

2. The international banking market

The first quarter of 2001 saw record activity in the international banking market. According to the locational banking statistics, cross-border claims of banks in the reporting area increased by \$704.3 billion, substantially higher than the previous peak of activity in the first quarter of 2000.¹ These flows were bloated by interbank activity in a recycling process that supported an unprecedented volume of cross-border lending to non-bank borrowers amounting to \$183.3 billion. The bulk of this lending went to non-banks in the United States. In Europe,² cross-border flows to non-banks were boosted by purchases of government securities, and in offshore centres by hedge fund activity.

Emerging economies as a group did not benefit from this expansion of international banking activity. New lending to Mexico, Korea, Brazil and eastern Europe in the first quarter was more than offset by cutbacks in claims on Argentina, Turkey and economies in East Asia and the Middle East. Coupled with continuing deposit flows from Asian and oil-exporting countries, this contraction in claims resulted in the eighth consecutive quarter of net outflows from emerging economies to banks in the reporting area.

Interbank activity reaches an all-time high

Lending in dollars and euros boosts interbank flows

The first quarter of 2001 was the busiest ever in the international interbank market. Cross-border lending to banks in developed countries totalled \$387.6 billion, a 70% increase over the fourth quarter of 2000, which itself was an exceptionally buoyant period in the interbank market (Table 2.1). The US dollar segment of the international interbank market remained very active, but

¹ The discussion that follows refers mainly to the BIS locational banking statistics, which are based on the residence of reporting banks and adjusted for quarterly movements in exchange rates. These data differ in certain important respects from the BIS consolidated banking statistics. For an explanation of the differences, see "Introduction to the BIS locational and consolidated international banking statistics" in the Statistical Annex. The consolidated statistics for the first quarter of 2001 were published in a BIS press release on 30 July 2001 and are reprinted in Table 9 in the Statistical Annex.

² Historical data for the euro area have been revised to include Greece, which joined European monetary union on 1 January 2001. Greece is not a reporting country.

Main features of cross-border claims of BIS reporting banks								
Exchange rate adjusted changes in amounts outstanding, in billions of US dollars								
	1999	2000					2001	Stocks at end-March 2001
	Year	Year	Q1	Q2	Q3	Q4	Q1	
Total claims	276.1	1,175.6	445.0	118.5	217.0	395.0	704.3	11,177.4
Interbank loans ¹	-222.6	648.8	285.2	-23.0	96.8	289.8	405.5	6,379.2
Loans to non-banks	103.3	66.0	26.5	-0.3	21.3	18.4	183.3	2,228.5
Securities ²	395.5	460.8	133.3	141.8	98.9	86.8	115.5	2,569.7
On developed countries	467.4	1,117.7	486.0	117.6	184.9	329.1	640.1	8,743.3
<i>of which: intra-euro³</i>	266.6	152.9	110.8	-11.8	27.5	26.5	130.5	1,668.9
Interbank loans ¹	24.8	662.0	337.6	8.7	88.7	227.1	387.6	5,086.2
Loans to non-banks	113.5	78.7	41.5	-12.8	26.9	23.1	159.5	1,520.1
Securities ²	329.0	376.9	107.0	121.7	69.3	78.9	93.0	2,137.0
On offshore centres	-102.3	49.6	-49.9	6.1	26.9	66.6	48.8	1,272.6
Interbank loans ¹	-139.2	-18.9	-63.3	-17.3	13.1	48.7	21.9	843.7
Loans to non-banks	9.4	18.8	-0.9	13.0	-2.0	8.7	17.4	259.4
Securities ²	27.5	49.7	14.3	10.4	15.8	9.2	9.4	169.5
On emerging economies	-68.9	-12.9	0.9	-3.6	-4.2	-6.0	-1.9	877.4
Interbank loans ¹	-58.5	-10.0	5.6	-10.1	-8.9	3.5	-8.5	324.5
Loans to non-banks	-16.6	-27.8	-16.2	0.2	-1.3	-10.6	4.5	398.9
Securities ²	6.1	24.9	11.4	6.3	6.1	1.2	2.1	154.1
Unallocated claims	-20.1	21.2	8.1	-1.5	9.4	5.3	17.3	284.1
<i>Memo: Syndicated credits⁴</i>	1,025.9	1,464.9	261.8	373.9	424.3	404.9	271.8	

¹ Includes inter-office transactions. ² Partly estimated. The data comprise mainly debt securities, but also include other assets, which account for less than 5% of total claims outstanding. ³ Cross-border claims of reporting banks in the euro area on residents of the euro area. ⁴ Signed new facilities.

