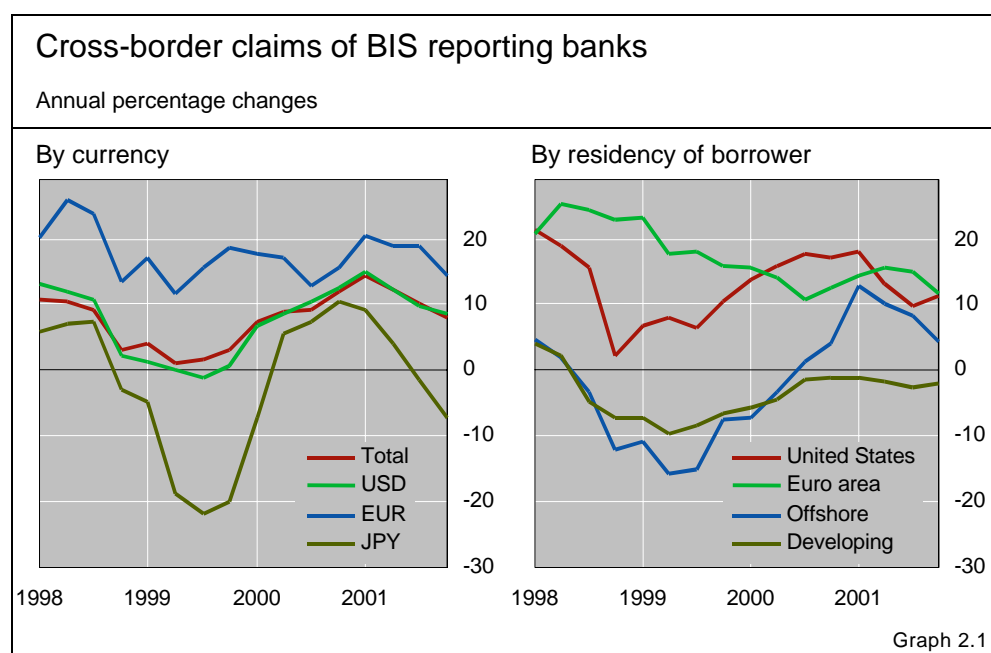


2. The international banking market

In the fourth quarter of 2001, the global economic slowdown continued to depress activity in the international banking market. The growth rate of cross-border bank credit slowed further to 8% year over year in the fourth quarter, down from a peak of 14% in the first. Inter-office transfers and increased purchases of US securities supported activity in the dollar market. However, activity in the euro and yen markets remained weak. Indeed, in Europe subdued corporate demand for bank credit and efforts by firms to reduce their reliance on short-term debt resulted in the first quarterly contraction in cross-border euro claims since European monetary union.

In emerging economies, inflows from banks in the reporting area picked up for the second consecutive quarter. Claims on Southeast Asia increased for the first time since the financial crisis there. Net flows to northern Asia and oil-exporting countries were also positive, although this was because of a withdrawal of deposits from banks abroad rather than a rise in lending. Banks increased their claims on Russia and other eastern European borrowers during the fourth quarter but reduced their exposure to Argentina. At the same time, to meet their need for dollar liquidity, banks in Argentina repatriated record amounts of funds placed abroad.



Securities purchases boost claims on the United States

International banking activity continues to decelerate ...

After adjusting for exchange rate movements, cross-border claims of banks in the BIS reporting area increased by \$211 billion between end-September and end-December 2001, to \$11.5 trillion (Table 2.1). While this is a turnaround from the declines recorded in the previous two quarters, activity in the fourth quarter is typically stronger than in other periods because inter-office business tends to rise towards the end of the calendar year. On a year-over-year basis, activity in the international banking market continued to decelerate (Graph 2.1, left-hand panel).

... despite an increase in claims on the United States

The growth of cross-border claims on the United States picked up modestly in the fourth quarter, accelerating to 11% year over year from 10% in the third quarter (Graph 2.1, right-hand panel). This pickup reflects both large inter-office flows and increased purchases of US securities. Following its acquisition of a US branch, a UK bank shifted some dollar positions from the United States to the United Kingdom, thereby boosting interbank claims on the United States. Claims on non-bank borrowers located in the United States increased by \$34 billion, 70% of which was in the form of securities. Banks in Japan were the single most important source of cross-border funding for US non-banks. According to data from the US Treasury, Japanese residents purchased record amounts of US bonds in the fourth quarter, mainly US Treasury securities. Banks in the euro area also extended significant amounts of credit to US non-banks in the fourth quarter.

