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

Attached for the information of the Executive Directors is a paper on international banking activity in the first 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 First 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 Marcello Caiola

August 13, 1992

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I. Summary

After a marked rebound in the fourth quarter of 1991, international banking activity in the first quarter of 1992 remained stagnant, with small increases in claims and notable decreases in liabilities (Table 1). ^{1/} This quarter was marked by a further substantial contraction of international banking activity by Japanese banks to meet BIS capital adequacy regulation at their end year (Table 2), and an overall reduction in both claims and liabilities in industrial countries. Thus, the strong increases in activity of the fourth quarter of 1991 were not sustained and cannot, at this point, be seen as leading to a recovery of international banking activity. Activity in international bond markets also slowed as the net volume of new bond issues recorded a smaller increase than the previous quarter. ^{2/}

Bank claims on developing countries, other than offshore centers, increased by \$9 billion in the first quarter (Table 3), matching the increase in the previous quarter. A weaker increase in claims on Asian countries was counterbalanced with a larger increase in claims on Western Hemisphere countries (Table 4). External liabilities to developing countries, other than offshore centers, decreased by \$2 billion, in contrast with the increases in the previous three quarters. Liabilities to Asian countries decreased by \$2 billion for the first time since the second quarter of 1989. International bank net claims on developing countries, therefore, increased by \$12 billion in the first quarter reversing the downward trend of the previous two quarters.

II. Cross-Border Banking Activity with Industrial Countries

The sharp rises in international banking activity in industrial countries in the last quarter of 1991 reflected in large part end-year window dressing by European and the United States banks (see SM 92/107, May 28, 1992), and the movement of the first quarter in 1992 was affected largely by the Japanese banks' end-year activity. International banking

^{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 \$26.4 billion in the first quarter of 1992, compared to \$38.6 billion in the fourth quarter of 1991. 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
					Q1	Q2	Q3	Q4	Q1
Changes in claims on: ^{2/}									
World	555	838	728	-53	-22	-123	-15	107	4
Banks	480	652	465	-169	-55	-143	-37	66	-16
Nonbanks	74	186	264	116	33	20	22	41	20
Industrial countries	473	568	561	-15	-5	-86	-24	100	-43
Banks	393	448	357	-151	-40	-114	-44	47	-46
Nonbanks	81	120	204	136	35	28	20	53	2
Offshore centers ^{3/}	85	181	135	-13	-20	-22	15	13	14
Banks	82	171	118	-18	-15	-23	10	9	11
Nonbanks	3	10	17	5	-4	1	5	4	3
Other developing countries ^{4/}	-5	13	3	25	9	2	5	9	9
Banks	-1	2	12	15	3	2	0	9	4
Nonbanks	-3	11	-9	11	6	0	4	0	5
International and regional organizations	-0	25	-1	-11	-2	-2	-8	1	12
Unidentified nonbank borrowers ^{5/}	-6	42	52	-40	-4	-13	-4	-19	11
Changes in liabilities to: ^{6/}									
World	535	815	672	-115	-117	-138	5	135	-51
Banks	444	654	439	-145	-113	-141	-8	117	-43
Nonbanks	92	162	233	30	-4	3	13	18	-8
Industrial countries	377	573	491	-80	-40	-125	-13	98	-73
Banks	326	466	371	-113	-78	-118	-14	98	-72
Nonbanks	50	107	120	33	38	-6	1	0	-1
Offshore centers ^{3/}	100	148	52	-58	-38	-24	2	2	7
Banks	95	135	34	-57	-34	-25	0	1	16
Nonbanks	5	13	18	-1	-4	2	1	0	-9
Other developing countries	36	74	84	24	-2	1	11	14	-2
Banks	18	41	56	34	3	7	8	16	5
Nonbanks	18	33	28	-10	-5	-6	3	-2	-8
International and regional organizations ^{7/}	3	14	-3	-6	0	-4	-2	0	8
Unidentified nonbank depositors ^{5/}	17	7	65	5	-35	13	7	21	10
Changes in net claims on: ^{8/}									
Industrial countries	97	-5	70	65	35	39	-12	3	29
Banks	66	-18	-14	-38	39	4	-31	-50	26
Nonbanks	31	13	84	103	-3	34	19	53	4
Offshore centers ^{3/}	-16	33	83	45	18	2	14	11	7
Banks	-14	36	84	39	19	2	10	8	-5
Nonbanks	-2	-4	-1	6	-0	-1	4	3	12
Other developing countries ^{4/}	-41	-61	-81	2	12	1	-6	-5	12
Banks	-20	-39	-43	-19	0	-5	-7	-7	-1
Nonbanks	-21	-22	-37	21	11	6	1	2	13
International and regional organizations ^{7/}	-3	11	2	-5	-2	2	-6	1	4
Unidentified nonbank borrowers ^{5/}	-23	35	-13	-45	31	-26	-11	-40	1
Memorandum item:									
Global asymmetry in interbank data ^{9/}	-37	2	-26	23	-58	2	29	51	-27

