ($46 billion or 3.8%), euros ($369 billion or 3.2%) and US dollars ($71 billion or 0.6%) all rose as well. Conversely, claims in sterling contracted by $21 billion (1.4%).

… but cross-border lending to non-banks contracts

Cross-border lending to non-banks in most major advanced economies shrank (Graph 1, bottom left-hand panel). Claims on non-banks in the euro area declined the most (–$124 billion or –3.1%). More than 40% of the overall drop was accounted for by a $53 billion (16%) fall in lending to non-bank

Changes in gross cross-border claims[1]

In trillions of US dollars



[1] BIS reporting banks' cross-border claims include inter-office claims.

Source: BIS locational banking statistics by residence. Graph 1

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

borrowers in Italy. BIS reporting banks also considerably reduced their claims on non-banks in the United States (–$119 billion or –4.5%). Cross-border lending to non-banks in Switzerland and Australia contracted as well (–$12 billion or –6.0% and –$6.2 billion or –3.9%, respectively). The only major economy that saw a significant expansion in cross-border claims on its non-bank residents was Japan ($35 billion or 18%).

What drove the growth in cross-border interbank lending during the period?

Rising derivatives values and inter-office lending growth drive the expansion in interbank claims

There were two main drivers of the aggregate increase in cross-border interbank claims. First, a $376 billion (22%) surge in the category *other assets*[3] was responsible for almost half (46%) of the overall rise. Even though the BIS locational banking statistics do not contain a finer breakdown of that category, there is anecdotal evidence that a large part of the expansion reflected increases in the market value of (mostly interest rate-related) derivatives positions. Second, reporting banks' claims on related offices abroad rose by $208 billion (2.0%). This accounted for more than one quarter of the aggregate expansion in interbank claims.

While the increases in both of the above categories contributed significantly to the expansion in cross-border interbank claims during the quarter, none of them could really be interpreted as a sign of increased international lending activity. What is more, to the extent that the growth in intrabank transactions was driven by banks cutting credit to the real economy and "parking" funds at affiliated offices, it may even be indicative of a slowdown in foreign bank lending around the world. Nevertheless, the lack of finer breakdowns in the data prevents us from making more definitive statements about the exact causes of those increases.

Cross-border claims on banks in the UK, Germany …

The cross-border interbank market channelled new funds mainly to banks located in the United Kingdom and Germany (Graph 1, bottom right-hand panel). Claims on the former expanded by $287 billion (7.5%) while those on the latter rose by $196 billion (18%). A $172 billion (42%) surge in *other assets* accounted for the majority of the increase in claims on banks in the United Kingdom. By contrast, a $156 billion (20%) expansion in interbank loans was the main driver of the growth in lending to banks in Germany.

… and Switzerland expand

Cross-border claims on banks located in Switzerland also rose sharply. They surged by $103 billion (26%) in the third quarter of 2011, during which a sharp rise in global risk aversion caused the rapid appreciation of the Swiss franc. This ultimately prompted the Swiss National Bank (SNB) to set a floor on the euro/Swiss franc exchange rate on 6 September 2011.[4] As in the case of

[3] In the instrument breakdown of the BIS locational banking statistics by residence, the international claims of reporting banks are divided into three categories: *loans and deposits*, *debt securities* and *other assets*. The last category includes equity, participations, derivative instruments, working capital supplied by head offices to branches and residual on-balance sheet claims. See Guidelines to the international locational banking statistics for more details.

[4] The quarterly frequency of the BIS international banking statistics does not allow us to establish how much of the surge in claims on banks located in Switzerland took place before the SNB announcement on 6 September 2011 and how much afterwards.

Germany, interbank loans accounted for almost all of the increase ($102 billion or 31%).