Sources: Dealogic Capital Data; BIS locational banking statistics.

Table 2.1

even larger flows were seen in the euro segment. Owing principally to this high level of interbank activity, the euro accounted for 51% of the total increase in the foreign currency claims of banks in the reporting area, up from 20% in the fourth quarter of last year (Table 2.2).

Banks located in the United States were the most important source of cross-border dollar funding in the first quarter. Foreign demand for dollars to support purchases of US securities contributed to an unusually large \$70.3 billion increase in dollar lending by banks in the United States to banks abroad. Two thirds of this credit went to banks in Europe, mainly in the United Kingdom, Switzerland and Germany. Most of the remainder was channelled to own offices in the Caribbean.

Interbank activity involves US banks lending to European banks

Activity in the euro segment of the international interbank market centred on the United Kingdom. Banks' efforts to meet demand for domestic financing by borrowers in the euro area boosted cross-border euro lending to banks in the reporting area to \$246 billion in the first quarter. Activity within the euro area accounted for only one fifth of this interbank lending, while flows between the United Kingdom and the euro area accounted for slightly more than half.

Currency breakdown of international claims of BIS reporting banks ¹								
Exchange rate adjusted changes in amounts outstanding, in billions of US dollars								
	1999	2000					2001	Stocks at end-March 2001
	Year	Year	Q1	Q2	Q3	Q4	Q1	
Total claims	333.4	1,372.1	573.5	148.0	230.6	420.0	834.8	12,698.8
<i>of which: local claims²</i>	57.3	196.5	128.4	29.5	13.6	25.0	130.5	1,521.4
US dollar	32.6	522.1	151.7	74.3	105.7	190.4	298.1	5,360.8
Euro	464.6	516.7	301.4	55.1	74.6	85.6	427.0	3,482.6
<i>of which: intra-euro³</i>	295.4	140.5	106.6	– 8.4	20.4	21.8	112.3	1,357.3
Japanese yen	–207.0	105.3	29.6	30.4	– 10.0	55.3	– 1.4	884.5
Pound sterling	13.5	88.6	60.6	6.1	17.2	4.7	66.3	566.9
Swiss franc	37.7	8.8	34.4	– 29.2	8.9	– 5.2	14.3	321.2
Other and unallocated	– 8.0	130.5	– 4.2	11.2	34.3	89.2	30.5	2,082.7

¹ International claims in all currencies and local claims in foreign currencies. ² For a currency breakdown, see Table 5D in the Statistical Annex. ³ Euro-denominated international claims of reporting banks in the euro area on residents of the euro area.

Source: BIS locational banking statistics.

Table 2.2

London's banks prominent in euro lending

The large flows between London and the euro area in the first quarter reflect London's importance in the euro segment of the international interbank market. In terms of cross-border interbank business, London is the leading financial centre in the euro market. Indeed, London's importance has grown since the start of monetary union, its share of cross-border interbank claims in euros having increased from 21% to 25% between the first quarter of 1999 and the first quarter of 2001. Switzerland is also a major centre in the euro interbank market, conducting more euro cross-border business than all but three countries within the euro area. Banks in the United States and Japan do little interbank business in euros; it is likely that US and Japanese banks instead book euro transactions through their offices in London and other international banking centres. Relative to their role in the dollar interbank market, offshore centres play an insignificant role in intermediating euro-denominated flows to banks. Whereas international banks' US dollar-denominated liabilities to offshore centres (mainly to their own offices) exceed \$800 billion, their euro-denominated liabilities to offshore centres equal approximately \$100 billion (Table 2.3).

Flows to non-banks in the United States surge

Loan funds channelled to US borrowers

Dollar funds made available through the interbank market supported an exceptionally large increase in banks' cross-border claims on non-bank borrowers in the United States. Flows to US non-banks totalled \$124.1 billion, slightly more than in all of 2000 and over twice as much as the previous peak in the third quarter of 1997. The consolidated banking statistics indicate that virtually all of these flows went to the non-bank private sector, not public sector borrowers.