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 Q1
					Q1	Q2	Q3	Q4	
Changes in claims on industrial countries: ^{2/}	473	568	561	-15	-5	-86	-24	100	-43
United States	108	93	73	17	-4	-18	14	26	6
Banks	(69)	(59)	(23)	(-14)	(-9)	(-23)	(3)	(15)	(8)
Nonbanks	(39)	(35)	(50)	(31)	(5)	(5)	(11)	(10)	(-2)
Japan	203	172	101	-85	-53	-25	-28	20	-55
Banks	(185)	(136)	(47)	(-130)	(-54)	(-36)	(-34)	(-5)	(-57)
Nonbanks	(18)	(36)	(54)	(45)	(1)	(12)	(6)	(26)	(3)
United Kingdom	49	76	67	-35	-9	-25	-4	2	-14
Banks	(43)	(68)	(55)	(-44)	(-10)	(-27)	(-6)	(-1)	(-15)
Nonbanks	(6)	(8)	(12)	(9)	(1)	(2)	(3)	(3)	(1)
Belgium-Luxembourg	10	19	26	-3	-3	3	-16	13	-5
France	21	54	75	-12	-5	-16	8	1	-0
Germany	18	19	39	18	16	-3	-3	7	10
Italy	17	46	48	50	13	4	11	21	12
Switzerland	6	13	16	3	9	-5	1	-1	-1
Other industrial countries	41	75	115	32	31	-2	-8	12	3
Memorandum item:									
Industrial Europe	158	288	370	41	51	-45	-17	51	7
Banks	132	242	281	-14	22	-52	-20	35	2
Nonbanks	26	46	89	55	29	7	4	16	4
Changes in liabilities to industrial countries: ^{3/}	377	573	491	-80	-40	-125	-13	98	-73
United States	84	67	24	16	-8	-6	6	24	-22
Banks	(63)	(61)	(-3)	(13)	(-11)	(7)	(-4)	(21)	(-13)
Nonbanks	(21)	(6)	(28)	(2)	(2)	(-13)	(10)	(3)	(-9)
Japan	148	138	55	-45	-41	-33	5	24	-16
Banks	(147)	(125)	(58)	(-44)	(-41)	(-33)	(6)	(24)	(-15)
Nonbanks	(2)	(13)	(-3)	(-1)	(-0)	(0)	(-1)	(1)	(-1)
United Kingdom	31	51	79	-80	-17	-35	-15	-13	-18
Banks	(28)	(43)	(63)	(-81)	(-17)	(-39)	(-12)	(-12)	(-17)
Nonbanks	(3)	(7)	(15)	(1)	(0)	(4)	(-3)	(-1)	(-1)
Belgium-Luxembourg	22	48	44	2	-1	4	-14	14	0
France	24	56	68	3	4	-15	0	14	-3
Germany	21	70	74	13	-5	-8	4	22	-3
Italy	8	23	14	7	0	-3	-0	10	-7
Switzerland	11	48	58	-8	6	-12	5	-7	-4
Other industrial countries	28	72	76	12	23	-16	-4	9	1
Memorandum item:									
Industrial Europe	144	358	391	-48	12	-84	-26	49	-27
Banks	117	276	307	-78	-22	-90	-19	53	-40
Nonbanks	27	82	84	30	34	6	-6	-4	13
Changes in net claims on industrial countries: ^{4/}	97	-5	70	65	35	39	-12	3	29
United States	24	26	48	1	4	-12	8	2	29
Japan	55	34	46	-40	-12	9	-33	-4	-38
United Kingdom	18	25	-11	45	8	10	12	15	3
Belgium-Luxembourg	-12	-29	-17	-5	-2	-0	-2	-1	-6
France	-4	-1	8	-15	-9	-1	8	-12	3
Germany	-2	-51	-35	5	21	5	-7	-15	13
Italy	9	23	35	43	13	7	12	11	19
Switzerland	-5	-35	-42	11	3	7	-5	6	4
Other industrial countries	13	3	39	20	8	14	-4	2	3
Memorandum item:									
Industrial Europe	14	-70	-21	89	39	39	9	2	34