In contrast to the above developments, cross-border lending to banks located in the GIIPS countries (Greece, Ireland, Italy, Portugal and Spain) declined sharply during the quarter. Claims on banks located in Italy and Spain shrank by $60 billion (9.0%) and $45 billion (7.5%), respectively. Lending to banks located in Portugal and Greece also contracted considerably (–$13 billion or –7.7% and –$6.5 billion or –8.4%, respectively).

Foreign bank lending to the GIIPS countries contracts[5]

During the third quarter of 2011, internationally active banks reported substantial declines in their foreign exposures to the GIIPS economies (Graph 2). According to our estimates, at constant exchange rates,[6] the consolidated foreign claims of BIS reporting banks on the residents of that set of countries contracted by $110 billion (4.5%). Foreign claims on the public sector shrank the most (–$63 billion or –13%). Interbank claims also fell considerably (–$43 billion or –8.5%). By contrast, foreign lending to the non-bank private sector remained relatively stable, ticking down by $4.6 billion (0.3%).

There are three possible drivers of the above declines. First, reporting banks may have marked some of the foreign claims on their trading books down to their market values or provisioned against future losses on loans in their banking books. Second, banks may have let a portion of their foreign claims mature without replenishing them. Third, banks may have sold some of their tradable foreign claims. Potential buyers of such claims, whose holdings would not be captured in the BIS international banking statistics, include banks headquartered in the same jurisdiction as the borrower and the ECB (in the case of sovereign debt). Unfortunately, it is impossible to quantify the exact contribution of each of the above factors using the breakdowns currently available in the BIS consolidated banking statistics.

Foreign claims on all GIIPS countries decline

The composition of the contraction in foreign claims varied considerably across the GIIPS economies. The overall declines in foreign lending to Italy and Greece (–$65 billion or –7.0% and –$10 billion or –7.9%, respectively) involved primarily the public sectors of the two countries (–$51 billion or –18% and –$6.0 billion or –15%, respectively). By contrast, the drops in foreign lending to Spain (–$24 billion or –3.3%) and Portugal (–$8.8 billion or –4.3%)