Despite the rise in claims on the United States, activity in the dollar market continued to slow, falling to 9% year over year in the fourth quarter from 10% in the third (Graph 2.1, left-hand panel). The pickup in flows to the United States was offset by weak dollar flows to offshore centres. In fact, US and European banks transferred large amounts from their offices in the Bahamas and the Cayman Islands to their subsidiaries in London, resulting in a substantial outflow of dollars from the Caribbean to the United Kingdom.

Bank lending to European corporations slows

Banks unwind euro-denominated interbank positions ...

The growth of the euro market decelerated further in the fourth quarter of 2001, falling to 15% year over year from 19% in the third quarter (Graph 2.1, left-hand panel). Indeed, in the fourth quarter cross-border euro-denominated claims contracted for the first time since European monetary union, by \$21 billion (Table 2.1). Interbank lending, in particular lending between unaffiliated banks (as opposed to inter-office transfers), fell by even more, as banks in the euro area unwound their cross-border positions on each other and on banks in the United Kingdom. Interbank loans typically have short maturities, and so this unwinding process contributed to a significant drop in banks' international claims with a remaining maturity of one year or less, to 50% of consolidated claims on euro area residents in the fourth quarter from 52% in the third.¹

¹ "BIS consolidated international banking statistics for the fourth quarter of 2001", BIS Press Release 11/2002E, 8 May 2002.

Cross-border claims of BIS reporting banks								
Exchange rate adjusted changes in amounts outstanding, in billions of US dollars								
	2000	2001	2000	2001				Stocks at end-Dec 2001
	Year	Year	Q4	Q1	Q2	Q3	Q4	
Total claims	1,194.9	850.9	393.2	733.4	-90.0	-3.4	210.9	11,482.7
By instrument								
Loans and deposits	734.0	617.2	309.0	605.3	-96.4	-42.4	150.7	8,752.6
Securities ¹	460.9	233.7	84.1	128.1	6.4	39.0	60.2	2,730.2
By currency								
US dollar	513.2	405.0	210.3	231.1	-11.1	6.5	178.5	5,215.9
Euro	432.4	433.4	66.4	400.2	5.0	48.7	-20.5	3,282.8
Japanese yen	94.7	-65.2	61.5	-6.0	-14.8	-52.4	8.0	715.2
Other currencies ²	154.7	77.6	55.0	108.1	-69.2	-6.2	44.8	2,268.8
By sector of borrower								
Banks	907.5	388.1	348.2	458.5	-161.8	-27.2	118.6	7,554.8
Own offices	408.3	444.9	159.0	185.3	-65.5	92.8	232.3	3,794.6
Non-banks	287.5	462.8	45.0	274.9	71.9	23.9	92.2	3,927.9
By residency of borrower								
Developed countries	1,132.9	794.2	326.8	662.3	-53.5	-2.3	187.8	8,900.1
Europe	810.6	556.0	228.3	525.3	-38.5	-4.5	73.7	5,773.6
Intra-euro area ³	144.9	169.6	19.6	118.3	32.5	12.2	6.5	1,405.8
Japan	-12.0	-23.7	39.4	-1.6	-25.1	-24.8	27.9	517.1
United States	309.2	233.8	40.9	129.5	13.6	19.4	71.2	2,335.8
Offshore centres	51.5	55.6	66.5	50.5	-26.5	7.2	24.4	1,469.7
Emerging economies	-11.7	-19.4	-5.8	2.7	-8.6	-11.2	-2.2	865.8
Unallocated ⁴	22.3	20.6	5.7	18.0	-1.3	3.0	0.9	247.1
<i>Memo: Local claims⁵</i>	198.5	93.9	17.6	122.0	-31.5	3.7	-0.3	1,564.7

¹ Mainly debt securities. Other assets account for less than 5% of total claims outstanding. ² Including unallocated currencies. ³ Euro-denominated cross-border claims of reporting banks domiciled in the euro area on residents of the euro area. ⁴ Including claims on international institutions. ⁵ Foreign currency claims on residents of the country in which the reporting bank is domiciled.

The contraction of euro interbank lending mainly reflects the economic slowdown in the euro area in the second half of 2001 and the consequent weakening of corporate and household demand for bank credit. In addition, loan demand was depressed by euro area firms' bond-financed redemption of short-term bridge loans taken out in 2000 and 2001 to support mergers and acquisitions and purchases of third-generation mobile telephone licences.² Euro area corporations, including telecoms, raised substantial amounts in domestic and international bond markets in the fourth quarter of 2001, and used part of these proceeds to pay down their short-term debt. In both the US dollar and euro markets, non-financial corporations have steadily reduced their reliance on short-term debt since late 2000, a development most apparent in

... as firms pay down their short-term debt

² European Central Bank (2002): "Financing and financial investment of the non-financial sectors in the euro area up to the third quarter of 2001", *ECB Monthly Bulletin*, March, pp 12-15.

securities markets but which also had an impact on loan markets (see “Overview” on page 1).

