Melissa Fiorelli
(+41 61) 280 8191
melissa.fiorelli@bis.org

Philip Wooldridge
(+41 61) 280 8819
philip.wooldridge@bis.org

II. Highlights of international financing

1. The international banking market

International banking activity continued to expand in the second quarter of 2000, propelled by banks' substantial purchases of securities and the return of Japanese banks to the international banking market. The cross-border claims of banks in the reporting area increased by $110 billion, less than in the first quarter – when the rechannelling of funds through the interbank market to non-bank borrowers in Europe had resulted in an exceptionally large increase – but above average levels of activity in 1998 and 1999 (Table II.1.1). Flows from international banks remained by and large limited to borrowers in developed countries, with the United States replacing the euro area as the largest

Table II.1.1

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

In billions of US dollars

	1998	1999				2000		Stocks at end-June 2000
	Year	Year	Q2	Q3	Q4	Q1	Q2	
Claims on developed countries	**554.1**	**444.4**	**60.0**	**191.3**	**95.4**	**496.4**	**109.0**	**7,965.0**
of which: intra-euro 11	*296.7*	*252.1*	*35.0*	*84.7*	*– 1.3*	*107.2*	*– 12.9*	*1,558.0*
Interbank loans[2]	285.8	29.7	– 83.4	126.4	– 2.5	330.5	7.6	4,718.2
Loans to non-banks	21.5	100.6	67.2	2.4	25.3	51.9	– 9.9	1,373.2
Securities[3]	246.7	314.1	76.3	62.5	72.6	114.0	111.2	1,873.7
Claims on offshore centres	**– 204.9**	**– 104.8**	**– 44.7**	**– 26.4**	**35.3**	**– 48.7**	**6.4**	**1,166.8**
Interbank loans[2]	– 166.7	– 140.1	– 51.7	– 47.2	36.9	– 64.1	– 17.5	785.7
Loans to non-banks	– 26.7	7.1	1.0	12.6	– 9.3	1.5	13.5	239.7
Securities[3]	– 11.4	28.2	5.9	8.2	7.7	13.9	10.4	141.4
Claims on developing countries	**– 141.9**	**– 69.9**	**– 21.1**	**– 31.2**	**– 2.9**	**1.7**	**– 4.1**	**914.9**
Interbank loans[2]	– 63.6	– 58.6	– 20.4	– 22.5	– 4.5	6.0	– 8.7	363.1
Loans to non-banks	– 8.9	– 17.8	– 3.3	– 8.8	– 2.1	– 15.0	– 0.8	410.7
Securities[3]	– 69.4	6.5	2.6	0.1	3.6	10.8	5.4	141.0
Unallocated	**– 37.9**	**– 27.9**	**– 6.4**	**– 4.3**	**– 12.6**	**11.6**	**0.8**	**205.5**
Total	**173.2**	**245.6**	**– 11.4**	**129.7**	**115.8**	**461.2**	**109.6**	**10,252.2**
Interbank loans[2]	31.9	– 218.2	– 156.0	42.8	1.8	277.0	– 20.8	5,937.0
Loans to non-banks	– 26.7	86.5	62.2	8.7	22.7	41.8	1.2	2,058.8
Securities[3]	168.0	377.4	82.4	78.2	91.2	142.4	129.2	2,256.3
Memorandum item: Syndicated credits[4]	*902.0*	*957.1*	*271.1*	*264.3*	*249.2*	*268.2*	*330.0*	

[1] Exchange rate adjusted changes in amounts outstanding. [2] Including inter-office transactions. [3] Partly estimated. The data include other assets, which account for less than 5% of the total claims outstanding. [4] Announced new facilities.

recipient. Claims on offshore centres increased modestly in the second quarter, but claims on developing countries turned negative again, following the first period of inflows in nearly two years.

Even though net repayments by developing countries bottomed out in the final quarter of 1999, no clear upward trend in bank lending to developing countries has yet emerged. Claims on a select few, most notably Mexico and Turkey, continued to expand in the first half of 2000 however. Another notable development in the first half of the year was a sharp increase in deposit flows from developing countries to international banks, arising from an improvement in the external position of oil-exporting countries.

