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SM/92/209

December 1, 1992

To: Members of the Executive Board
From: The Secretary
Subject: International Banking Activity in the Second Quarter of 1992

Attached for the information of the Executive Directors is a paper on international banking activity in the second quarter of 1992.

Mr. Stillson (ext. 38158) is available to answer technical or factual questions relating to this paper.

Att: (1)

Other Distribution:
Department Heads



INTERNATIONAL MONETARY FUND

International Banking Activity in the Second Quarter of 1992

Prepared by the Statistics
and the Research Departments

(In consultation with Area Departments and the Policy Development and Review
Department)

Approved by Michael Mussa and John B. McLenaghan

November 30, 1992

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I. Summary

International banking activity in the second quarter of 1992 remained weak, characterized by a further contraction of cross border business in industrial countries and offshore centers (Table 1). 1/ Overall activity in this quarter was dominated by a further withdrawal of Japanese banks from international banking business reflecting both weak domestic loan demand and a scaling back of positions to meet BIS capital adequacy regulations; these regulations also had an impact on activity in offshore centers in Asia (Table 2). In the global environment of slow economic growth registered in the second quarter, there were no factors contributing to a strong expansion of international banking activity. In contrast, activity in international bond markets expanded further as the net volume of new bond issues showed continued growth, although the increased amount was lower than that recorded in any quarter in 1991. 2/

Bank claims on developing countries, other than offshore centers, increased by \$12 billion in the second quarter (Table 3), led by a rise in claims on Middle Eastern countries of \$7 billion and a rise in claims on Asian countries of \$3 billion (Table 4). External liabilities to developing countries, other than offshore centers, rose by \$13 billion in the second quarter, in contrast with a decline of \$4 billion recorded in the previous quarter. Liabilities to Western Hemisphere countries rose by \$5 billion and those to Asian countries by \$3 billion. Therefore, international banks' net claims on developing countries decreased by \$1 billion in the second quarter.

II. Cross-Border Banking Activity with Industrial Countries

International bank claims on industrial countries declined by \$21 billion in the second quarter of 1992, following a \$49 billion decline in the first quarter. The continued decline in interbank claims on industrial countries (\$53 billion) more than offset the relatively strong increase (\$32 billion) in claims on nonbanks in industrial countries. Claims on residents of Japan fell by \$65 billion--the largest quarterly

1/ Terminology used in this paper is defined in the Appendix, "International Banking Statistics--Methodological Notes". For most countries, the change in bank claims measures the net flow of lending to them. However, for certain developing countries, changes in bank claims also reflect adjustments to banks' balance sheets that are not directly related to cash flows, including debt conversions, debt write-offs and capitalization of accumulated interest arrears.

2/ BIS data published in International Banking and Financial Market Developments show that new bond issues net of redemptions (termed "net international bond financing" by the BIS) amounted to \$30.6 billion in the second quarter of 1992, compared with \$27.9 billion in the first quarter. All reference to dollars in this paper are to United States dollars.

Table 1. Changes in Banks' Cross-Border Claims and Liabilities, 1988-92 ^{1/}

(In billions of U.S. dollars)