Despite weaker corporate demand for bank credit, the growth of cross-border claims on euro area non-banks remained stable in the fourth quarter, at 14% year over year. In absolute terms, claims on euro area non-banks increased by \$35 billion. Lower lending and investment flows to corporations appear to have been offset by increased cross-border flows to governments. Banks domiciled in Belgium accounted for nearly one third of the increase in claims on euro area non-banks during the fourth quarter, and all of this amount was invested in government securities. According to the consolidated international banking statistics, Belgian banks’ claims on public sector borrowers increased to 34% of their international claims on the euro area at end-December 2001 from 29% at end-September.

Bank consolidation reduces yen interbank lending

Yen interbank claims contract further ...

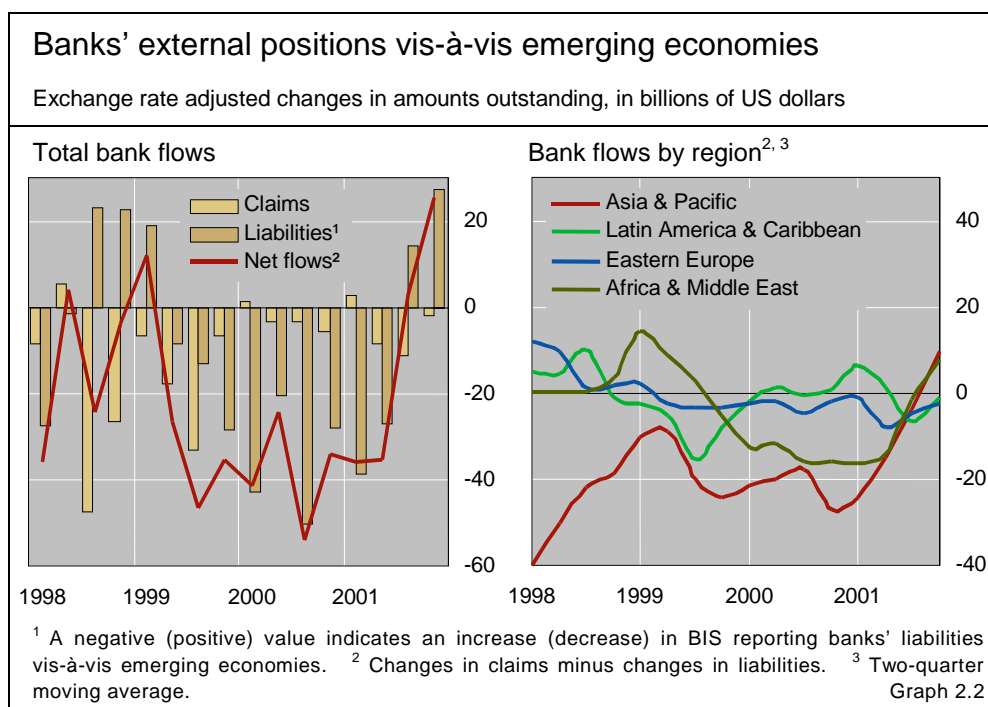
In the yen segment of the international banking market, activity continued to weaken. Although yen-denominated cross-border claims increased by \$8 billion in the fourth quarter, this increase was much smaller than is usual towards the end of the calendar year; on a year-over-year basis, claims contracted by 7% (Graph 2.1, left-hand panel). Interbank claims contracted by even more, as banks in Japan further reduced their yen claims on non-residents. As in the third quarter, consolidation in the Japanese banking sector partly explains the repatriation of yen funds to Japan. For example, one Japanese bank closed its office in Hong Kong SAR and shifted positions back to Japan. Some foreign banks shifted yen positions from their offices abroad to their offices in Tokyo.

... even as yen lending to non-banks and emerging markets picks up

Yen-denominated claims on some borrowers did increase in the fourth quarter. Yen claims on non-banks increased by \$17 billion, boosted by lending to non-banks in the United States. Yen claims on emerging economies also grew rapidly, rising by \$2 billion in the quarter and by 14% for the year as a whole. Nevertheless, at end-December 2001 yen claims accounted for only 4% of the outstanding stock of cross-border claims on emerging economies, compared to 54% for the US dollar and 14% for the euro.