Interbank lending slows but purchases of bank securities remain near record levels

Interbank activity slowed sharply in the second quarter of 2000, as was to be expected following the extraordinary surge in lending to banks in the developed countries in the first quarter. To some extent, banks in the reporting area unwound the large interbank positions that they had built up during the first quarter, with funds moving from banking centres in the euro area to London and then being passed on to Tokyo, Zurich, the Bahamas and the Cayman Islands. Despite flows from banks in the United Kingdom to their branches in the Caribbean, reporting banks' claims vis-à-vis banks in offshore centres continued to decline in the second quarter. Most of the outflows from offshore centres arose from transactions by Japanese banks with their offices in Hong Kong, and by US banks with their offices in the Bahamas.

In contrast to interbank lending, banks' purchases of debt securities and other assets issued by banks reached near-record amounts. As a result, cross-border claims on banks increased by $53 billion in the second quarter. Banks in the reporting area have stepped up their investment in bank securities in recent quarters, purchasing $150 billion worth of such securities in the first half of 2000 compared to $189 billion worth in the whole of 1999.[7] In 1998-99, securities issued by banks in Europe had accounted for the bulk of banks' purchases, but, since mid-1999, purchases of US banks' securities have picked up. Of purchases of bank securities in the second quarter, nearly half was invested in securities issued by US banks. According to the consolidated banking statistics, Japanese and UK banks were responsible for most of the increase in reporting banks' claims on US banks.

Flows to US non-banks surpass those to euro area borrowers

Purchases of securities also accounted for most of the $57 billion rise in claims on non-bank borrowers in the second quarter. Bank lending to non-bank borrowers, which had showed signs of strengthening in the first quarter, dried up in the second. Lending to non-bank borrowers in Europe slowed especially sharply, reflecting in part the slower pace of syndicated lending to telecommunications companies.[8] More recent data on syndicated credits show a surge in lending to telecom firms in the third quarter, suggesting that direct lending to non-banks in Europe may have also recovered. Banks in the reporting area continued to purchase substantial amounts of securities issued by non-bank borrowers in Europe. Nevertheless, international bank flows to non-banks in the euro area more than halved in the second quarter, to $20 billion, and flows to UK non-banks virtually ceased (Graph II.1.1). Banks resident in the United Kingdom and the euro area, which had provided massive sums to non-bank borrowers in Europe in the first quarter of this year, were wholly responsible for the slower growth of claims in the second (Graph II.1.1).

Banks' cross-border claims on non-banks in the United States have increased since late 1999, and the increase in the second quarter even surpassed the rise in claims on euro area borrowers, who have

---

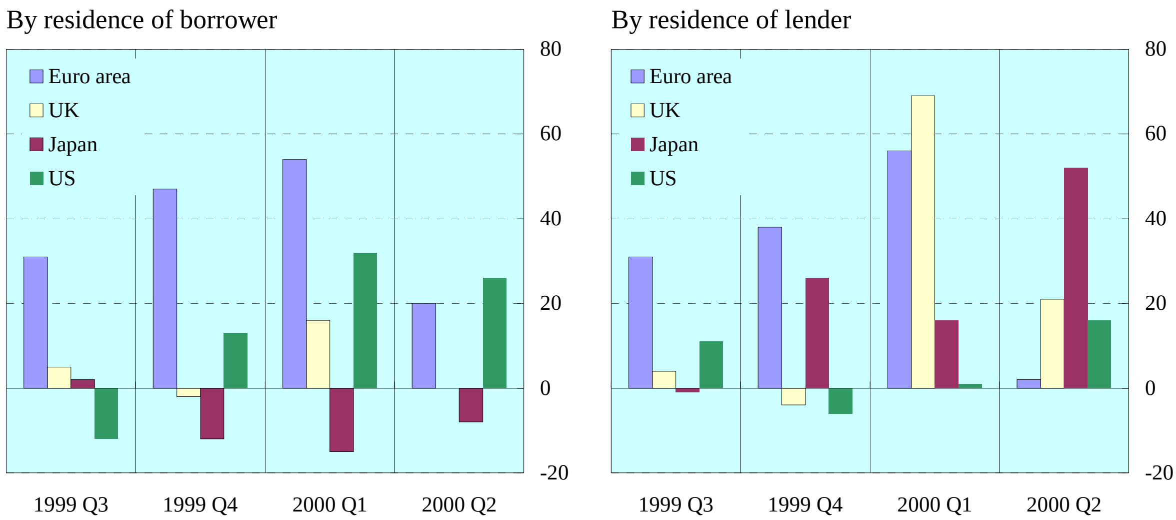
7 The United States does not report banks' investment in securities.