	1988	1989	1990	1991	1991			1992	
					Q2	Q3	Q4	Q1	Q2
Changes in claims on: ^{2/}									
World	557	842	731	-46	-120	-17	115	-6	1
Banks	483	656	467	-162	-142	-40	73	-28	-54
Nonbanks	74	186	264	116	22	22	43	22	54
Industrial countries	476	572	564	-13	-85	-25	100	-49	-21
Banks	395	452	360	-149	-113	-44	46	-55	-53
Nonbanks	81	120	204	136	28	19	54	6	32
Offshore centers ^{3/}	85	181	135	-10	-21	13	19	13	-14
Banks	82	171	118	-17	-22	7	14	11	-17
Nonbanks	3	10	17	7	1	5	5	2	3
Other developing countries ^{4/}	-5	13	3	28	2	5	12	8	12
Banks	-1	2	12	16	2	0	11	1	9
Nonbanks	-3	11	-9	12	0	4	1	7	3
International and regional organizations	-0	25	-1	-11	-2	-8	1	11	3
Unidentified nonbank borrowers ^{5/}	-7	43	52	-42	-11	-3	-21	10	19
Changes in liabilities to: ^{6/}									
World	530	823	666	-116	-139	6	136	-28	-14
Banks	438	656	437	-149	-141	-9	114	-41	-42
Nonbanks	92	167	229	33	2	15	21	13	29
Industrial countries	371	575	489	-77	-125	-12	100	-72	-27
Banks	321	468	369	-119	-119	-14	91	-70	-28
Nonbanks	50	107	120	43	-7	2	9	-2	1
Offshore centers ^{3/}	100	148	51	-60	-23	1	1	15	-28
Banks	95	135	33	-54	-25	-1	6	19	-27
Nonbanks	5	13	18	-6	1	1	-5	-4	-1
Other developing countries	36	74	83	24	1	11	15	-4	13
Banks	18	41	55	34	7	8	16	2	12
Nonbanks	18	33	28	-10	-6	3	-2	-7	1
International and regional organizations ^{7/}	3	14	-3	7	-4	-2	13	8	1
Unidentified nonbank depositors ^{5/}	17	13	61	-10	12	7	6	26	29
Changes in net claims on: ^{8/}									
Industrial countries	105	-3	74	63	40	-13	-0	23	6
Banks	75	-15	-9	-29	5	-31	-45	15	-25
Nonbanks	31	13	84	93	35	18	45	9	31
Offshore centers ^{3/}	-16	33	84	50	2	12	18	-2	15
Banks	-14	36	85	37	3	8	8	-8	10
Nonbanks	-2	-4	-1	13	-1	4	10	6	5
Other developing countries ^{4/}	-41	-61	-81	4	1	-6	-3	12	-1
Banks	-20	-38	-43	-18	-5	-7	-5	-2	-3
Nonbanks	-21	-22	-37	22	6	1	3	14	2
International and regional organizations ^{7/}	-3	11	2	-18	2	-6	-12	3	2
Unidentified nonbank borrowers ^{5/}	-23	30	-9	-32	-24	-10	-28	-16	-10
Memorandum item:									
Global asymmetry in interbank data ^{9/}	-45	-1	-30	13	0	30	42	-13	11

Sources: International Monetary Fund, *International Financial Statistics*; Bank for International Settlements, data reported to the Fund on currency distribution of banks' external accounts; and Fund staff estimates.

^{1/} Data on changes in claims and liabilities are derived from stock data on the reporting countries' assets and liabilities and are net of changes due to exchange rate movements.

^{2/} As measured by changes in the outstanding liabilities of borrowing countries defined as cross-border interbank accounts by residence of borrowing bank plus international bank credit to nonbanks by residency of borrower.

^{3/} Comprising the Bahamas, Bahrain, Cayman Islands, Hong Kong, Netherlands Antilles, Panama, and Singapore.

^{4/} Includes some accumulation of interest arrears and reduction in bank claims resulting from debt conversions, sales, and write-offs.

^{5/} Calculated as the difference between the amount that countries report as their banks' positions with nonresident nonbanks in their monetary statistics and the amount that all banks in major financial centers report as their positions with nonbanks in each country.

^{6/} As measured by changes in the outstanding assets of depositing countries, defined as cross-border interbank accounts by residence of lending bank, plus cross-border bank deposits of nonbanks by residence of depositor.

^{7/} Data on deposit-taking includes the accounts of the Bank for International Settlements with banks other than central banks.

^{8/} Change in claims minus change in liabilities.

^{9/} Difference between global measures of change in interbank claims and change in interbank liabilities.

Table 2. Changes in Banks' Cross-Border Claims on, and Liabilities to, Industrial Countries, 1988-92 ^{1/}

(In billions of U.S. dollars)