Withdrawals boost bank flows to emerging economies

Despite the growth of yen-denominated claims, cross-border bank claims on emerging economies continued to contract, down by \$2 billion in the fourth quarter and by 2% from their level a year ago. More noteworthy, however, was the sharp drop in banks’ liabilities to emerging economies. After depositing \$249 billion with banks in the reporting area between mid-1999 and mid-2001, residents of emerging economies withdrew \$42 billion from those same banks in the second half of 2001 (Table 2.2). This resulted in substantial flows from banks in the reporting area to emerging economies for the first time in nearly three years (Graph 2.2, left-hand panel). Bank flows to all regions other than



emerging Europe turned positive. However, the factors behind changes in banks' cross-border positions varied significantly across regions.

The turnaround in flows was most pronounced in Southeast Asia. In the fourth quarter of 2001, net flows from banks in the reporting area to Indonesia, Malaysia, the Philippines and Thailand as a group turned positive for the first time since the devaluation of the Thai baht in July 1997. Deposits by Southeast Asian residents remained more or less unchanged in the fourth quarter. The turnaround in net flows was instead driven by an increase in bank lending and securities purchases. In particular, cross-border claims on the Philippines rose by \$2 billion, on Malaysia by \$1.8 billion and on Thailand by \$1.4 billion. Malaysian and Thai borrowers were also active in the international syndicated loan market in the first quarter of 2002, suggesting that the increase in cross-border claims continued into the new year (see "International syndicated credits in the first quarter of 2002" on page 22). Indonesia was the exception; cross-border bank claims on Indonesian residents contracted by a further \$0.8 billion during the fourth quarter.

Interbank lending accounted for nearly all of the expansion in claims on Malaysia and Thailand, and 70% of the increase vis-à-vis the Philippines. Approximately half of the inflows to the Philippines were denominated in yen, as were two thirds of the inflows to Thailand. The remainder was denominated principally in US dollars. Banks' purchases of samurai bonds issued by the Philippine and Thai governments during the fourth quarter of 2001 appear to explain part of the rise in yen claims. In addition, the attractiveness of dollar-denominated borrowings relative to local currency debt was increased by the large decline in US interest rates and the stability of local exchange rates against the dollar in the latter part of 2001.

In northern Asia, inflows from banks in the reporting area exceeded outflows for the second consecutive quarter. In contrast to Southeast Asia,

Claims on Southeast Asia increase for the first time since 1997

Asians and oil exporters withdraw deposits

withdrawals of deposits from banks abroad rather than increases in claims lay behind this shift. Residents of mainland China and Taiwan, China (hereinafter Taiwan) had deposited large sums with banks in the reporting area between mid-1999 and mid-2001 (see “Following Chinese banks’ foreign currency liquidity” on page 18). In the latter half of 2001, the decline in short-term dollar interest rates led them to withdraw some of these deposits. However, according to data from the US Treasury, residents of mainland China continued to purchase longer-term dollar bonds.