8 See the box "Syndicated credits in the third quarter of 2000" on page 17.

Graph II.1.1

Cross-border claims on non-banks[1]

In billions of US dollars



[1] Exchange rate adjusted changes in amounts outstanding.

historically been the largest non-bank recipients of international bank flows (Graph II.1.1). Flows from banks in the reporting area to US non-bank borrowers totalled $26 billion in the second quarter, four fifths of which took the form of purchases of securities. The locational banking statistics indicate that banks in the United Kingdom were the single largest source of international bank credit for non-banks in the United States in the first half of this year, but a substantial proportion of these funds were from euro area banks resident in the United Kingdom rather than UK banks. Based on the consolidated banking statistics, which are compiled on a nationality basis, euro area banks' claims on public sector and non-bank private sector borrowers in the United States increased by $44 billion in the first half of 2000, with German banks accounting for a little under half of this increase. UK banks' consolidated exposure to the US public and non-bank private sectors increased by $6 billion over the same period.

Japanese banks return to the international banking market

The slowdown in European banks' lending to non-bank borrowers in the second quarter was partially offset by renewed lending from Japanese banks. The cross-border claims of banks resident in Japan on non-bank borrowers increased by an exceptionally large $52 billion in the second quarter of this year, compared to $55 billion in the whole of 1999 (Graph II.1.1). The consolidated banking statistics show a similarly large increase in the cross-border exposure of Japanese banks in the second quarter: $87 billion, of which nearly half was related to claims on public sector and non-bank private sector borrowers.

The return of Japanese banks to international lending was especially evident in Europe. The claims of banks in Japan on non-bank borrowers resident in Europe increased by a record $27 billion in the second quarter, equalling the amount for the whole of 1999 and accounting for half of the total increase in Japanese banks' claims on non-banks. Notably, over two thirds of flows to Europe were denominated in yen. European telecommunications companies were responsible for a surge in yen issuance in the international debt securities market in the second quarter of 2000, to finance mergers,

Syndicated credits in the third quarter of 2000

Blaise Gadanecz

An exceptionally active second quarter in the international market for syndicated credits was followed by an almost equally active third quarter. A total of $324 billion worth of loans were arranged during the period, compared to $330 billion in the previous one. On a seasonally adjusted basis, the third quarter was even stronger than the second.

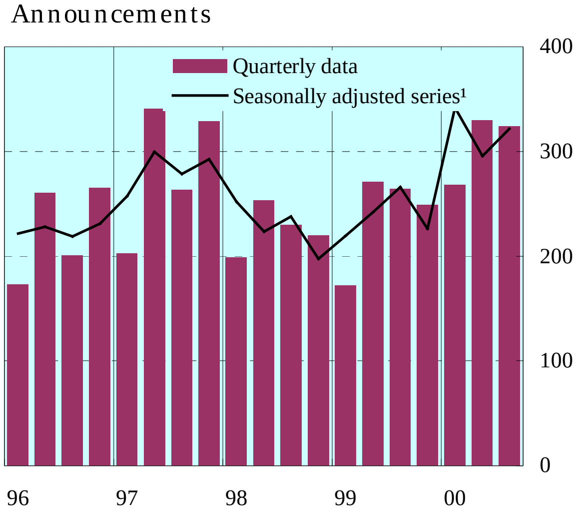
Activity related to mergers and acquisitions (M&As) and bridge loans for telecommunications firms contributed to the third quarter's strength. Deals to finance M&As and leveraged or management buyouts rebounded to $55 billion in the third quarter from $43 billion in the second. After slowing sharply in the second quarter, borrowing by European telecommunications firms picked up again in the third, particularly in the form of bridge loans, a temporary or supplementary means of funding before or while tapping securities markets. The largest borrowers in the syndicated loan market in the third quarter were all telecom firms: France Telecom (€30 billion), Vodafone Airtouch ($15 billion), KPN (€13 billion), Telecom Italia (€13 billion) and Telefónica de España (€8 billion).