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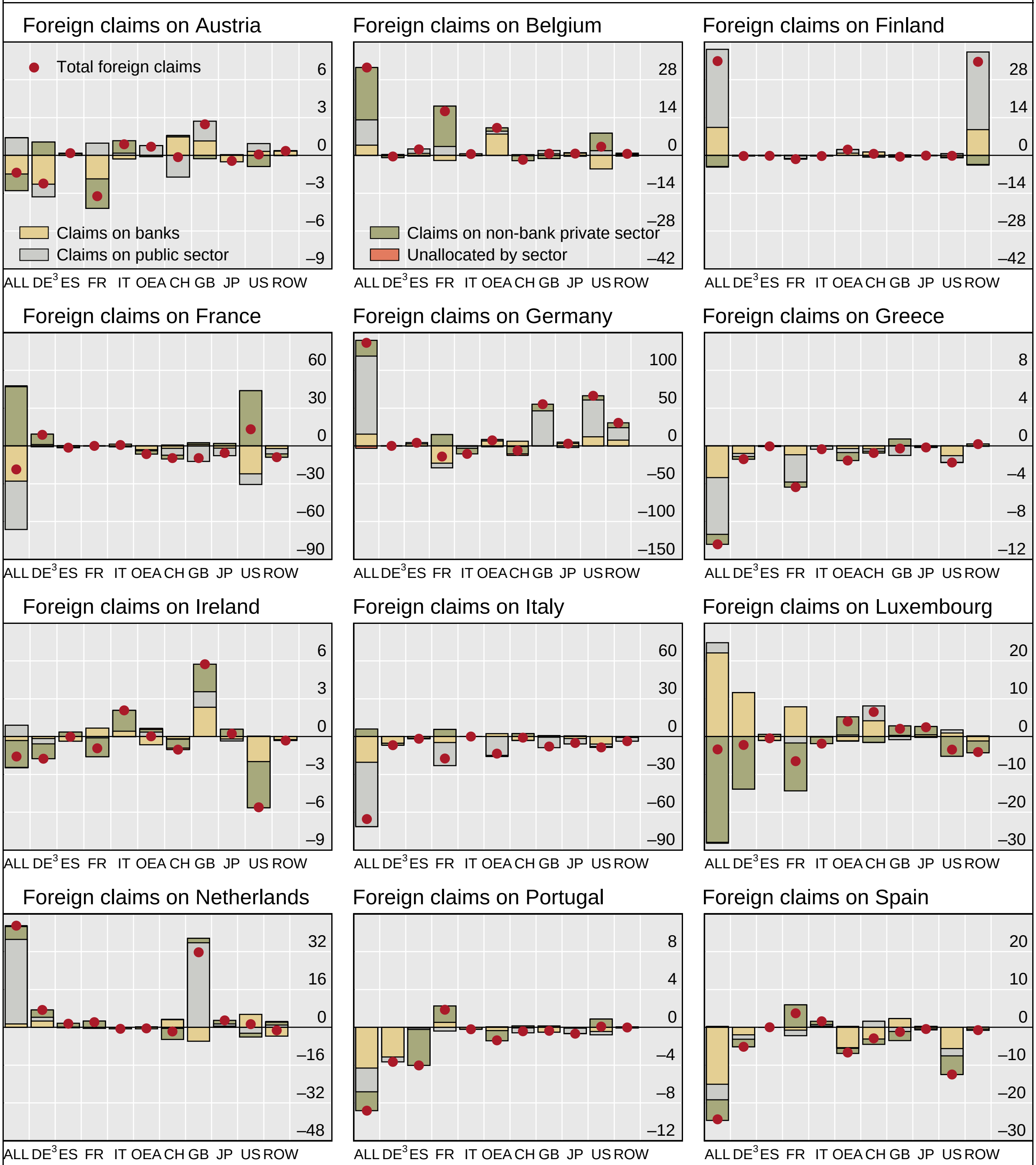
5 The analysis in this subsection is based on the BIS consolidated international banking statistics on an ultimate risk basis. In this dataset, the exposures of reporting banks are classified according to the nationality of banks (ie according to the location of banks' headquarters), not according to the location of the office in which they are booked. In addition, the classification of counterparties takes into account risk transfers between countries and sectors (see box on pages 16–17 of the March 2011 *BIS Quarterly Review* for a more detailed discussion and examples of risk transfers).

6 In order to adjust for the currency fluctuations that took place during the period, we make the (admittedly imperfect) assumption that all foreign claims on residents of the euro area are denominated in euros.

Estimated changes in foreign claims[1] on selected countries, Q3 2011

By bank nationality at constant end-Q3 2011 exchange rates,[2] in billions of US dollars



ALL = all BIS reporting banks; CH = Switzerland; DE = Germany; ES = Spain; FR = France; GB = United Kingdom; IT = Italy; JP = Japan; OEA = other euro area; ROW = rest of the world; US = United States.

[1] Foreign claims consist of cross-border claims and local claims of foreign affiliates. Claims of banks headquartered in the respective country are not included, as these are not foreign claims. [2] All claims are assumed to be denominated in euros. [3] Claims of German banks are on an immediate borrower basis, except claims on the Greek public sector, which are on an ultimate risk basis.

Source: BIS consolidated banking statistics (ultimate risk basis). Graph 2

affected mainly recipient banks (–$15 billion or –6.7% and –$4.3 billion or –12%, respectively). Meanwhile, a decrease in claims on the non-bank private sector in Ireland (–$2.1 billion or –0.6%) was the primary reason for the overall reduction in foreign lending to that country (–$1.6 billion or –0.3%).