Cross-border positions of BIS reporting banks vis-à-vis emerging economies

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

	Banks' position ¹	2000	2001	2000	2001				Stocks at end-Dec 2001
		Year	Year	Q4	Q1	Q2	Q3	Q4	
Total ²	Claims	-11.7	-19.4	-5.8	2.7	-8.6	-11.2	-2.2	865.8
	Liabilities	141.9	24.0	28.2	38.7	26.9	-14.2	-27.4	1,086.2
Argentina	Claims	1.2	-5.9	0.2	-1.7	1.6	-2.1	-3.7	40.8
	Liabilities	3.2	-16.5	-1.0	-6.0	2.3	-1.7	-11.1	23.9
Brazil	Claims	9.5	0.7	4.6	4.0	0.1	-0.9	-2.5	94.9
	Liabilities	-4.6	0.4	0.7	-2.6	2.2	4.9	-4.2	47.4
Chile	Claims	0.3	0.4	-0.5	0.5	0.4	-0.5	0.1	19.0
	Liabilities	-1.5	-1.2	0.4	-0.3	0.2	-0.6	-0.6	14.4
China	Claims	-5.4	-3.6	-0.4	-1.8	1.5	-2.7	-0.6	54.1
	Liabilities	35.8	-6.4	8.1	0.6	3.5	-6.6	-3.9	93.9
Indonesia	Claims	-3.6	-5.4	-0.4	-0.8	-1.5	-2.3	-0.8	35.1
	Liabilities	-1.0	1.1	-0.4	1.5	-0.7	-0.4	0.7	14.0
Korea	Claims	-4.7	-0.2	-9.3	3.3	-2.6	1.0	-2.0	62.3
	Liabilities	-1.7	1.7	-6.9	4.6	-2.2	-2.4	1.7	28.7
Mexico	Claims	-1.0	4.6	-3.8	4.9	-0.2	-1.5	1.4	62.6
	Liabilities	7.1	9.4	-1.6	3.2	0.6	4.7	0.9	63.3
Russia	Claims	-6.6	1.3	-0.6	-1.2	0.3	0.1	2.1	36.4
	Liabilities	7.2	5.2	-1.8	3.8	2.6	-2.8	1.7	28.4
Saudi Arabia	Claims	0.1	-2.4	1.4	-1.9	0.1	-1.6	1.0	23.5
	Liabilities	10.9	-9.7	4.9	4.7	-1.4	-5.8	-7.3	51.3
South Africa	Claims	0.6	-0.4	0.6	0.5	-0.5	0.8	-1.1	17.8
	Liabilities	0.4	2.2	-1.0	1.2	0.6	1.1	-0.9	16.1
Thailand	Claims	-7.7	-3.5	-3.3	-1.0	-0.8	-3.1	1.4	23.1
	Liabilities	1.9	1.3	1.8	0.3	1.0	-0.5	0.5	15.5
Turkey	Claims	11.3	-12.0	3.4	-2.2	-5.1	-0.9	-3.7	36.4
	Liabilities	2.3	-2.1	2.6	-1.2	0.4	0.8	-2.1	18.3
<i>Memo:</i>									
<i>EU accession countries³</i>	<i>Claims</i>	5.2	6.7	2.9	3.4	-0.5	1.8	1.9	70.4
	<i>Liabilities</i>	5.5	9.9	3.0	4.5	-0.2	0.9	4.8	63.2
<i>OPEC members</i>	<i>Claims</i>	-11.8	-14.1	-1.5	-7.2	-2.8	-4.7	0.6	125.4
	<i>Liabilities</i>	37.8	-2.6	7.6	13.3	2.1	-9.4	-8.6	243.4

¹ Liabilities comprise mainly deposits. Other liabilities account for less than 1% of the total outstanding. ² All developing countries. ³ Countries in accession negotiations with the European Union, ie Bulgaria, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic and Slovenia.

Table 2.2

Following Chinese banks' foreign currency liquidity

Guonan Ma and Robert N McCauley

The growth of China's official foreign exchange reserves – a \$67 billion increase in the last three years – is well known. The even larger build-up of foreign currency liquidity in banks in China is less well known (Table A). To improve returns on such surplus dollars while strengthening Hong Kong SAR's role as a financial centre, Governor Dai of The People's Bank of China proposed in February to funnel this banking system liquidity into Hong Kong's financial markets. This box measures the recent growth of foreign currency liquidity in China, both official foreign exchange reserves and funds in the banking system, and traces its flow into the international banking system and overseas securities markets.

Foreign currency deposits of non-banks resident in China have grown very rapidly in recent years. These deposits have accumulated principally at Chinese banks on the mainland, but also in banks offshore (including in Chinese banks' affiliates in Hong Kong and elsewhere) and at foreign banks in mainland China, which until recently could only serve foreign firms and individuals. Increased individual dollar deposits represent most of the recent growth. Our focus here is on the use of onshore foreign currency deposits; in the next *BIS Quarterly Review*, we will explore the interest rate differentials and other factors behind their rapid growth.^① The growth of foreign currency *lending* in China has not kept pace with the deposit growth – quite the contrary, as borrowers have been paying such loans down. The resulting surplus foreign currency liquidity in onshore banks has rivalled the growth of China's official reserves. Over the last three years, the rise in foreign currency deposits in banks on the mainland, combined with the decline in foreign currency loans, amounted to \$75 billion, a sum larger than the increase in China's official foreign exchange reserves (Table B).

Where does the surplus dollar liquidity of the banks on the mainland go? Publicly available data do not permit this question to be answered for China's banking system alone, but it can be answered for the official and banking sectors in aggregate. Taken together, Chinese data suggest

A. Foreign currency bank deposits of non-banks in mainland China

End of period, in billions of US dollars

	1992	1995	1998	2000	2001
Total	60.7	69.7	97.3	145.6	154.5
In mainland China (onshore)	57.9	66.7	93.0	134.8	142.6
Locally owned banks	56.1	63.6 ¹	88.5 ¹	128.3	134.9
Individuals	9.4	15.9 ¹	41.3 ¹	73.0	81.6
Firms	26.7	29.3 ¹	38.5 ¹	46.0	45.3
Others	20.1	18.4 ¹	8.8 ¹	9.3	8.0
Foreign banks ²	1.8	3.1	4.6	6.5	7.8
Offshore ³	2.8	2.9	4.3	10.9	11.9
<i>Memo:</i>					
<i>In locally owned banks as a percentage</i>					
<i>of total renminbi deposits</i>	12.3	8.7	8.3	8.6	7.8
<i>Foreign exchange reserves</i>	19.4	73.6	145.0	165.6	212.2