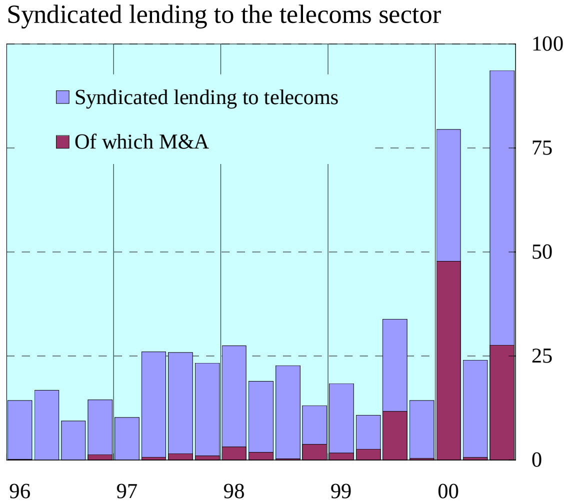
International syndicated lending to telecommunications firms amounted to $197 billion in the first three quarters of 2000, more than double telecom financing for the whole of 1999 and nearly 25% of total syndicated credits signed in the first three quarters of this year. Facilities intended to support purchases of third-generation mobile phone licences accounted for at least 20% of telecom financing. Participation in syndicated facilities arranged for telecom firms was in line with historical market shares. US banks were the largest participants, providing approximately one quarter of telecom financing during the first three quarters of 2000, followed by German and UK banks, which each provided around 10% of funds. Despite a substantial increase in the cross-border claims of Japanese banks in the second quarter of 2000 (see page 16), there were few signs of an increase in their participation in the syndicated loan market.

Deals are becoming larger[①] and their maturities are becoming shorter. The average maturity of facilities has trended steadily downwards since 1992, falling from six years at the beginning of 1992 to three in the third quarter of 2000. There has, however, been much more volatility in the evolution of maturities for facilities used by borrowers in developed countries for M&A and buyout purposes.

Announced facilities in the international syndicated credit market

In billions of US dollars





[1] US Census Board X11 Arima seasonal adjustment process (multiplicative method).

Sources: Capital DATA; BIS.

① See the box "Syndicated credits in the second quarter of 2000" in the August 2000 issue of the *BIS Quarterly Review*.

acquisitions and purchases of third-generation mobile phone licences.[9] Some of these yen-denominated securities appear to have been purchased by Japanese banks.

In the United States too, banks in Japan were active lenders to non-banks. Their claims on US non-banks increased by a record $17 billion in the second quarter. In contrast to new claims on Europe, the bulk of bank flows from Japan to the United States were denominated in US dollars rather than yen. Banks in Japan purchased substantial amounts of US securities in the second quarter. In fact, according to the US Treasury International Capital reporting system, net purchases of US securities by Japanese investors (banks and non-banks) reached an all-time high of $27 billion in the second quarter, following two years of relatively modest purchases. The fact that the majority of purchases by Japanese residents were accounted for by banks, which would normally fund such purchases with US dollar deposits, provides a reminder that not all purchases of US securities support the dollar.

Japanese banks were also responsible for over one third of the $19 billion increase in reporting banks' claims on non-banks in offshore centres in the second quarter. As in the fourth quarter of 1999, Japanese banks sold loans to special purpose vehicles (SPVs) in the Cayman Islands, in their ongoing effort to restructure their balance sheets and improve their capital adequacy ratios. These SPVs then issued securities collateralised by these loans, most of which were purchased by Japanese investors, including banks in Japan.

Renewed lending by Japanese banks was funded in part through the international interbank market. Taking into account changes in both assets and liabilities, reporting banks moved upwards of $59 billion into banks in Japan in the second quarter, the largest increase in years. Further unwinding of "yen impact" loans, or yen funds channelled via Japanese banks' overseas offices to companies resident in Japan, accounted for roughly half of these inflows. Indeed, the ongoing reduction in Japanese banks' claims on their own offices abroad was responsible for much of the $24 billion contraction in reporting banks' claims on Hong Kong, as well as of the $8 billion reduction in reporting banks' claims on non-bank borrowers resident in Japan. Unlike in previous quarters, deposits and loans by foreign-owned banks, especially US and UK banks, in Japanese banks also increased. Japanese banks' access to the international interbank market has improved substantially since the early part of 1999, when the government took steps to recapitalise weak banks. The premium charged by international banks on loans to Japanese banks, the so-called "Japan premium", virtually disappeared in the first half of this year.

Claims on developing countries continue to contract

The expansion of international banking activity in the second quarter remained for the most part limited to developed countries, as it has been since early 1998. Banks in the reporting area reduced their claims on developing country borrowers by a further $4 billion in the second quarter (Table II.1.2). Claims on Asia fell the most, but claims on Africa and the Middle East, which had increased in 1997-99 even while credit to other developing countries was cut back, also declined.[10] Outflows of bank funds have fallen sharply since the end of 1999, totalling $2 billion in the first half of 2000 compared to $70 billion in 1999. But loan growth remained limited to a select few countries.