Cross-border interbank business in euros			
Outstanding stock of euro-denominated claims on banks, in billions of US dollars			
Reporting country	1999 Q1	2000 Q1	2001 Q1
Total of BIS reporting banks ¹	1,708.0	1,807.7	2,017.3
Euro area ²	1,152.6	1,175.8	1,267.0
Germany	336.3	334.9	394.0
France	245.3	219.4	236.3
Luxembourg	154.5	173.8	174.5
Netherlands	96.7	93.6	108.8
Italy	99.4	88.9	95.3
United Kingdom	364.4	394.3	497.3
Switzerland	133.4	162.2	142.0
Offshore centres ³	72.3	77.0	112.6
Japan	22.0	30.9	52.2
<i>Memo: United States⁴</i>	<i>80.6</i>	<i>63.6</i>	<i>71.1</i>

¹ Includes only those countries that report a currency breakdown. ² Excludes Greece, which is not a reporting country. ³ Data refer to BIS reporting banks' liabilities to offshore centres, which should be equivalent to offshore centres' euro-denominated claims on banks in the reporting area that report a currency breakdown. ⁴ Cross-border loans by banks in the United States in all currencies other than the US dollar. The United States does not report a currency breakdown for foreign currency claims, and only reports loans, not holdings of securities.

Source: BIS locational banking statistics. Table 2.3

Surprisingly, nearly 90% of the flows to US non-banks took the form of loans rather than securities purchases. The June 2001 issue of the *BIS Quarterly Review* had attributed part of the surge in corporate bond issuance in the first quarter of 2001 to the repayment of bank loans. This is consistent with lending patterns in the domestic banking market; US flow-of-funds data show that banks in the United States curtailed their local lending activity in the first quarter. By contrast, the locational banking statistics show that *cross-border* lending to non-banks in the United States accelerated.

The large increase in cross-border lending suggests that in addition to returning to bond markets in the first quarter, corporate borrowers drew on their credit lines with commercial banks even more heavily than they had in the final quarter of 2000. Foremost among those drawing on backup facilities were borrowers who had difficulty accessing the commercial paper (CP) market. For example, syndicated credits totalling \$6.5 billion were arranged for Lucent Technologies in the first quarter to help the firm meet its obligations after losing access to the CP market. Many of these backup facilities are funded by syndicates of international banks, and so drawdowns would be likely to have a greater impact on activity in the international banking market than in local markets.

International banks' indirect purchases of US securities via their local subsidiaries also help explain why cross-border lending to non-banks in the United States surged even while domestic lending slowed. Banks' direct cross-border purchases of securities issued by US residents (banks and non-banks)

Cross-border lending makes up for drop in local lending

Are bank subsidiaries buying US securities?

amounted to only \$22.8 billion in the first quarter, substantially less than purchases during 2000. This low level is surprising given the tremendous increase in issuance in the US corporate bond market in the first quarter and the record foreign purchases of US securities reported by the US Treasury (which are usually mirrored in the locational banking statistics but in the first quarter were not).³ What appears to have occurred is that banks in the reporting area extended credit to their securities subsidiaries in the United States to finance their purchases of corporate bonds and other US securities.

Banks located in the United Kingdom were the principal source of flows to non-banks in the United States, lending \$70.8 billion. However, according to the consolidated banking statistics, banks headquartered in Germany, Japan and Switzerland were ultimately responsible for most of the rise in claims on US residents. The locational data suggest that these banks provided funds to the United States through both their subsidiaries in London and their head offices.

Banks in Europe concentrate on securities purchases

Large flows to euro area public sector

In Europe too, cross-border flows to non-banks from banks in the reporting area accelerated in the first quarter. Claims on euro area non-banks increased by \$53.5 billion, and claims on UK non-banks by another \$38.7 billion. These are some of the largest ever flows to non-banks in Europe. In contrast to the rise in cross-border claims on non-banks in the United States, the increase for Europe was concentrated on public sector borrowers. Moreover, much of this activity originated within the euro area; flows from the rest of the world to non-banks in the European Union remained more or less unchanged at \$16.4 billion.