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
					Q1	Q2	Q3	Q4	Q1
Changes in claims on developing countries: 3/	-4.5	12.9	3.0	25.4	9.2	2.1	4.8	9.2	9.3
15 Heavily indebted countries:	-14.2	-1.3	-28.2	1.2	0.7	0.1	-2.4	2.8	2.0
Argentina	0.3	1.8	-1.1	-0.5	0.2	0.0	-0.8	0.1	-0.1
Brazil	-5.5	2.6	1.4	-1.3	0.5	-0.3	-1.5	0.0	0.9
Chile	-1.4	-0.6	0.4	-0.6	-0.1	-0.4	-0.3	0.1	0.3
Mexico	-6.3	-0.2	-18.0	6.7	1.7	1.4	1.2	2.4	2.9
Nigeria	-0.5	-0.9	-0.8	-0.5	0.0	-0.3	-0.1	-0.2	-0.5
Philippines	-1.1	-1.5	-0.8	-0.5	0.1	-0.3	-0.3	-0.1	-0.6
Venezuela	0.6	0.2	-7.3	0.5	-0.7	0.5	-0.0	0.7	0.0
Other 4/	-0.3	-2.7	-2.2	-2.5	-1.0	-0.6	-0.6	-0.3	-0.9
Other developing countries:	9.6	14.1	31.2	24.2	8.5	2.0	7.2	6.4	7.4
China	7.1	-0.5	7.5	5.8	0.7	-0.5	2.0	3.7	-1.2
Egypt	0.8	0.8	0.2	-2.7	-1.9	0.0	-0.2	-0.6	-0.4
India	0.9	1.0	-0.5	-0.0	0.6	-0.6	-0.1	0.1	-0.0
Indonesia	0.8	1.7	7.7	2.5	1.7	-0.4	0.5	0.7	0.4
Korea	-1.7	1.1	4.2	8.7	2.7	3.1	1.7	1.3	1.9
Malaysia	-1.4	-0.3	-0.1	1.3	-0.2	0.1	0.2	1.2	0.5
Saudi Arabia	0.4	1.9	-2.4	2.2	-0.2	2.7	0.3	-0.6	0.1
Taiwan Province of China	-1.7	0.2	0.7	4.6	1.4	-0.1	1.3	1.9	1.3
Turkey	-0.1	0.2	3.3	1.1	1.3	0.1	-0.2	-0.1	-0.4
Other	4.5	8.0	10.6	0.6	2.3	-2.3	1.8	-1.1	5.2
Changes in liabilities to developing countries: 5/	36.5	74.0	83.6	23.8	-2.4	1.2	11.0	14.0	-2.3
15 Heavily indebted countries:	4.6	17.2	22.5	2.0	1.4	-1.1	1.6	0.1	3.4
Argentina	2.1	2.1	4.9	1.2	-0.6	1.2	0.9	-0.3	-1.0
Brazil	3.8	5.2	2.8	-0.5	0.6	0.7	-2.4	0.7	6.9
Chile	0.7	0.7	2.9	-0.5	-0.0	-0.0	-0.2	-0.2	-0.2
Mexico	-6.9	0.1	0.2	-0.7	-0.2	-1.8	3.3	-2.0	-1.1
Nigeria	-0.4	1.9	2.5	0.7	0.8	-0.8	0.1	0.6	-1.3
Philippines	0.4	0.4	-0.1	0.6	0.3	1.0	-0.6	-0.1	0.1
Venezuela	-0.0	0.7	6.0	1.0	1.3	-1.1	-0.6	1.4	-0.8
Other 4/	4.8	6.1	3.3	0.2	-0.8	-0.2	1.2	-0.1	0.8
Other developing countries:	31.9	56.8	61.1	21.7	-3.8	2.3	9.4	13.9	-5.6
China	5.3	1.4	15.5	6.9	0.8	-0.4	1.6	4.8	-0.7
Egypt	0.8	1.6	4.3	4.0	1.5	0.8	0.9	0.8	-0.2
India	-0.7	-0.1	0.4	2.4	0.8	-1.1	0.6	2.1	1.5
Indonesia	-0.1	3.2	1.7	1.0	0.6	1.0	-1.4	0.7	0.1
Korea	7.6	1.3	1.2	2.4	-0.1	1.6	0.3	0.6	0.7
Malaysia	0.2	1.5	1.6	0.3	0.2	-0.1	-0.6	0.8	1.4
Saudi Arabia	10.1	6.5	4.6	-5.2	2.2	-2.2	-2.4	-2.8	-2.1
Taiwan Province of China	-6.4	13.0	7.4	1.5	-2.0	3.2	-0.8	1.0	-4.0
Turkey	1.8	3.1	1.2	-0.1	-2.2	0.9	0.3	0.9	-0.3
Other	13.3	25.3	23.2	8.5	-5.7	-1.5	10.8	4.9	-2.0
Changes in net claims on developing countries: 6/	-41.0	-61.1	-80.6	1.6	11.7	0.9	-6.2	-4.8	11.6
15 Heavily indebted countries	-18.7	-18.5	-50.7	-0.8	-0.7	1.2	-4.0	2.7	-1.4
Other developing countries	-22.3	-42.7	-29.9	2.4	12.3	-0.3	-2.2	-7.5	13.0