The small rebound in bank flows to Asia and the Pacific seen in the first quarter of this year – the first period of net credit to the region since mid-1997 – was not sustained in the second quarter. Bank claims fell by $7.3 billion, with every major Asian borrower except Korea experiencing a reduction in international credit. Chinese borrowers repaid $3.4 billion in loans, Thai borrowers $2.9 billion and Indonesian borrowers $1.1 billion. Total claims vis-à-vis Korea increased by $0.3 billion, but the small increase masks a significant shift in the sectoral composition of claims. Repayments by Korean banks

9 See the August 2000 issue of the *BIS Quarterly Review*.

10 See the box on "International bank and securities financing in Africa" at the end of this section.

Table II.1.2

Banks' claims on developing countries[1]

In billions of US dollars

	1998	1999				2000		Stocks at end-June 2000
	Year	Year	Q2	Q3	Q4	Q1	Q2	
Total claims	**–141.9**	**–69.9**	**–21.1**	**–31.2**	**– 2.9**	**1.7**	**– 4.1**	**914.9**
Africa & Middle East	21.5	0.1	– 3.7	2.2	5.3	– 6.3	– 1.0	153.0
Saudi Arabia	6.4	2.0	– 0.4	2.0	0.9	– 1.2	– 0.1	25.0
South Africa	– 0.6	– 0.8	– 0.0	– 1.5	– 0.7	– 0.3	– 0.5	17.3
Asia & Pacific	–156.8	–61.9	– 8.1	–24.4	–17.6	3.0	– 7.3	310.6
China	– 36.4	–17.1	– 0.4	– 7.3	– 5.7	0.1	– 3.4	63.2
Indonesia	– 17.3	– 7.3	– 2.1	– 3.7	– 1.1	– 1.9	– 1.1	42.9
Korea	– 45.9	– 5.1	– 0.2	– 1.3	– 5.8	5.9	0.3	75.7
Malaysia	– 8.3	– 4.1	– 0.8	– 1.5	– 1.5	0.3	0.0	20.2
Philippines	– 3.1	0.1	1.0	– 1.8	1.2	– 0.7	– 0.5	15.8
Thailand	– 37.6	–17.6	– 2.7	– 5.8	– 3.5	– 0.6	– 2.9	32.4
Europe	3.3	8.8	– 2.1	2.0	4.8	– 0.6	2.3	163.0
Hungary	2.2	1.1	– 0.1	0.1	0.6	0.2	0.2	13.0
Poland	3.5	4.6	0.1	2.1	0.6	– 0.4	0.3	16.0
Russia	– 6.1	– 6.5	– 1.5	– 1.7	– 1.4	– 1.4	– 1.4	39.9
Turkey	2.7	5.8	1.1	1.4	1.3	2.7	2.6	43.8
Latin America	– 9.9	–16.9	– 7.2	–11.0	4.5	5.5	2.0	288.2
Argentina	0.6	0.7	– 0.1	– 2.0	1.1	– 1.3	– 0.1	46.6
Brazil	– 10.3	– 8.9	– 3.2	– 3.3	3.9	1.4	0.0	88.0
Chile	– 0.5	– 1.7	– 0.8	– 1.0	– 0.2	0.8	– 0.3	18.8
Mexico	0.3	– 4.1	– 1.5	– 1.7	– 0.8	1.2	3.9	66.2

[1] Exchange rate adjusted changes in amounts outstanding.

to international banks in the second quarter exceeded new lending by $3.9 billion. At the same time financial institutions in the United States lent a record $4.8 billion to non-bank borrowers, with much of the lending collateralised by securities, ie reverse repos.

The BIS consolidated banking statistics show that since mid-1997 banks in the reporting area have drastically reduced their short-term claims on Asian borrowers. Claims with an original maturity of less than one year have fallen continuously over the past three years, while the amount of maturing long-term debt has remained relatively stable. The latest consolidated statistics indicate that the share of short-term funding in total bank claims on the Asia-Pacific region is picking up again, rising to nearly 48% at the end of June from a low of 46% a year earlier. But most of this increase reflects maturing long-term debt rather than an increase in financing with an original maturity of less than one year.[11]

Bank claims on Latin America and the Caribbean increased by $2 billion in the second quarter, the third consecutive quarter of inflows. Cross-border lending was directed mainly to Mexico, where total claims increased by $3.9 billion. Most of the inflows to Mexico in the second quarter were related to Spanish banks' acquisitions of local financial institutions. In Brazil, a decline in credit to the non-bank sector was offset by interbank flows. Total claims on Argentina contracted by $0.1 billion in the second quarter, owing principally to inter-office transactions. Excluding interbank activity, cross-border claims on Argentine borrowers actually increased in the second quarter, by $0.9 billion. Notably, international banks increased their holdings of securities issued by residents of Argentina at a time when spreads on Argentine debt widened sharply.