Virtually all of the cross-border flows to non-banks in the United Kingdom in the first quarter took the form of loans. Euro-denominated lending to the United Kingdom by banks in the euro area was especially strong. Much of this euro lending was driven by the pickup in euro-denominated issuance in the international debt securities market in the first quarter. Euro area banks appear to have channelled funds to their securities subsidiaries in London, which then increased their own inventories of bonds.⁴

Government securities account for bulk of flows

Banks in the reporting area employed funds made available through the euro segment of the cross-border interbank market to step up their purchases of securities issued by euro area residents. Government securities appear to have accounted for the bulk of banks' cross-border purchases. The German

³ The US Treasury's international capital reporting system shows that net purchases of long-term US securities by foreigners equalled \$156.7 billion in the first quarter. Foreign purchases totalled \$456.3 billion in 2000.

⁴ In the locational banking statistics, securities subsidiaries are classified as non-banks. In the consolidated banking statistics, the claims of these subsidiaries are consolidated with those of the parent bank. This consolidation can result in significant differences between the locational and consolidated banking statistics.

and Italian governments issued large amounts of debt in the first quarter, and some of this was taken up by banks, mainly euro area banks. ECB data covering domestic as well as cross-border banking activity within the euro area show that euro area banks also purchased substantial amounts of securities issued locally by corporations and other non-financial entities.

Hedge fund activity boosts flows to non-banks in offshore centres

The first quarter saw strong demand for bank credit by non-bank borrowers in offshore centres. Cross-border claims increased by \$24.1 billion, with loans accounting for much of the rise. Three quarters of these flows went to non-banks in the Cayman Islands, including hedge funds. Banks in the United Kingdom provided a little less than half of the funds, and banks in the United States, euro area and Japan the remainder.

Lending flows go to Cayman Islands

Repurchase agreements with hedge funds and international mutual funds were behind part of the rise in claims on non-banks. A large number of hedge funds and many mutual funds are domiciled in the Cayman Islands and other offshore centres. Mutual funds' use of leverage is typically limited, but hedge funds frequently engage in repos to achieve their desired leverage ratio. Hedge funds reportedly enjoyed very strong inflows of share capital in the first quarter of 2001.⁵ This could in turn have led to increased borrowing by hedge funds from banks in the reporting area.⁶

Yen lending was also a contributing factor in the rise. Yen-denominated claims on non-banks in offshore centres rose by \$6.3 billion in the first quarter. Banks in Japan extended financing to special purpose vehicles in the Cayman Islands to purchase and securitise yen loans.

Banks distinguish weaker emerging economies from stronger ones

In contrast to the large amounts lent to non-bank borrowers in developed countries and offshore centres in the first quarter of 2001, banks in the reporting area continued to cut back their claims on emerging economies. Nevertheless, despite deteriorating conditions in some emerging economies, the contraction in claims was relatively small, at \$1.9 billion. Even if new lending was limited, there were no signs of a broad-based retrenchment by international banks (Graph 2.1 and Table 2.4). In the first quarter at least, banks appeared to make distinctions across countries according to their perceived credit quality, pulling back from countries facing specific problems while continuing to lend to countries with favourable prospects.

Banks discriminate while continuing to cut back on emerging economies

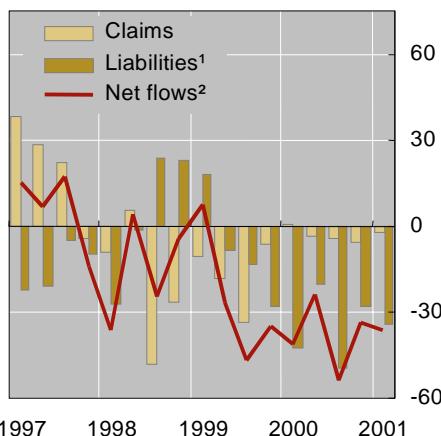
⁵ TASS Research reports that net asset flows into hedge funds totalled \$6.9 billion in the first quarter of 2001, compared to \$8 billion during the whole of 2000.

⁶ For a discussion of hedge fund activity in offshore centres, see the article by Liz Dixon, "Financial flows via offshore financial centres as part of the international financial system", in the June 2001 issue of the Bank of England's *Financial Stability Review*.