	1988	1989	1990	1991	1991			1992	
					Q2	Q3	Q4	Q1	Q2
Changes in claims on industrial countries: ^{2/}	<u>476</u>	<u>572</u>	<u>564</u>	<u>-13</u>	<u>-85</u>	<u>-25</u>	<u>100</u>	<u>-49</u>	<u>-21</u>
United States	108	93	73	18	-18	14	26	11	9
Banks	(69)	(59)	(23)	(-13)	(-23)	(3)	(16)	(8)	(3)
Nonbanks	(39)	(35)	(50)	(31)	(5)	(10)	(11)	(4)	(6)
Japan	203	172	101	-88	-25	-28	18	-52	-65
Banks	(185)	(136)	(47)	(-130)	(-36)	(-34)	(-5)	(-57)	(-73)
Nonbanks	(18)	(36)	(54)	(42)	(12)	(6)	(23)	(5)	(9)
United Kingdom	51	84	67	-37	-24	-4	1	-13	3
Banks	(46)	(76)	(55)	(-46)	(-27)	(-6)	(-3)	(-14)	(0)
Nonbanks	(6)	(8)	(12)	(9)	(2)	(3)	(3)	(1)	(3)
Belgium-Luxembourg	10	19	26	-2	3	-16	14	-6	5
France	21	54	75	-11	-16	8	2	-5	9
Germany	18	19	39	18	-3	-3	7	9	3
Italy	17	42	51	53	5	11	21	11	-5
Switzerland	6	13	16	3	-5	1	-1	-1	-0
Other industrial countries	41	75	115	33	-2	-8	13	-3	20
Memorandum item:									
Industrial Europe	161	294	373	44	-45	-17	53	-6	28
Banks	135	247	284	-14	-51	-20	34	-6	14
Nonbanks	26	46	89	58	6	4	19	1	14
Changes in liabilities to industrial countries: ^{3/}	<u>371</u>	<u>575</u>	<u>489</u>	<u>-77</u>	<u>-125</u>	<u>-12</u>	<u>100</u>	<u>-72</u>	<u>-27</u>
United States	84	67	24	16	-6	6	24	-20	-27
Banks	(63)	(61)	(-3)	(14)	(7)	(-4)	(21)	(-14)	(-19)
Nonbanks	(21)	(6)	(28)	(3)	(-13)	(10)	(3)	(-6)	(-8)
Japan	148	138	55	-45	-33	5	25	-16	-54
Banks	(147)	(125)	(58)	(-44)	(-33)	(6)	(24)	(-15)	(-54)
Nonbanks	(2)	(13)	(-3)	(-0)	(0)	(-1)	(1)	(-1)	(0)
United Kingdom	31	51	79	-79	-35	-15	-12	-17	4
Banks	(28)	(43)	(63)	(-81)	(-39)	(-12)	(-12)	(-17)	(4)
Nonbanks	(3)	(7)	(15)	(1)	(4)	(-3)	(-0)	(-0)	(-0)
Belgium-Luxembourg	22	48	44	3	4	-14	15	0	16
France	24	56	68	-1	-15	1	9	3	6
Germany	21	70	74	14	-8	4	23	-3	-8
Italy	2	25	12	8	-3	-1	11	-12	6
Switzerland	11	48	58	-6	-13	6	-6	-5	4
Other industrial countries	28	72	76	13	-16	-3	11	-2	27
Memorandum item:									
Industrial Europe	140	361	391	-44	-84	-23	52	-30	51
Banks	113	278	306	-83	-90	-18	47	-39	41
Nonbanks	27	84	85	39	5	-5	5	8	9
Changes in net claims on industrial countries: ^{4/}	<u>105</u>	<u>-3</u>	<u>74</u>	<u>63</u>	<u>40</u>	<u>-13</u>	<u>-0</u>	<u>23</u>	<u>6</u>
United States	24	26	48	1	-12	8	2	31	36
Japan	55	34	46	-43	9	-32	-7	-36	-11
United Kingdom	20	33	-11	43	10	12	13	4	-1
Belgium-Luxembourg	-12	-29	-17	-5	-0	-2	-2	-6	-12
France	-4	-1	8	-10	-1	7	-8	-8	3
Germany	-2	-51	-35	4	5	-7	-16	11	11
Italy	15	17	39	45	8	12	10	24	-11
Switzerland	-5	-35	-42	10	7	-6	5	5	-4
Other industrial countries	13	3	39	20	14	-5	2	-2	-7
Memorandum item:									
Industrial Europe	21	-68	-18	89	39	6	1	25	-22

Sources: International Monetary Fund, International Financial Statistics; Bank for International Settlements, data reported to the Fund on currency distribution of banks' external accounts; and Fund staff estimates.

^{1/} Data on changes in claims and liabilities are derived from stock data on the reporting countries' assets and liabilities and are adjusted for changes due to exchange rate movements.