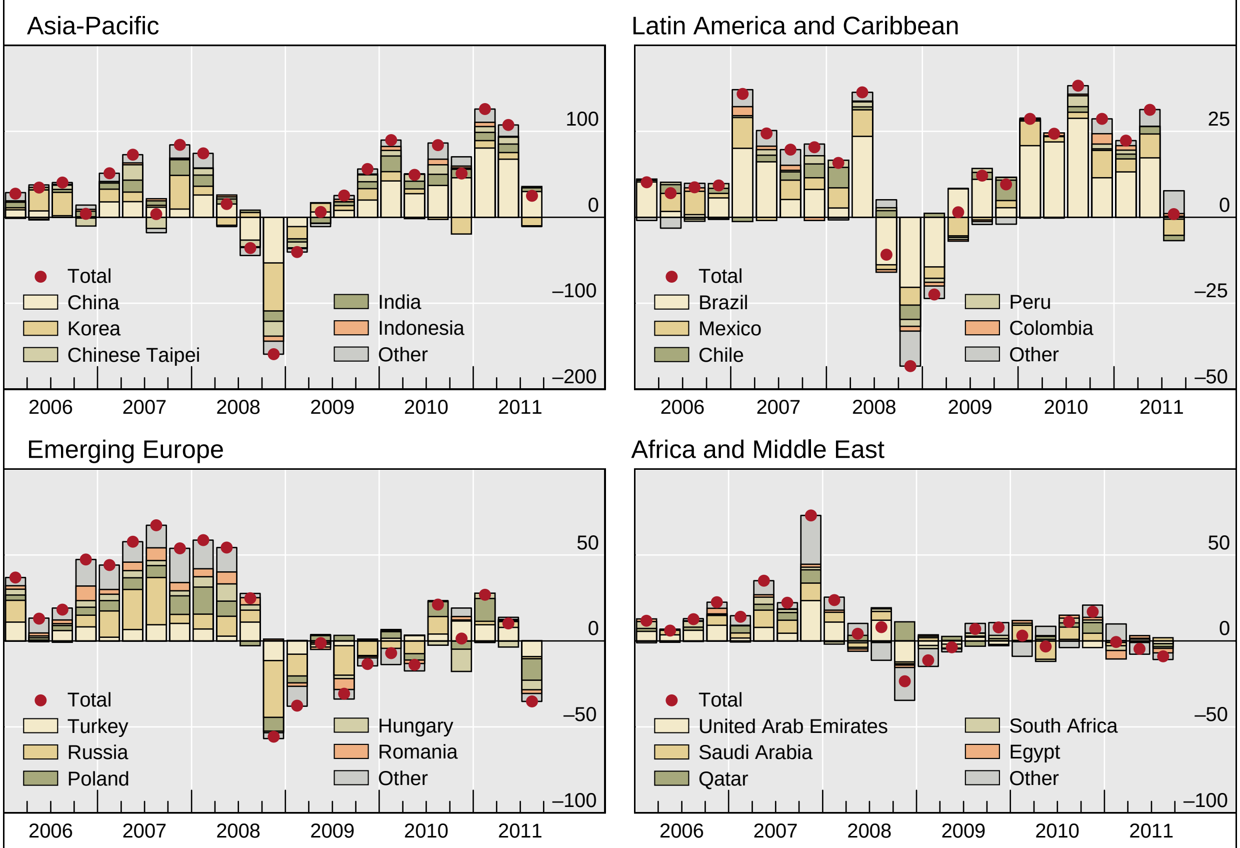
On the lender side, euro area banks and US banks contributed the most to the overall contraction in foreign claims on the GIIPS countries. Euro area banks' foreign claims on that group of economies decreased by $61 billion (or 3.5%). US banks also reported a substantial fall (–$28 billion or –16%). The bulk of the reduction reported by euro area banks was on the GIIPS public sectors (–$41 billion or –11%). By contrast, in the case of US banks, more than half of the reported decline affected banks in the GIIPS countries (–$15 billion or –26%).