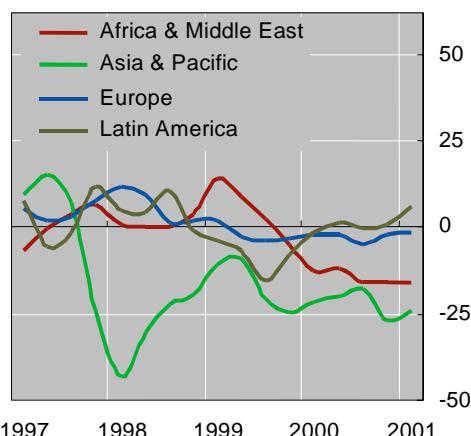
Banks' external positions vis-à-vis emerging economies

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

Total bank flows



Bank flows by region^{2,3}



¹ A negative (positive) value indicates an increase (decrease) in BIS reporting banks' liabilities vis-à-vis emerging economies. ² Changes in claims minus changes in liabilities. ³ Two-quarter moving average.

Source: BIS locational banking statistics.

Graph 2.1

Turkey suffers from retreat by banks ...

Bank flows to Turkey turned around sharply in the first quarter of 2001, following the emergence of strains in the banking system and the flotation of the currency. After benefiting from the largest increase in cross-border claims among emerging economies in 2000, Turkey experienced the largest contraction in claims: \$2.3 billion. Claims on banks accounted for most of the decline, as only the top tier of Turkish banks retained access to the international syndicated credit market in the first quarter. Cross-border claims on Turkey are likely to have declined again in the second quarter after the central government repaid in June a \$1 billion loan hastily arranged in December 2000.

... as does Argentina ...

Uncertainty about Argentina's short-term prospects led banks in the first quarter to cut back their claims on that country by \$2.2 billion, or 5% of outstanding claims. Banks have been hesitant to commit funds to Argentina since 1998, when cross-border claims peaked at \$50 billion. Argentina's access to the international banking market now appears to have deteriorated further. In the second quarter of 2001, Argentine borrowers were able to raise only \$200 million in the international syndicated loan market, the smallest amount since 1995. Another noteworthy development was the decline in international banks' liabilities vis-à-vis Argentina. Banks in Argentina withdrew a record \$6.1 billion in deposits from banks in the reporting area in the first quarter. Some of these deposits had been part of the central bank's foreign exchange reserves.

While reducing their exposure to Turkey and Argentina, banks in the reporting area put new money into Mexico, Brazil and countries in accession

Banks' external positions vis-à-vis emerging economies									
Exchange rate adjusted changes in amounts outstanding, in billions of US dollars									
	1999	2000					2001	Stocks at end-March 2001	
	Year	Year	Q1	Q2	Q3	Q4	Q1		
Total claims	– 68.9	– 12.9	0.9	– 3.6	– 4.2	– 6.0	– 1.9	877.4	
Africa & Middle East	0.2	– 7.9	– 6.3	– 1.0	– 1.6	1.0	– 5.4	142.9	
Saudi Arabia	2.0	0.0	– 1.2	– 0.1	0.0	1.3	– 1.9	23.9	
Asia & Pacific	– 61.8	– 29.3	3.0	– 7.3	– 6.7	– 18.3	– 1.2	275.2	
Mainland China	– 17.1	– 5.4	0.1	– 3.4	– 1.7	– 0.5	– 1.7	56.5	
Taiwan, China	– 3.3	– 4.2	1.3	– 0.1	– 1.1	– 4.3	– 0.2	14.5	
Europe	8.9	10.8	– 0.4	2.6	0.2	8.4	0.2	167.8	
Russia	– 6.5	– 6.6	– 1.4	– 1.4	– 3.2	– 0.6	– 1.2	33.9	
Turkey	5.8	11.2	2.7	2.7	2.5	3.4	– 2.3	46.0	
Latin America	– 16.2	13.6	4.6	2.1	3.9	3.0	4.5	291.5	
Argentina	0.6	1.2	– 1.2	– 0.1	2.3	0.2	– 2.2	44.5	
Brazil	– 8.9	9.5	1.5	0.2	3.2	4.6	2.8	97.4	
Total liabilities ¹	32.1	140.5	42.3	20.5	49.8	27.9	34.4	1,065.6	
Africa & Middle East	– 7.1	46.7	7.6	8.4	20.8	9.9	17.1	327.4	
Saudi Arabia	– 17.9	10.8	– 0.4	– 0.9	7.2	4.9	4.5	64.0	
Asia & Pacific	4.9	64.9	26.6	9.5	12.0	16.7	11.4	364.5	
Mainland China	– 3.9	35.7	12.0	10.4	5.1	8.1	0.4	101.3	
Taiwan, China	7.5	19.2	0.0	0.6	6.1	12.5	3.3	66.7	
Europe	20.5	19.4	1.9	4.7	7.7	5.1	6.1	126.3	
Russia	3.8	7.2	2.4	3.4	3.1	– 1.8	3.7	26.9	
Turkey	3.3	2.2	0.0	– 0.6	0.2	2.6	– 1.3	19.0	
Latin America	13.8	9.6	6.3	– 2.1	9.3	– 3.8	– 0.2	247.5	
Argentina	0.1	3.2	0.4	0.1	3.7	– 1.0	– 5.9	34.3	
Brazil	2.2	– 4.6	1.2	– 8.9	2.3	0.7	– 2.3	44.9	
Net flows ²	– 101.0	– 153.4	– 41.4	– 24.1	– 54.0	– 33.9	– 36.3	– 188.2	
<i>Memo:</i>									
OPEC members' deposits	– 19.7	37.4	2.6	10.5	16.8	7.4	12.5	243.1	