^{2/} As measured by changes in the outstanding liabilities of borrowing countries defined as cross-border interbank accounts by residence of borrowing bank plus international bank credit to nonbanks by residence of borrower.

^{3/} As measured by changes in the outstanding assets of depositing countries, defined as cross-border interbank accounts by residence of lending bank, plus cross-border bank deposits of nonbanks by residence of depositor.

^{4/} Change in claims minus change in liabilities.

Table 3. Changes in Banks' Cross-Border Claims on, and Liabilities to, Developing Countries, 1/ 1988-92 2/

(In billions of U.S. dollars)

	1988	1989	1990	1991	1991			1992	
					Q2	Q3	Q4	Q1	Q2
Changes in claims on developing countries: 3/	<u>-4.5</u>	<u>13.1</u>	<u>2.7</u>	<u>28.1</u>	<u>2.1</u>	<u>4.6</u>	<u>12.3</u>	<u>7.7</u>	<u>12.0</u>
15 Heavily indebted countries:	<u>-14.2</u>	<u>-1.0</u>	<u>-28.0</u>	<u>1.8</u>	<u>0.2</u>	<u>-2.6</u>	<u>3.5</u>	<u>2.8</u>	<u>-0.0</u>
Argentina	0.3	1.8	-1.1	-0.4	0.0	-0.8	0.2	1.2	1.1
Brazil	-5.5	2.6	1.4	-1.3	-0.3	-1.5	0.0	0.9	1.2
Chile	-1.4	-0.6	0.4	-0.6	-0.4	-0.3	0.2	0.4	0.2
Mexico	-6.3	-0.2	-18.0	6.8	1.5	1.2	2.4	2.6	-2.1
Nigeria	-0.5	-0.9	-0.8	-0.5	-0.3	-0.1	-0.2	-0.5	-0.0
Philippines	-1.1	-1.5	-0.8	-0.5	-0.3	-0.3	-0.1	-0.6	-0.8
Venezuela	0.6	0.2	-7.3	0.3	0.5	-0.2	0.7	-0.1	0.4
Other 4/	-0.3	-2.4	-1.9	-1.9	-0.6	-0.5	0.3	-1.1	-0.1
Other developing countries:	<u>9.6</u>	<u>14.1</u>	<u>30.7</u>	<u>26.3</u>	<u>1.9</u>	<u>7.2</u>	<u>8.8</u>	<u>4.9</u>	<u>12.0</u>
China	7.1	-0.5	7.5	5.9	-0.5	2.0	3.8	-1.2	0.8
Egypt	0.8	0.8	0.2	-2.7	0.0	-0.2	-0.6	-0.6	1.7
India	0.9	1.0	-0.5	-0.0	-0.6	-0.1	0.1	-0.0	-0.2
Indonesia	0.8	1.7	7.7	2.5	-0.4	0.5	0.7	0.5	0.1
Korea	-1.7	1.1	4.2	8.7	3.1	1.7	1.3	1.9	0.1
Malaysia	-1.4	-0.3	-0.1	1.4	0.1	0.2	1.2	0.5	0.0