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 residence 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
					Q1	Q2	Q3	Q4	Q1
Changes in claims on:									
Developing countries:	-4.5	12.9	3.0	25.4	9.2	2.1	4.8	9.2	9.3
Africa	-1.5	-1.7	-0.5	-3.0	-1.5	-0.5	-0.7	-0.3	0.4
Asia	3.8	4.4	23.4	30.3	9.6	2.5	8.4	9.7	3.2
Europe	0.7	0.2	4.8	-0.7	1.6	-1.2	-0.6	-0.5	-1.1
Middle East	5.2	4.4	-3.8	-0.4	0.2	-1.8	-1.0	2.2	2.5
Western Hemisphere	-12.7	5.6	-20.9	-0.9	-0.7	3.1	-1.2	-2.0	4.4
15 heavily indebted countries	-14.2	-1.3	-28.2	1.2	0.7	0.1	-2.4	2.8	2.0
Other developing countries	9.6	14.1	31.2	24.2	8.5	2.0	7.2	6.4	7.4
Memorandum item:									
U.S.S.R. ^{2/}	5.4	7.5	-6.0	1.1	-1.1	-1.7	1.4	2.5	1.4
Changes in liabilities to:									
Developing countries:	36.5	74.0	83.6	23.8	-2.4	1.2	11.0	14.0	-2.3
Africa	4.2	8.0	5.9	1.2	-0.4	-1.2	1.8	0.9	-1.1
Asia	11.6	25.9	33.7	20.0	0.8	6.5	1.4	11.3	-1.7
Europe	5.4	8.8	3.4	-0.3	-4.8	-0.9	2.8	2.5	0.9
Middle East	13.1	18.4	18.7	-2.7	-1.1	-2.0	0.9	-0.5	-5.4
Western Hemisphere	2.2	12.9	21.9	5.6	3.0	-1.2	4.0	-0.2	5.0
15 heavily indebted countries	4.6	17.2	22.5	2.0	1.4	-1.1	1.6	0.1	3.4
Other developing countries	31.9	56.8	61.1	21.7	-3.8	2.3	9.4	13.9	-5.6
Memorandum item:									
U.S.S.R. ^{2/}	1.6	-0.8	-6.5	0.0	-1.7	0.3	0.8	0.6	-0.6
Changes in net claims on:									
Developing countries:	-41.0	-61.1	-80.6	1.6	11.7	0.9	-6.2	-4.8	11.6
Africa	-5.7	-9.7	-6.4	-4.2	-1.1	0.7	-2.6	-1.2	1.4
Asia	-7.7	-21.5	-10.3	10.3	8.9	-4.0	7.1	-1.6	4.9
Europe	-4.7	-8.6	1.4	-0.4	6.4	-0.3	-3.5	-2.9	-2.0
Middle East	-7.9	-14.0	-22.5	2.2	1.3	0.2	-2.0	2.7	7.9
Western Hemisphere	-15.0	-7.3	-42.8	-6.4	-3.8	4.3	-5.2	-1.8	-0.6
15 heavily indebted countries	-18.7	-18.5	-50.7	-0.8	-0.7	1.2	-4.0	2.7	-1.4
Other developing countries	-22.3	-42.7	-29.9	2.4	12.3	-0.3	-2.2	-7.5	13.0
Memorandum item:									
U.S.S.R. ^{2/}	3.8	8.3	0.5	1.1	0.6	-2.0	0.6	2.0	2.1

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 industrial countries and offshore centers.