[11] See *BIS consolidated international banking statistics for end-June 2000*, 3 November 2000.

Developing countries in Europe, which received inflows of bank funds throughout the Asian, Russian and Brazilian crises, saw a $2.3 billion increase in cross-border claims in the second quarter. International banks reduced their claims on Russia by a further $1.4 billion, but lending to Turkey rose for the sixth consecutive quarter. The consolidated banking statistics show that cross-border bank financing in Turkey is increasingly short-term, with 60% of outstanding credit maturing in less than one year as of June 2000 compared to 56% a year earlier.

Deposits by developing countries soar

The ongoing contraction of bank credit to developing countries reflects in part weak demand for external financing. Despite strong growth in many countries, this year developing countries are expected to post their largest current account surplus in two decades.[12] The strengthening external position of oil-exporting countries is responsible for most of the improvement. As well as limiting external financing needs, this improvement contributed to a large increase in developing countries' deposits with foreign banks. In the first half of 2000, deposit flows from developing countries to international banks totalled $57 billion, nearly double the amount of deposits in the whole of 1999 (Table II.1.3).

Member countries of the Organization of the Petroleum Exporting Countries (OPEC) increased their deposits with international banks by $14 billion in the first half of 2000, compared to a negligible increase in 1999 and a drawdown of deposits in 1998. Iran, Kuwait, Libya, the United Arab Emirates and Venezuela accounted for most of the increase. Among non-OPEC oil-exporting countries, the largest increases in deposits were by Mexico and Russia, of $7 billion and $5.8 billion respectively. China, which is a large importer of oil but posts current account surpluses, deposited a record $22.4 billion in foreign currency with international banks in the first half of this year. Foreign currency

Table II.1.3

Developing country deposits with BIS reporting banks[1]

In billions of US dollars

	1998	1999				2000		Stocks at end-June 2000
	Year	Year	Q2	Q3	Q4	Q1	Q2	
Total deposits	**– 17.1**	**31.0**	**7.4**	**13.8**	**29.9**	**35.9**	**20.6**	**965.2**
Africa & Middle East	13.7	– 7.1	– 7.2	0.8	17.2	5.5	10.4	283.9
Iran	– 0.5	2.1	0.4	0.2	1.2	1.3	1.9	11.1
Saudi Arabia	13.3	–17.9	– 3.9	1.2	1.2	– 1.7	0.4	48.0
United Arab Emirates	2.3	– 9.2	– 3.9	– 0.5	1.7	1.3	2.0	43.9
Asia & Pacific	3.7	4.8	4.4	3.5	0.3	25.5	8.8	330.3
China	5.6	– 4.0	– 1.2	5.7	– 0.1	12.0	10.4	89.3
Europe	– 19.3	20.4	0.4	6.3	7.3	1.6	5.1	109.6
Russia	– 2.3	3.7	1.0	0.9	0.9	2.4	3.4	21.9
Latin America & Caribbean	– 15.2	12.9	9.7	3.2	5.1	3.4	– 3.8	241.5
Brazil	– 8.4	2.2	6.2	3.5	– 2.0	0.4	– 9.6	44.1
Mexico	0.3	4.1	0.6	1.8	0.0	3.5	3.5	54.3
Venezuela	2.5	0.1	0.9	– 0.4	1.0	1.4	1.1	28.8
Memorandum item: OPEC	*– 4.5*	*0.2*	*– 6.3*	*– 0.5*	*7.5*	*5.4*	*8.5*	*187.7*

[1] Exchange rate adjusted changes in amounts outstanding.

[12] See International Monetary Fund, *World Economic Outlook*, September 2000.

deposits in the Chinese banking system have been increasing rapidly, while foreign currency loans have not been showing much growth.[13] Chinese banks may have placed their surplus foreign exchange with international banks.