Saudi Arabia	0.4	1.9	-2.4	2.3	2.7	0.3	-0.5	-0.9	2.5
Taiwan Province of China	-1.7	0.2	0.7	4.6	-0.1	1.3	1.9	1.3	1.7
Turkey	-0.1	0.2	3.3	1.2	0.1	-0.2	-0.0	-0.4	0.9
Other	4.5	8.0	10.0	2.4	-2.5	1.8	0.9	3.8	4.3
Changes in liabilities to developing countries: 5/	<u>36.5</u>	<u>74.0</u>	<u>83.4</u>	<u>24.0</u>	<u>1.1</u>	<u>10.7</u>	<u>14.8</u>	<u>-4.4</u>	<u>12.7</u>
15 Heavily indebted countries:	<u>4.6</u>	<u>17.2</u>	<u>22.5</u>	<u>3.4</u>	<u>-1.1</u>	<u>1.6</u>	<u>1.5</u>	<u>2.7</u>	<u>3.8</u>
Argentina	2.1	2.1	4.9	1.2	1.2	0.9	-0.3	0.3	0.2
Brazil	3.8	5.2	2.8	0.5	0.7	-2.4	1.6	5.6	5.0
Chile	0.7	0.7	2.9	-0.5	-0.0	-0.2	-0.2	-0.2	-0.2
Mexico	-6.9	0.1	0.2	-0.7	-1.8	3.3	-1.9	-1.4	-0.1
Nigeria	-0.4	1.9	2.5	0.9	-0.8	0.1	0.9	-1.5	-0.1
Philippines	0.4	0.4	-0.1	0.6	1.0	-0.6	-0.1	0.1	-0.4
Venezuela	-0.0	0.7	6.0	1.0	-1.1	-0.7	1.5	-0.9	-0.0
Other 4/	4.8	6.1	3.3	0.4	-0.2	1.2	0.1	0.6	-0.6
Other developing countries:	<u>31.9</u>	<u>56.8</u>	<u>60.9</u>	<u>20.6</u>	<u>2.2</u>	<u>9.1</u>	<u>13.3</u>	<u>-7.1</u>	<u>8.9</u>
China	5.3	1.4	15.5	6.9	-0.4	1.6	4.8	-0.6	0.0
Egypt	0.8	1.6	4.3	4.2	0.8	0.9	1.0	0.7	0.7
India	-0.7	-0.1	0.4	2.4	-1.1	0.6	2.1	1.5	0.5
Indonesia	-0.1	3.2	1.7	0.9	1.0	-1.4	0.6	0.1	0.8
Korea	7.6	1.3	1.2	2.5	1.6	0.3	0.6	0.6	1.0
Malaysia	0.2	1.5	1.6	0.4	-0.1	-0.6	0.8	1.3	-0.1
Saudi Arabia	10.1	6.5	4.6	-5.7	-2.2	-2.4	-3.3	-3.9	2.3
Taiwan Province of China	-6.4	13.0	7.4	1.5	3.2	-0.8	1.0	-4.0	1.7
Turkey	1.8	3.1	1.2	0.2	0.9	0.3	1.3	-0.8	0.4
Other	13.3	25.3	23.0	7.5	-1.6	10.5	4.4	-2.1	1.7
Changes in net claims on developing countries: 6/	<u>-41.0</u>	<u>-60.9</u>	<u>-80.7</u>	<u>4.0</u>	<u>1.0</u>	<u>-6.1</u>	<u>-2.5</u>	<u>-12.1</u>	<u>-0.7</u>
15 Heavily indebted countries	-18.7	-18.2	-50.5	-1.6	1.3	-4.2	2.0	0.1	-3.8
Other developing countries	-22.3	-42.7	-30.3	5.6	-0.3	-1.9	-4.5	-12.1	3.1