¹ Dollar deposits estimated using individual bank data from *Almanac of China's banking and finance*. ² Onshore foreign currency deposits at foreign banks operating in mainland China are estimated as their total deposits, assuming that they are all foreign currency denominated. ³ Non-bank Chinese deposits at BIS reporting banks.

Sources: The People's Bank of China; *Almanac of China's banking and finance*; BIS; authors' estimates.

^① See Robert N McCauley and Yip K Mo, "Foreign currency deposits of firms and individuals with banks in China", *BIS Quarterly Review*, August 2000, and Ben S C Fung and Robert N McCauley, "Analysing the growth of Taiwanese deposits in foreign currency", *BIS Quarterly Review*, September 2001.

B. China's foreign currency liquidity flows

Changes, in billions of US dollars

	1999	2000	2001	1999–2001
Sources ¹	38.0	45.7	58.8	142.4
Foreign exchange reserves	9.7	10.9	46.6	67.2
Deposits in onshore banks ²	15.4	26.4	7.9	49.6
Less loans of onshore banks ²	12.9	8.4	4.3	25.6
Uses ¹	24.9	55.2	45.2	125.1
Net claims on BIS reporting banks	9.7	34.1	−4.2	39.6
<i>Of which: on banks in Hong Kong</i>	3.8	14.4	−4.2	14.1
Net purchases of US debt securities	15.1	20.5	44.1	79.6
Treasury bonds and notes	8.2	−4.0	19.1	23.3
Agency bonds	8.3	18.8	26.0	53.1
Corporate bonds	0.5	0.8	6.7	8.0
Money market instruments	−2.0	4.8	−7.7	−4.9
Net purchases of German securities	1.5	1.7	1.3	4.4
Net purchases of Japanese securities	−1.4	−1.1	4.0 ³	1.5

¹ Sources do not include the corporate and non-deposit finance sectors; uses are also incomplete. ² At both domestic and foreign banks. Onshore loans fell, thus adding to sources. ³ Estimates based on data for the first six months of 2001.

Sources: The People's Bank of China; Deutsche Bundesbank; Hong Kong Monetary Authority; Bank of Japan; US Treasury; BIS; authors' estimates.

that official reserve managers and banks in China needed to find uses for over \$140 billion. A similar total of uses is evident in BIS banking data and major countries' portfolio flow data.

First, some \$40 billion increased the net claims of Chinese banks and official monetary authorities on the international banking system (represented by the BIS reporting banks). Of this sum, \$14 billion flowed through banks located in Hong Kong, mostly in the form of repayments on interbank advances denominated in foreign currencies.

Second, the bulk of China's surplus foreign currency liquidity flowed into US debt securities. The US Treasury reports that Chinese residents bought equal amounts of US Treasury and agency securities in 1999, but the balance tipped towards agencies in 2000 and 2001. Moreover, 2001 actually saw significant investment in corporate securities for the first time. This shift along the risk spectrum can be interpreted as showing a greater appetite for return and acceptance of risk, but was also consistent with changing relative supplies of different debts. On the whole, however, Chinese residents continued to choose high-quality and liquid US securities. While 90% of Chinese net purchases of US debt securities over the last three years flowed into Treasury and agency bonds, the rest of the world allocated only a third of such purchases to these safe bonds. This behaviour may reflect the institutions responsible for foreign investments in China compared to the rest of the world, where insurance companies and investment funds play a larger role.

Finally, Chinese funds also flowed into other markets. But flows into German and Japanese securities, for instance, represented only a fraction of recorded uses of dollar liquidity in the same period.

To conclude, the recent dollar surpluses of Chinese banks together with increases in official reserves have flowed into BIS reporting banks and major debt markets. Banks in Hong Kong have seen only about 10% of this flow. Thus, there is much scope for the Chinese authorities to increase the flow of dollar liquidity to Hong Kong if they wish to do so. One proposal would be to choose Hong Kong banks as the recipients of such flows. To the extent that banks serve as an entrepôt, in effect re-exporting the inflows to the rest of the global banking system, increasing this flow might not make much of an impact on Hong Kong's financial markets. An alternative approach would be to channel the surplus dollars currently in Chinese banks into investments in Hong Kong-listed shares (possibly those of China-related firms) through certain authorised funds. A policy of this kind could bring new investors to Hong Kong's stock market, adding liquidity, and alter the risk profile of China's offshore investments.