Asset managers in oil-exporting countries, as elsewhere, have become increasingly sophisticated, and the range of instruments in which surplus oil funds could be invested has broadened considerably over the past decade. Interestingly, Saudi Arabia reduced its deposits with international banks in the first half of 2000, suggesting that it used alternative channels to invest its growing current account surplus.[14] Owing to structural changes in asset management and capital markets, the international banking system's role in recycling petrodollars may not be as important today as it was in the 1970s.

[13] See the special feature "Foreign currency deposits of firms and individuals with banks in China" in the August 2000 issue of the *BIS Quarterly Review* for a discussion of the growth of foreign currency deposits in the Chinese banking system.

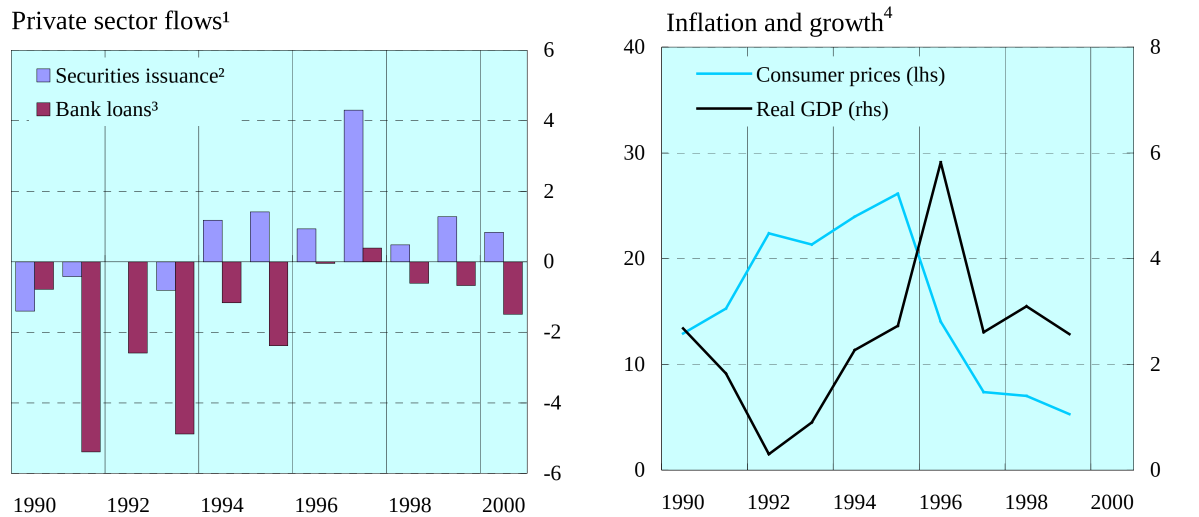
[14] The figures reported in Table II.1.3 possibly misstate the extent to which Saudi Arabia and other OPEC countries recycled their petrodollars through the international banking system since the United States does not provide a full country breakdown of its deposit liabilities.

International bank and securities financing in Africa

Elmar B Koch and Philip Wooldridge

Improvements in Africa’s macroeconomic performance and prospects have in recent years led to a modest turnaround in private capital flows to the continent (see the graph). Privatisation, financial sector reforms and macroeconomic stabilisation programmes contributed to an increase in international investment beginning in the mid-1990s. Foreign direct investment accounted for the bulk of the increase, rising to \$9 billion in 1999 from less than \$2 billion annually during the first half of the 1990s. Securities financing also picked up, exceeding \$1 billion in most years since 1994. Bank lending has yet to turn positive, but net repayments to banks in the BIS reporting area slowed substantially in the late 1990s.

Private sector flows, inflation and growth in Africa



[1] In billions of US dollars. Data for 2000 refer only to the first two quarters. [2] Gross issues minus repayments. Data include money market instruments and long-term bonds and notes. [3] Exchange rate adjusted changes in cross-border bank loans. From 1990 to 1995, data include changes in banks' holdings of securities and other assets. [4] Annual percentage change.

Sources: Bank of England; Capital DATA; Euroclear; IMF; ISMA; Thomson Financial Securities Data; BIS.