Sources: International Monetary Fund, *International Financial Statistics*; Bank for International Settlements, data reported to the Fund on currency distribution of banks' external accounts; and Fund staff estimates.

1/ Excluding offshore centers.

2/ Data on changes in claims and liabilities are derived from stock data on the reporting countries' assets and liabilities and are adjusted for changes due to exchange rate movements.

3/ As measured by changes in the outstanding liabilities of borrowing countries defined as cross-border interbank accounts by residence of borrowing bank plus international bank credit to nonbanks by residency of borrower.

4/ Comprises Bolivia, Colombia, Cote d'Ivoire, Ecuador, Morocco, Peru, Uruguay, and Yugoslavia.

5/ As measured by changes in the outstanding assets of depositing countries, defined as cross-border interbank accounts by residence of lending bank, plus cross-border bank deposits of nonbanks by residence of depositor.

6/ Change in claims minus change in liabilities.

Table 4. Changes in Banks' Cross-Border Claims on,
and Liabilities to, Major Regions, 1988-92 ^{1/}

(In billions of U.S. dollars)

	1988	1989	1990	1991	1991			1992	
					Q2	Q3	Q4	Q1	Q2
Changes in claims on:									
Developing countries:	-4.5	13.1	2.7	28.1	2.1	4.6	12.3	7.7	12.0
Africa	-1.5	-1.8	-0.5	-2.2	-0.5	-0.7	0.5	0.1	0.3
Asia	3.8	4.4	23.4	30.6	2.5	8.4	10.0	3.0	3.0
Europe	0.7	0.2	4.8	0.7	-1.2	-0.6	0.9	-1.1	0.7
Middle East	5.2	4.4	-4.3	-0.2	-1.9	-1.1	2.7	0.9	7.1
Western Hemisphere	-12.7	5.9	-20.7	-0.8	3.2	-1.4	-1.8	4.9	0.9
15 heavily indebted countries	-14.2	-1.0	-28.0	1.8	0.2	-2.6	3.5	2.8	-0.0
Other developing countries	9.6	14.1	30.7	26.3	1.9	7.2	8.8	4.9	12.0
Memorandum item:									
U.S.S.R. ^{2/}	5.4	7.5	-6.0	3.0	-1.7	1.4	4.4	1.6	2.3
Changes in liabilities to:									
Developing countries:	36.5	74.0	83.4	24.0	1.1	10.7	14.8	-4.4	12.7
Africa	4.2	8.0	5.9	1.1	-1.2	1.8	0.9	-1.2	0.3
Asia	11.6	25.9	33.7	20.3	6.5	1.4	11.7	-1.7	3.1
Europe	5.4	8.8	3.4	0.4	-0.9	2.8	3.2	0.0	2.6
Middle East	13.1	18.4	18.5	-4.1	-2.1	0.8	-1.6	-6.2	2.0
Western Hemisphere	2.2	12.9	21.9	6.3	-1.2	3.8	0.6	4.5	4.7
15 heavily indebted countries	4.6	17.2	22.5	3.4	-1.1	1.6	1.5	2.7	3.8
Other developing countries	31.9	56.8	60.9	20.6	2.2	9.1	13.3	-7.1	8.9
Memorandum item:									
U.S.S.R. ^{2/}	1.6	-0.8	-6.5	0.0	0.3	0.8	0.6	-0.1	-0.1
Changes in net claims on:									
Developing countries:	-41.0	-60.9	-80.7	4.0	1.0	-6.1	-2.5	12.1	-0.7
Africa	-5.7	-9.8	-6.4	-3.3	0.7	-2.5	-0.4	1.3	0.0
Asia	-7.8	-21.5	-10.3	10.2	-4.0	7.0	-1.7	4.7	-0.1
Europe	-4.7	-8.6	1.4	0.3	-0.3	-3.5	-2.2	-1.2	-1.9
Middle East	-7.9	-14.0	-22.8	3.9	0.2	-2.0	4.3	7.0	5.1
Western Hemisphere	-15.0	-7.0	-42.6	-7.1	4.4	-5.2	-2.5	0.4	-3.9
15 heavily indebted countries	-18.7	-18.2	-50.5	-1.6	1.3	-4.2	2.0	0.1	-3.8
Other developing countries	-22.3	-42.7	-30.3	5.6	-0.3	-1.9	-4.5	12.1	3.1
Memorandum item:									
U.S.S.R. ^{2/}	3.8	8.3	0.5	2.9	-2.0	0.6	3.8	1.8	2.4

Sources: International Monetary Fund, International Financial Statistics; Bank for International Settlements, data reported to the Fund on currency distribution of banks' external accounts and Fund staff estimates.

^{1/} Excluding industrial countries and offshore centers.

^{2/} Data are based on reports by deposit banks in major financial centers only.

decline since the inception of the international banking statistics project--and dominated the overall picture. Claims on most other industrial countries rose slightly. As a result, the share of Japan in overall international banking activity declined further.

Liabilities to industrial countries decreased by \$27 billion in the second quarter of 1992, the second consecutive quarterly decline. Interbank liabilities to industrial countries accounted for the overall movement, falling by \$28 billion, while liabilities to nonbanks in the industrial countries remained virtually unchanged. Cross border liabilities to Japan declined by \$54 billion in the second quarter, followed by a decline in liabilities to the United States of \$27 billion. These decreases more than offset the increases in liabilities to European countries.

International bank claims on residents of the United States increased by \$9 billion in the second quarter, compared with an increase of \$11 billion in the first quarter of 1992. On the other hand, cross border liabilities to residents of the United States declined by \$27 billion in the second quarter, leaving the amount of total liabilities at about the level recorded at the end of 1989. This decline in liabilities was mainly due to a contraction in interbank liabilities of \$19 billion.