Similarly, a repatriation of funds deposited abroad boosted bank flows to oil-exporting countries during the fourth quarter. Saudi Arabia withdrew \$7.3 billion from banks abroad, and Iran \$3.2 billion. At the same time, a few oil-exporting countries stopped paying down their external bank debt. Claims on members of OPEC in fact increased modestly for the first time since late 1999, by \$0.6 billion. The turnaround in bank flows to OPEC members, which began in the third quarter of 2001, mainly reflects the decline in the price of oil last year.

Claims on South Africa contracted by a relatively large \$1.1 billion in the fourth quarter. However, this decline was entirely attributable to the large depreciation of the South African rand rather than an outflow of funds.³ Banks abroad, especially banks in London, hold substantial amounts of rand-denominated corporate and government securities and also conduct sizeable cross-border interbank business in rand. As much as one quarter of the \$18 billion outstanding stock of cross-border bank claims on South African borrowers is denominated in local currency. Among emerging economies, this proportion is higher in only two other countries: Estonia and Poland, where local currency claims make up approximately 30% of cross-border claims. In the vast majority of emerging economies, local currency claims account for a negligible share of cross-border claims.

In emerging Europe, banks continued to lend to and invest significant sums in countries in accession negotiations with the European Union, especially Poland. Russia too saw a large increase in claims, by \$2.1 billion in the fourth quarter. This is the third consecutive quarterly increase in cross-border bank claims on Russia, and the largest yet. Most of the funds were channelled to non-banks, especially Russian oil and gas firms. Interbank claims also rose slightly, but interbank liabilities increased by even more as banks in Russia continued to channel foreign currency abroad: \$1.7 billion in the fourth quarter of 2001.

Lending to Russia increases for the third consecutive quarter

The contraction of claims on Turkey, which had shown signs of moderating in the third quarter, resumed in the fourth. Interbank lending declined by \$2.5 billion during the fourth quarter, similar to the size of the contraction in earlier periods. However, whereas claims on non-banks had increased in the third quarter, they decreased in the fourth. For the year as a whole, claims on Turkey fell by 24%, due almost entirely to cutbacks in credit to banks.

International banking activity in Latin America was dominated by the crisis in Argentina. Banks in the reporting area cut back their claims on Argentina by \$3.7 billion during the fourth quarter, or by 13% year over year. Unable to borrow foreign currency abroad and faced with rising withdrawals of dollars by local depositors, banks in Argentina repatriated \$11.1 billion. Between end-2000 and end-2001, Argentine banks' external assets placed with banks in the

Banks in Argentina repatriate record amounts

³ The locational banking statistics are adjusted for movements in the major currencies, eg US dollar, euro, yen, pound sterling and Swiss franc. However, reporting countries do not provide a complete currency breakdown. Currencies other than major currencies are reported as a residual and so a precise currency adjustment is not possible. In most countries, the residual comprises cross-border positions denominated in the local currency of the counterparty.

reporting area fell by 75%, to \$5.7 billion. Very little of this amount was rechannelled by non-banks back into the international banking system; liabilities to non-banks resident in Argentina increased by only 2% during 2001, to \$18.2 billion.

Claims on Mexico
rise ...

Despite the crisis in Argentina and several high-profile corporate defaults in Mexico in the latter part of 2001, Mexican borrowers continued to enjoy ready access to international debt markets. Between end-September and end-December, Mexican entities signed syndicated facilities amounting to \$4 billion. Cross-border claims on Mexican non-banks increased by \$1.1 billion during the same period, suggesting that up to one quarter of the amount raised in the syndicated loan market was net new financing.⁴ In addition, interbank claims increased by \$0.3 billion.

... while those on
Brazil and Peru fall

Brazilian corporations too were active in the syndicated loan market, signing credits totalling \$2.4 billion. However, unlike in Mexico, all of these funds appear to have been used to refinance maturing credits. In fact, claims on Brazilian non-banks contracted by \$0.4 billion during the fourth quarter. Banks in Brazil borrowed substantial amounts of yen, but this was more than offset by a fall in dollar interbank claims. Overall, cross-border bank claims on Brazil contracted by \$2.5 billion between end-September and end-December 2001.