Cross-border claims on emerging market economies decline[7]

After nine consecutive quarters of steady growth, cross-border lending to emerging market economies contracted during the third quarter of 2011. The $18 billion (0.6%) reduction reflected decreases in both interbank claims (–$9.4 billion or –0.5%) and claims on non-banks (–$8.6 billion or –0.6%). Claims on emerging Europe and Africa and the Middle East fell. Those on Asia-

Changes in cross-border claims on residents of emerging markets[1]

By residence of counterparty, in billions of US dollars



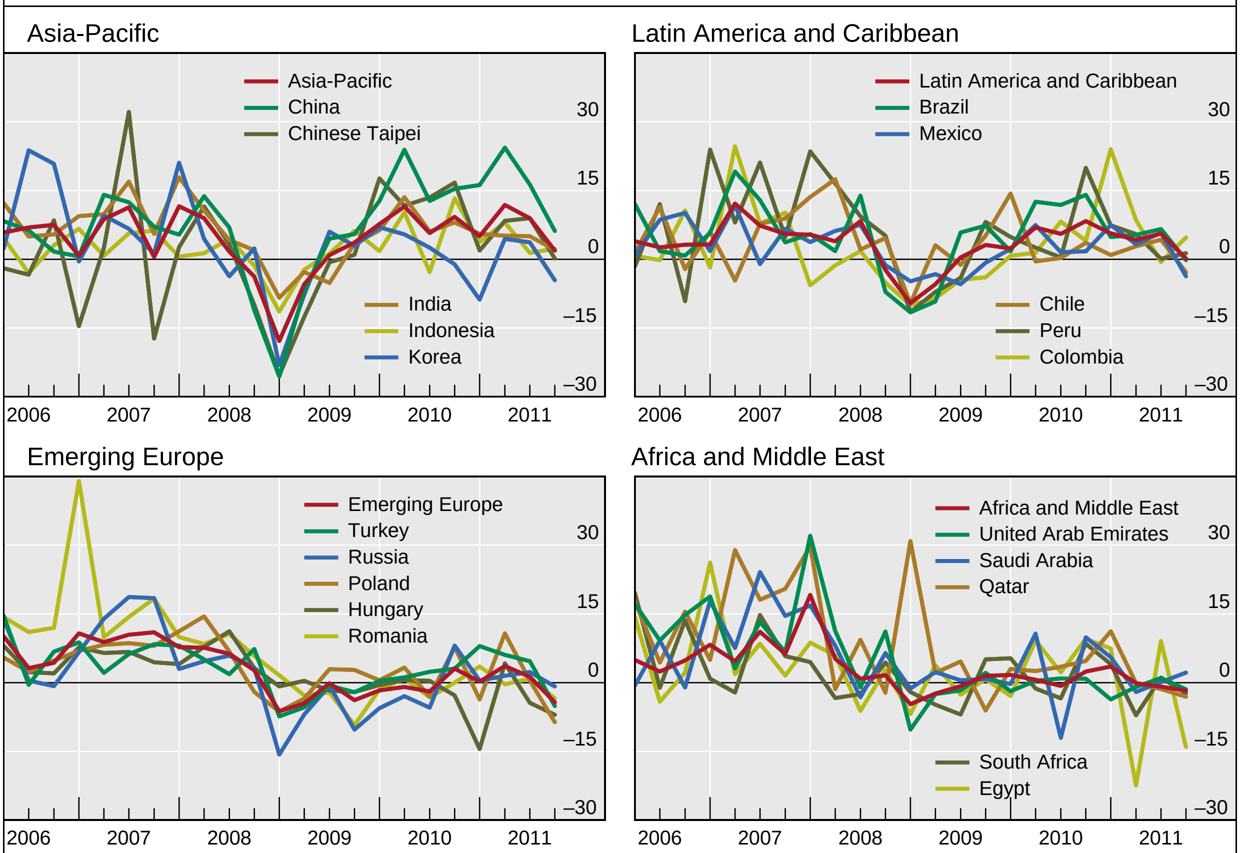
[1] BIS reporting banks' cross-border claims (including inter-office claims) in all currencies.