The United States recorded a current account deficit of \$16 billion in the second quarter and official reserves (valuation adjusted) decreased by \$2 billion. International bank net claims on United States residents rose by \$36 billion, while banks in the United States increased their net claims on nonbanks in the rest of the world by \$6 billion, which implies that nonbanks in the United States increased their net claims on nonbanks in the rest of the world by \$16 billion. 1/

The decline in international bank claims on residents of Japan in the second quarter of 1992 amounted to \$65 billion; the total decline of claims on Japan in the first half of 1992 was more than the decline recorded in 1991. The reduction in interbank claims (\$73 billion) dominated the movement in the second quarter. Cross-border bank liabilities to residents of Japan also declined by \$54 billion in the second quarter, more than trebling the decrease recorded in the previous quarter (\$16 billion); this decline was due entirely to interbank activity. 2/ The two major factors contributing to a decline in international banking activity in Japan were the sluggish demand for domestic loans and Japanese banks' efforts to comply with BIS capital adequacy regulations by reducing some banking activity.

Japan's balance of payments recorded a current account surplus of less than \$29 billion in the second quarter of 1992, while official reserves

1/ This amount includes errors and omissions of negative \$20 billion.

2/ BIS reports that Japanese banks reduced their cross-border interbank positions, particularly between the domestic and foreign offices of Japanese banks.

(valuation adjusted) rose by almost \$1 billion. International bank net claims on residents of Japan decreased by more than \$11 billion, while there was virtually no change in Japanese banks' net claims on nonbanks in the rest of the world. This implies that Japanese nonbanks increased their net claims on nonbanks in the rest of the world by about \$17 billion. 1/

Claims on industrial European countries increased \$28 billion in the second quarter of 1992, following a decrease of \$6 billion in the previous quarter. Cross-border claims of banks on residents of the United Kingdom rose slightly (\$3 billion) in the second quarter of 1992, partially reversing the previous quarter's decline. Overall, changes in cross-border claims on residents of individual European countries--both banks and nonbanks--were relatively small.

Liabilities to industrial European countries rose by \$51 billion in the second quarter of 1992 reflecting increases in both interbank liabilities (\$41 billion) and liabilities to nonbanks (\$9 billion). Cross-border liabilities to banks in the United Kingdom showed a slight rebound after five quarters of continuous decline while liabilities to nonbanks remained unchanged.

III. Cross-Border Banking Activity with Developing Countries

International bank claims on developing countries, other than offshore banking centers, increased by \$12.0 billion in the second quarter of 1992. Claims on the group of heavily indebted countries remained unchanged after an increase of \$2.8 billion in the first quarter; no comprehensive debt reduction packages were closed in the second quarter. 2/ Claims on other developing countries increased by \$12.0 billion in the second quarter compared with a rise of \$4.9 billion in the previous quarter. International bank liabilities to developing countries, other than offshore banking centers, rose by \$12.7 billion in the second quarter, following a decline of \$4.4 billion in the first quarter. There was an increase in liabilities to the group of heavily indebted countries of \$3.8 billion and an increase in liabilities to other developing countries of \$8.9 billion. Therefore, net claims on developing countries fell by \$0.7 billion in the second quarter, compared with a rise of \$12.1 billion in the first quarter.

On a regional basis, international bank claims on African countries rose by \$0.3 billion in the second quarter of 1992, the third consecutive quarterly rise. Claims on Asian countries increased by \$3.0 billion,

1/ This amount includes errors and omissions of negative \$2 billion.

2/ As noted in past papers, identified adjustments to balance sheets are based on information that is incomplete and somewhat conjectural. Staff estimates for developing countries indicate, for the second quarter of 1992, net accumulation of interest arrears of about \$0.1 billion and an increase in debt sales and conversions of about \$0.3 billion.

markedly lower than the average quarterly increase of \$7.7 billion recorded in 1991. Among Asian countries, significant increases in claims were recorded on residents of Taiwan, Province of China (\$1.7 billion), and Thailand (\$1.4 billion). Bank claims on developing European countries recorded a \$0.7 billion increase in the second quarter led by an increase in claims on Turkey of \$0.9 billion that reflected significant syndicated lending. Claims on Middle Eastern countries rose by \$7.1 billion, dominated by increases in claims on Saudi Arabia (\$2.5 billion), Egypt (\$1.7 billion), and Kuwait (\$1.5 billion, reflecting the partial disbursement of syndicated loans). Claims on developing countries in the Western Hemisphere rose by \$0.9 billion, compared with an increase of \$4.9 billion in the preceding quarter. Increases in claims on Brazil (\$1.2 billion) and Argentina (\$1.1 billion) were largely offset by a decline in claims on Mexico (\$2.1 billion) which partly reflected further debt reduction through buy back operations in the secondary market at a discount. Outside these regions, claims on former U.S.S.R. republics increased by \$2.3 billion, partly reflecting the accumulation of interest arrears.