Another Latin American country to see a large drop in bank claims was Peru. Cross-border claims fell by \$0.4 billion in the fourth quarter, bringing the total decline in claims during 2001 to 11%. Notwithstanding this decline, foreign confidence in Peru's economic prospects showed signs of improvement in the early part of 2002. Indeed, Peru issued its first international bond in over 70 years in February 2002 (see "The international debt securities market" on page 23).

⁴ Signings of syndicated credits approximate *gross* bank lending. In the locational banking statistics, claims capture both disbursements and repayments, and so reflect *net* lending.

International syndicated credits in the first quarter of 2002

Blaise Gadanecz

Activity in the international syndicated credits market continued to weaken in the first quarter of 2002. Signings fell by 13% on a seasonally adjusted basis, to \$214 billion. With the exception of the second quarter of 2001, signings have fallen steadily on a seasonally adjusted basis since late 2000, when borrowing by telecoms peaked.

Despite the pickup in growth in the United States in the first quarter, the volume of new loans to US borrowers remained low, with \$143 billion in new facilities signed. In Europe, signings totalled only \$46 billion, a three-year low. Merger- and acquisition-related (M&A) deals totalled \$25 billion, approximately one third as much as during their peak in 1999. Telecoms borrowing was boosted by a €15 billion facility for France Telecom, arranged to refinance a larger facility signed in mid-2000 to support the company's bid for Orange and third-generation mobile phone licences. The spread on the new facility was almost twice as high as that on the original facility, reflecting the repricing of telecoms risk in capital markets over the last few quarters.

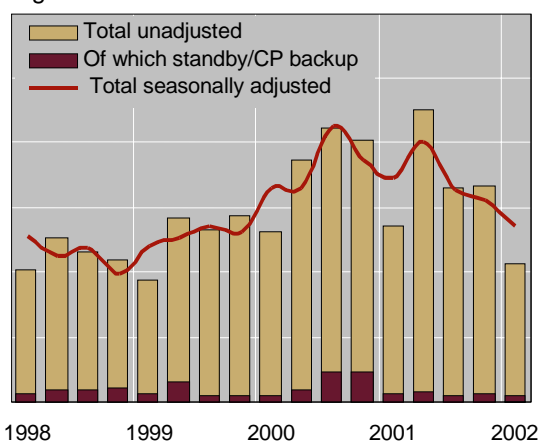
The proportion of credits with an original maturity of one year or less fell to 43% of total signings in the first quarter, from an average of 49% during 2001. One factor behind this decline was the shift among borrowers towards longer-term debt, a trend evident in debt securities markets since at least early 2001. In addition, several high-profile drawdowns during the first quarter of 2002, such as those by Tyco in February and ABB in March, made some banks more reluctant to provide short-term standby facilities. Signings of facilities intended to backstop commercial paper programmes fell by 30% in the first quarter, to \$9 billion from a quarterly average of \$13 billion during 2001.

Syndicated lending to emerging economies remained more or less unchanged on a seasonally adjusted basis. Although facilities totalling only \$11 billion were signed, activity in the first quarter is usually weak. Asian borrowers were the most active. Taiwanese corporations, mainly high-tech firms, raised \$1.4 billion, and Malaysian borrowers \$1.2 billion, half of which was for the government. Thai firms signed facilities totalling \$0.6 billion, the largest amount since the end of 2000. South African firms raised \$1.6 billion, more than one third of which was a refinancing facility for AngloGold. Borrowing by Latin American entities fell to a five-year low of \$1.6 billion. There was no new syndicated lending to Argentine or Turkish borrowers in the first quarter.

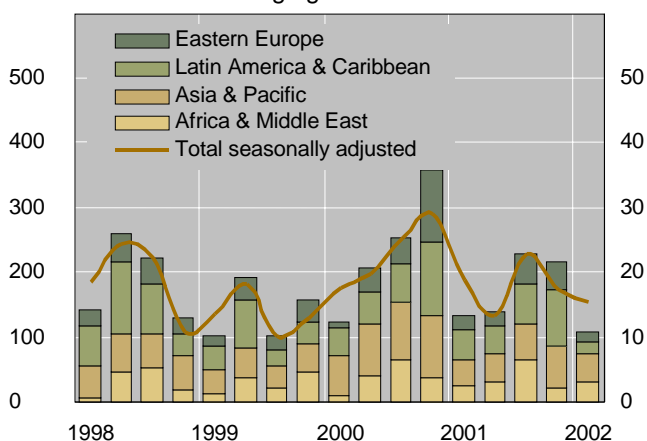
Activity in the international syndicated credit market

In billions of US dollars

Signed facilities



Facilities for emerging economies



Sources: Dealogic Loanware; BIS.