¹ Mainly deposits. Other liabilities account for less than 1% of the total liabilities outstanding. ² Total claims minus total liabilities.

Source: BIS locational banking statistics.

Table 2.4

negotiations with the European Union. Cross-border claims on Mexico increased by \$4 billion. Brazilian borrowers, who had been active in the samurai market in the first quarter of 2001, also tapped banks for yen funding; yen lending to banks accounted for approximately one third of the \$2.8 billion increase in cross-border claims on Brazil. Among EU applicant countries, Poland received \$1 billion from banks in the reporting area, mainly through purchases of zloty-denominated government securities. Banks lent another \$0.9 billion to Cyprus and \$0.8 billion to the Czech Republic.

... but banks help Mexico and Brazil

Even though emerging economies in East Asia, especially those dependent on exports of electronic equipment, have been adversely affected by the economic slowdown in the United States, weaker growth prospects have not greatly impacted international banking activity in the region so far.

Repayments by Asian borrowers in the first quarter again exceeded new lending, resulting in a \$1.2 billion decline in claims on emerging economies in Asia. China and Thailand experienced the largest contraction in claims, \$1.7 billion and \$1 billion respectively. Claims on Korea increased by \$3.2 billion, mainly owing to repo transactions between US banks and Korean securities firms. Claims on Malaysia also increased, by \$0.4 billion, the second consecutive quarterly rise. Several Malaysian entities, including the central government, tapped international bond markets in late 2000 and early 2001, and banks in the reporting area appear to have purchased a portion of these issues.

East Asian deposits remain strong ...

As well as paying down their external debt, East Asian residents continued to deposit surplus foreign exchange abroad. International banks' liabilities vis-à-vis emerging economies in East Asia increased by \$11.4 billion in the first quarter, in line with deposit flows during 2000. Banks in Korea placed \$4.4 billion abroad, and banks in Indonesia \$1.5 billion. However, deposit flows from Taiwan, China (hereinafter referred to as Taiwan), which had picked up sharply in the latter half of 2000, slowed to \$3.3 billion (see the special feature on pages 49-56). Outflows from mainland China also slowed substantially. Rather than placing surplus foreign exchange with banks in the reporting area, in the first quarter residents of Taiwan and mainland China appeared to prefer to invest directly in dollar debt instruments. The US Treasury's international capital reporting system shows a marked increase in their holdings of US Treasury and agency bonds and other US debt securities in the early months of 2001.

... as do deposits from oil exporters

High oil prices supported further deposit flows from oil-exporting countries. The first quarter of 2001 saw another large increase in international banks' liabilities vis-à-vis OPEC members: \$12.5 billion. Saudi Arabia remained the largest depositor, placing \$4.5 billion, followed by the United Arab Emirates with \$4.1 billion. At the same time, the two countries stepped up repayments to banks in the reporting area. Since the end of 1998, when oil prices began to increase, the outstanding stock of cross-border claims on OPEC members has fallen by 18% to \$126.9 billion, and banks' liabilities to OPEC members have increased by 14% to \$243.1 billion.