International bank liabilities to African countries rose by \$0.3 billion, following a decrease of \$1.2 billion in the preceding quarter. Deposits by Asian countries rose by \$3.1 billion led by increases in deposits of residents of Taiwan, Province of China (\$1.7 billion) and Korea (\$1.0 billion). Deposits of developing European countries rose by \$2.6 billion in the second quarter partly reflecting an increase in deposits by Czechoslovakia of \$1.0 billion. Deposits by Middle Eastern countries rose by \$2.0 billion reflecting a rise in deposits by Saudi Arabia of \$2.3 billion. Deposits of Western Hemisphere countries rose by \$4.7 billion dominated by an increase in deposits by Brazil of \$5.0 billion, reflecting continued capital inflows as a result of high domestic interest rates. Deposits by former U.S.S.R. republics decreased by \$0.1 billion during the second quarter.

International Banking Statistics--Methodological Notes

Statistics on international banking activity come from two main sources: direct reports by a reporting country's banks on their external positions, and derived reports from banks in 33 international banking centers on their positions with borrowers and lenders in other individual countries. Data from these sources are supplemented by Fund staff estimates. The methodology underlying these statistics is discussed in the pamphlet The Fund's International Banking Statistics, published by the Fund in 1986. Following are brief methodological notes on certain terminology contained in the paper.

International banking statistics or cross-border banking statistics are compiled on the basis of the location of banks in accordance with balance of payments methodology (the residency criterion), rather than on the basis of the nationality of banks. All references in the paper are to cross-border financial operations, and the term "cross-border" is omitted in most of the paper.

Change in bank claims on residents of a given country (or region) refers to the change in the sum of international banks' external claims on residents of that country (or region) between the beginning and the end of the period stated, adjusted for variations in exchange rates. It reflects cash flows of new lending and loan repayments as well as any adjustments that are made to the stock of claims by either creditor banks or debtors to account for the capitalization of accumulated arrears, debt conversions, debt sales, debt write-offs, and exercises of official guarantees. Thus, the figures for the change in bank claims on residents of developing countries do not necessarily represent only cash flows between creditor banks and debtor countries.

Change in bank liabilities to residents of a country (or region) refers to the change in the sum of international banks' external liabilities to residents of that country (or region) between the beginning and the end of the period stated, adjusted for variations in exchange rates; thus, it reflects flows of new deposits to banks as well as withdrawals of bank deposits.

Change in net claims on residents of a given country (or region) is measured by the difference between the change in bank claims on, and the change in bank liabilities to, residents of that country (or region). Thus, it measures the net flow of funds to/from a given country (or region), except when there are adjustments to the stock of claims that are not directly related to flows of new lending and loan repayments.

Adjustment for exchange rate variations refers to adjustment for variation in the value of the U.S. dollar vis-à-vis other major currencies when flow data are derived from stocks. Banks' external positions, reported in U.S. dollars, are first reconverted into their original currencies using exchange rates and the reported currency composition of the banks' assets and

liabilities' at the end-of-period. Changes in the positions between two periods are then calculated in terms of original currencies, after which the changes are converted into U.S. dollars using period average exchange rates. Banks refer to deposit banks, which comprise deposit money banks and other banking institutions. In addition to transactions among deposit banks, the coverage of the interbank market includes transactions between monetary authorities and deposit banks, but excludes transactions between monetary authorities.

Nonbanks comprise general government, public enterprises, private corporations, financial institutions other than banks, and individuals. Nonmonetary international organizations are also included among nonbanks.

Country: The term "country" used in this document does not in all instances refer to a territorial entity which is a state as understood by international law and practice; the term also covers some territorial entities that are not states, but for which statistical data are maintained and provided internationally on a separate and independent basis.

Developing countries: All references to developing countries in the text exclude major offshore banking centers (The Bahamas, Bahrain, the Cayman Islands, Hong Kong, the Netherlands Antilles, Panama, and Singapore).