Source: BIS locational banking statistics by residence. Graph 3

[7] The analysis in this subsection is based on the BIS locational banking statistics by residence. See footnote 2 for a description of this dataset.

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

By residence of counterparty, in per cent



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

Source: BIS locational banking statistics by residence. Graph 4

Pacific and Latin America and the Caribbean did increase, but at a much lower rate than in the preceding quarters.[8]

Cross-border lending to emerging Europe shrinks

Emerging Europe, the region most dependent on euro area banks for foreign credit,[9] saw the largest drop (Graph 3, bottom left-hand panel). The $35 billion (4.3%) overall decline was led by a $21 billion (4.6%) fall in interbank claims. Lending to non-banks also shrank (–$15 billion or –3.9%). The countries most affected were Poland (–$13 billion or –8.6%), Hungary (–$5.5 billion or –7.0%) and Turkey (–$9.1 billion or –5.1%). Euro area banks account for more than 80% of all foreign credit to the first two of these countries. They are also responsible for approximately two thirds of all foreign claims on Turkey, whose susceptibility to sudden capital withdrawals is further increased by the fact that more than half of all international claims on its residents have a maturity of less than one year.

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[8] It is interesting to note that net issuance of international debt securities by residents of emerging market economies, which had slowed considerably during the third quarter of 2011, recovered in the last three months of the year. See the box on page 21 for more details. Provisional data on international bank lending to emerging market economies during the last quarter of 2011 will be released in April 2012.

[9] See Box 2 on pages 21–2 in the December 2011 *BIS Quarterly Review* for estimates of the share of total bank credit in major emerging market economies provided by euro area banks.

Growth in cross-border claims on Asia-Pacific and Latin America and the Caribbean falls

The growth rate of cross-border claims on Asia-Pacific and Latin America and the Caribbean fell significantly (Graph 4, top panels). In the former region, it declined to 1.9% from an average of 7.9% in the preceding eight quarters. In the latter region, it dropped to 0.2% from an average of 5.2% during the previous two years. Moreover, cross-border lending actually contracted in some of the largest countries in the two regions.

Each of the major economies in Asia-Pacific and Latin America and the Caribbean that saw a fall in cross-border claims had a high score on one or more of the vulnerability indicators presented in the December 2011 *BIS Quarterly Review*.[10] Korea and Chile, where cross-border lending shrank by $10 billion (4.6%) and $1.5 billion (2.8%), respectively, both had a share of short-term claims in international claims that exceeded one half (63% and 54%, respectively). In addition, cross-border claims represented nearly 50% of all foreign claims on Korea. Meanwhile, euro area banks accounted for almost a half (48%) of all foreign credit to Mexico, where cross-border lending declined by $4.7 billion (3.7%). Finally, claims on Brazil, the emerging market economy with the highest ratio (30%) of cross-border claims held in the form of tradable debt securities, dropped by $0.5 billion (0.2%). This reduction contrasted sharply with developments in the preceding eight quarters, when cross-border lending increased by an average of 8.0%.

[10] The four vulnerability indicators are: *foreign bank participation rate*, *share of cross-border claims in foreign claims*, *share of short-term claims in international claims* and *share of tradable debt securities in cross-border claims*. See Box 1 on pages 16–17 of the December 2011 *BIS Quarterly Review* for a detailed description of each indicator.

International debt security issuance in the fourth quarter of 2011

Issuance of international debt securities stabilised in the fourth quarter of 2011, recovering slightly from the third quarter's market turmoil in the wake of European sovereign debt woes. Gross issuance reached $1,806 billion, some 7% more than in the previous quarter (Graph A, left-hand panel). With repayments almost unchanged at $1,541 billion, net issuance climbed to $265 billion, a notable recovery after the rather low $181 billion in the previous quarter. Net issuance of bonds and notes rose to $299 billion (Graph A, centre panel), whereas the money market segment saw net repayments of $33 billion (Graph A, right-hand panel).