The international financial crises of the late 1990s dampened bank and securities flows to Africa but, in contrast to Asia or Latin America, the crises did not result in a retrenchment across the board by foreign creditors. Bank lending to many smaller countries remained stable during the late 1990s, and even increased to Egypt, Morocco and several other countries (see the table). Nevertheless, owing to significant outflows from Algeria, where political uncertainty weighed heavily on investors, and South Africa, total bank lending turned negative in 1998 and 1999 following the first year of net inflows – \$0.4 billion in 1997 – in over a decade. South Africa was able to refinance a portion of its bank outflows in capital markets; indeed, the country was the only African issuer active in the international debt securities market in 1998. Bond issuance by African borrowers in 1998 and 1999 was down substantially from 1997 levels, but issuance in 1997 had been abnormally high because of \$3.4 billion raised by residents of Mauritius.

In the first half of 2000, net repayments to international banks accelerated sharply, with South Africa, Angola and Zimbabwe experiencing the largest cutbacks in lending. Banks in the reporting area also drastically reduced their claims on Liberia, the only offshore centre in Africa.[①] Political strife has racked Angola, Zimbabwe and countries bordering Liberia for much of this year. Bank lending to Côte d’Ivoire increased in the first half of the year despite uncertainty about whether the government would meet payments due on its Brady bonds. In contrast to bank lending, securities issuance by African borrowers is on track to exceed 1999 levels.

Although Africa’s economic and financial weaknesses might be expected to limit its access to longer-term debt finance from private creditors, in fact maturities are not unduly concentrated at the short end. The maturity distribution of bank claims is similar to that of other developing countries: as of June 2000, 53% of banks’ claims

[①] Data for Liberia are not included in the graph or the table in this box.

on Africa matured within one year, compared to 47% in the Asia-Pacific region and 49% in Latin America (see the table). South Africa faces a heavy repayment schedule, with nearly two thirds of its international bank debts maturing within one year. Morocco and Algeria, the third and fourth largest bank debtors in Africa after South Africa and Egypt, have more favourable maturity profiles, with 32% of claims on them due within the next year. In the international debt securities market, African issuers tend to issue long-term bonds rather than money market instruments or other short-term securities. Nevertheless, issuers, especially those not regularly tapping markets, remain vulnerable to swings in market sentiment because payments tend to be bunched and the investor base for African securities is narrow.

As a result of strong trade and historical links, the bulk of lending and securities flows to Africa originate in Europe. The European Union accounts for nearly three quarters of total bank claims on Africa (see the table). France alone accounts for almost 30% of total claims, with French banks' exposure concentrated in Algeria, Morocco, Tunisia and the CFA franc zone. US banks are responsible for only 8% of all bank lending to Africa, of which more than half is to South Africa. The majority of outstanding bonds issued by African borrowers are denominated in US dollars, although South Africa is one of very few developing countries able to find a market for international debt securities issued in its own currency.

Bank credit to selected countries in Africa

	Locational banking statistics				**Consolidated banking statistics**			
	Loans[1]				**Banks' total claims**[2]	**Short-term claims**[3]	**Claims held by**[3]	
	1997	**1998**	**1999**	**2000 H1**			**EU banks**	**US banks**
Algeria	–2,054	–1,451	–1,148	– 242	5,110	32	79	5
Cameroon	– 25	– 74	80	204	2,022	69	99	0
Côte d'Ivoire	40	– 948	203	240	2,563	41	94	1
Egypt	628	1,138	97	446	7,222	57	66	8
Morocco	250	558	169	– 85	6,886	32	76	3
Nigeria	– 461	121	– 76	– 316	1,670	50	58	18
South Africa	1,295	– 608	– 959	– 849	18,739	63	55	15
Tunisia	331	80	215	– 138	2,855	41	78	4
Total Africa[4]	**392**	**– 611**	**– 676**	**–1,492**	**61,550**	**53**	**72**	**8**

[1] Exchange rate adjusted changes in cross-border bank loans, in millions of US dollars. [2] In millions of US dollars. Data include banks' holdings of debt securities and other assets. [3] As a percentage of total claims. [4] Excluding Liberia, which is grouped with offshore centres.

Notwithstanding the turnaround in private capital flows in the mid-1990s, Africa remains on the fringes of international banking and financial markets. The region accounts for approximately 7% of international banks' (consolidated) claims on developing countries, and only 3% of the outstanding stock of international bonds and notes issued by developing country borrowers. Loans and securities flows to Africa are highly concentrated in the larger and financially more developed countries of northern and southern Africa. Moreover, aside from South African borrowers, very few other African issuers are active in international capital markets. Political uncertainty (and the consequent risk of policy reversals), high debt levels, poor payment records and underdeveloped domestic financial systems are some of the obstacles to improved market access for many African countries.