Syndicated credits: US borrowers return in the second quarter

Blaise Gadanecz

Syndicated lending activity rebounded in the second quarter of 2001 to a record high of \$431 billion. On a seasonally adjusted basis, signings rose by 13%, reversing the trend of the previous two quarters. The rebound was led by borrowers from the United States, for whom banks arranged credits totalling \$294 billion. EU nationals were also more active, raising \$85 billion. In contrast, the volume of deals for borrowers in emerging economies remained virtually unchanged at \$14 billion.

Some of the largest loans in the second quarter were arranged for borrowers who typically meet a large part of their short-term financing needs in the money markets rather than the loan market. US commercial banks raised a record \$24.3 billion. General Motors Acceptance Corporation, a large issuer in the commercial paper market, signed a \$14.7 billion facility. IBM Credit and American Express, also active in the CP market, arranged facilities for \$12 billion and \$9 billion respectively.

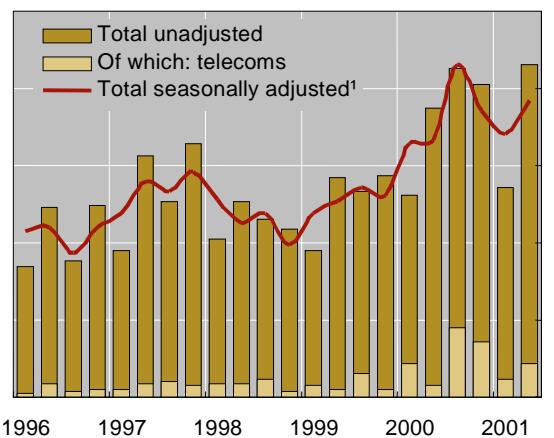
Telecommunications firms appear to have found bank financing more attractive than bond financing in the second quarter. Whereas bond issuance by telecoms slowed between the first and second quarters (see page 26), syndicated lending to telecoms almost doubled, to \$43 billion. Nevertheless, signings remained substantially less than in the latter half of 2000. Most of the telecoms activity in the second quarter involved the rolling-over of facilities contracted in 1999 and 2000. For example, Vodafone AirTouch raised \$13.3 billion to refinance part of a revolving credit signed in September 2000.

Lending to emerging economies remained low in the second quarter. Korean, Mexican and South African borrowers were the most active. Old Mutual, a South African insurance firm, raised \$1.3 billion in the sterling market to finance a takeover bid. Despite their problems, Argentina and Turkey managed to raise small amounts of new funding, \$200 million and \$600 million respectively. The funding for Argentina was raised by a gas company to finance a maturing bond and carried insurance against political risks such as the imposition of capital controls. In Turkey, the central government raised funds to finance public works. The only non-government Turkish borrower to sign a facility was a firm supported by the International Finance Corporation, the World Bank's private finance arm. Turkish banks, which had raised a limited amount of financing in the syndicated loan market in the first quarter, were absent in the second.

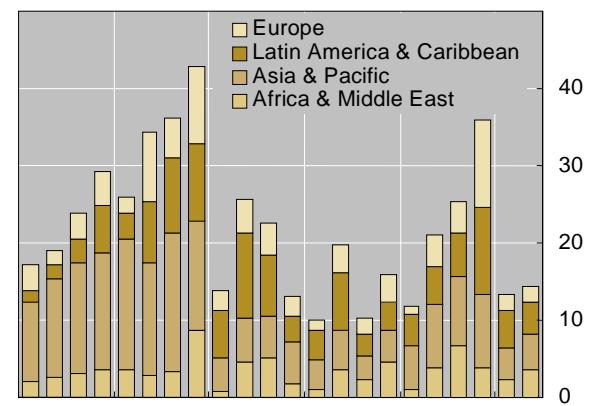
Activity in the international syndicated credit market

In billions of US dollars

Signed facilities



Facilities for emerging economies



¹ Using the US Census Board's X12 Arima seasonal adjustment process.

Sources: Dealogic Capital Data Loanware; BIS.