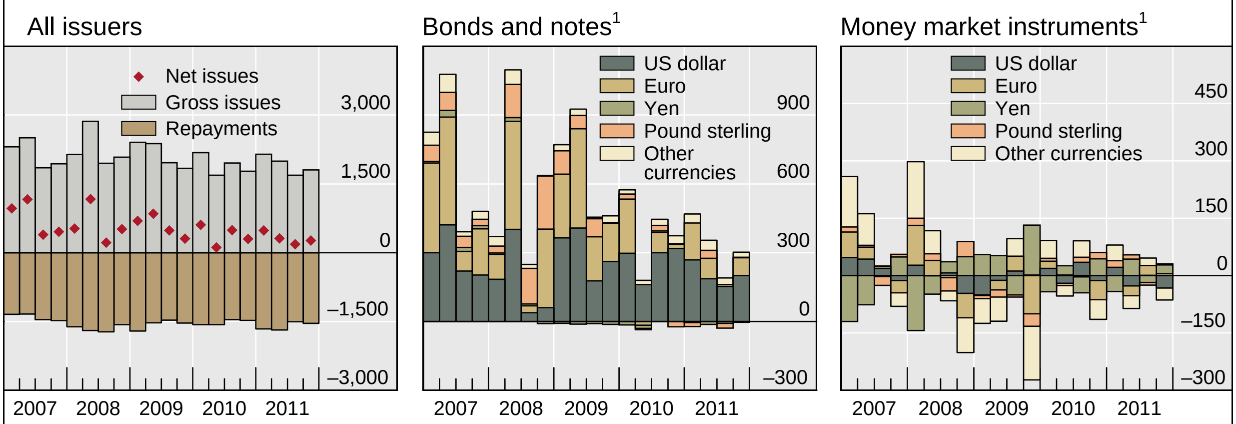
Borrowers of European nationality accounted for the largest share of the increase in net issuance. They raised $105 billion in the fourth quarter, compared with just $6 billion in the third. Emerging market borrowers also made a strong showing in the primary market for international debt securities, with net issues of $65 billion, up from only $21 billion in the third. US borrowing declined slightly, to $59 billion.

The breakdown by currency shows that euro-denominated borrowing posted the strongest increase, to $82 billion net. Borrowing via dollar-denominated international debt securities took the largest share in overall issuance, edging up to $168 billion. The sterling and yen segments of international debt markets stagnated.

In line with recent trends, corporate borrowing continued to outstrip borrowing by financials. Net issues by non-financial corporations amounted to $148 billion, more than twice the net issuance of financial institutions ($71 billion). In particular, US corporations tapped the market for international debt securities, raising $80 billion net. US financials, by contrast, repaid international debt securities to the tune of $22 billion.

International debt securities issuance

In billions of US dollars



[1] Net issues.

Sources: Dealogic; Euroclear; Thomson Reuters; Xtrakter Ltd; BIS. Graph A

European financials returned to the primary market for international debt securities in the fourth quarter of 2011 after being almost absent during the third. Gross issuance by financial institutions of European nationality picked up 11% compared with the previous quarter, reaching $971 billion. After accounting for a 4% increase in repayments, net issuance recovered to $58 billion, after $6 billion of net repayments in the third quarter. Dutch financials borrowed the most with $51 billion of net issues, followed by German financial institutions with net issues of $20 billion (Graph B, left-hand panel). Spanish, Greek and French financials also expanded their borrowing relative to the third quarter, raising $11 billion, $8 billion and $7 billion, respectively, after repayments. UK and Belgian financials, however, continued to repay funds worth $25 billion and $14 billion, respectively, on a net basis.

The recovery in issuance by European financials can be largely attributed to a significant increase in borrowing by the subcategory of other financial institutions, which includes quasi-sovereign borrowers, asset-backed security issuers and insurance companies. By contrast, issuance by European banks slumped. Gross issuance by the group of other financial institutions picked up to $487 billion, 55% above the amount raised in the same quarter of the previous year. After accounting for repayments, net issuance by borrowers from this subcategory reached $198 billion.

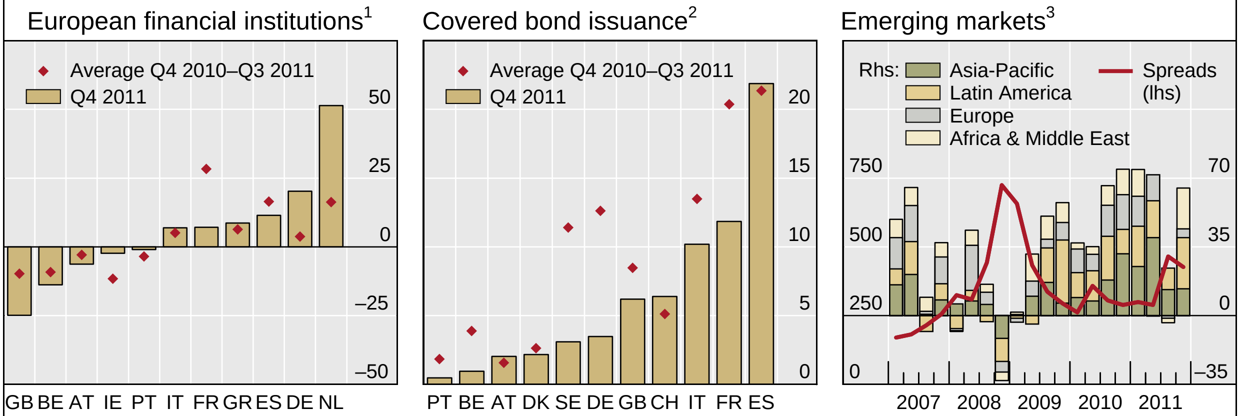
Market conditions remained generally difficult for many European private banks in the fourth quarter of 2011 (see pages 2–5 for a detailed discussion of the current funding situation of European banks). European private banks repaid another $151 billion, following net repayments of $79 billion in the third quarter. Gross issuance of international debt securities by private banks of European nationality stood at $445 billion, 23% less than in the same quarter of the previous year, suggesting that funding difficulties persist.

Attention shifted to the covered bond market segment over the second half of 2011, as unsecured term funding had become increasingly difficult to obtain for banks from several European countries (see page 2 for a discussion). Continuing the trend of the entire past year, issuance of covered bonds was particularly strong in the case of Spanish, French and Italian financial institutions, with gross issues of $22 billion, $12 billion and $11 billion, respectively (Graph B, centre panel).

Emerging market borrowing saw a strong comeback in the fourth quarter of 2011, as credit spreads eased somewhat (Graph B, right-hand panel). While issuance by borrowers from Asia and the Pacific remained constant at $14 billion of net issues, net issues by borrowers from Latin America expanded strongly ($26 billion). Borrowing from Africa and the Middle East via international debt securities reached $21 billion, the highest amount ever raised by borrowers from that region.

Debt securities issuance

Issuance by nationality of issuer, in billions of US dollars



AT = Austria; BE = Belgium; DE = Germany; ES = Spain; FR = France; GB = United Kingdom; GR = Greece; IE = Ireland; IT = Italy; NL = Netherlands; PT = Portugal.

[1] Net issues, international debt securities. [2] Gross issues. [3] Net issues, international debt securities. Spreads are based on the JPMorgan EMBI Global Composite index, in basis points.

Sources: Dealogic; Euroclear; Thomson Reuters; Xtrakter Ltd; BIS. Graph B