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

activity in industrial countries other than Japan was sluggish, showing only a small increase in claims (\$12 billion) and a substantial decrease in liabilities (\$57 billion).

International bank claims on industrial countries declined by \$43 billion in the first quarter of 1992, reversing the increase of \$100 billion in the fourth quarter of 1991; claims on residents of Japan dominated the overall picture, decreasing by \$55 billion, while claims on the United Kingdom also fell by \$14 billion during the first quarter. Claims on industrial European countries other than the United Kingdom rose by \$21 billion, dropping the shares of Japan and the United Kingdom still further. Developments in interbank claims on industrial countries were dominant in the first quarter (declining by \$46 billion), while claims on nonbanks in industrial countries continued to increase, but by only \$2 billion compared to an average quarterly growth of \$34 billion in 1991.

Liabilities to industrial countries also decreased (by \$73 billion in the first quarter of 1992) following a \$98 billion increase in the previous quarter. Cross border liabilities to the United States showed the largest fall (\$22 billion) among all industrial countries, followed by a decline in liabilities to the United Kingdom (\$18 billion), and Japan (\$16 billion), resulting in a \$56 billion decrease for these countries. Interbank liabilities to industrial countries dominated the overall movement falling by \$72 billion; liabilities to nonbanks in the industrial countries were virtually unchanged in the first quarter.

Claims on the United States rose by \$6 billion compared with increases averaging \$20 billion in the two preceding quarters. Interbank claims rose by \$8 billion which more than compensated for the decline in claims on nonbanks in the United States (\$2 billion). 1/ On the contrary, international bank liabilities to the United States decreased by \$22 billion in the first quarter, more than offsetting an increase of \$16 billion during 1991. This decline was shared almost evenly between interbank (\$13 billion) and nonbank (\$9 billion) flows; the nonbank declines reflecting, to some extent, the withdrawal of Japanese investments in the United States. 2/

The United States recorded a current account balance in the first quarter and official reserves (valuation adjusted) increased by \$1 billion. International bank net claims on United States residents rose by \$29 billion, while banks in the United States increased their net claims on nonbanks in the rest of the world by \$4 billion, which implies that

1/ The BIS reports the expansion in interbank claims mainly reflected the increased transactions between the United States banks and their affiliates in the Caribbean offshore centers.

2/ For example, net sales of the United States long-term securities and stocks to Japan decreased by \$8.9 billion in the first quarter of 1992, resulting in a \$6.6 billion decrease of total net sales to nonresidents.

nonbanks in the United States increased their net claims on nonbanks in the rest of the world by \$24 billion. 1/

The decline in international bank claims on Japan in the first quarter of 1992 (\$55 billion) accounted for more than 60 percent of total decreases of these claims recorded in 1991; also, international bank liabilities to Japan fell by \$16 billion. 2/ Besides the effect of weak domestic loan demand, Japanese banks were subject to further contraction of international banking activity to fulfill BIS capital adequacy standards at their end year as the Japanese stock market continued to decline. This movement was dominated by interbank activity; claims on Japan fell significantly by \$57 billion, resulting in a cut back almost to the level of end 1988. On the other hand, international bank claims on, and liabilities to nonbanks in Japan showed only small changes.

The Japanese balance of payments recorded a current account surplus of \$28 billion in the first quarter of 1992, while official reserves (valuation adjusted) fell by \$1 billion. International bank net claims on residents of Japan decreased by \$38 billion. Banks in Japan made no change to their net claims on nonbanks in the rest of the world, implying that Japanese nonbanks decreased their net claims on nonbanks in the rest of the world by about \$9 billion. 3/

Claims on industrial European countries increased \$7 billion in the first quarter of 1992, much less than the increase of \$51 billion in the previous quarter. Cross border claims of banks in the United Kingdom contracted by \$14 billion in the first quarter of 1992, the fifth consecutive quarterly declines. This reduction was more than offset by increases for Germany and Italy. Claims on nonbanks in industrial European countries also showed a weaker increase (\$4 billion) compared to \$16 billion rise in the previous quarter.

Liabilities to industrial European countries were reduced by \$27 billion; the decline of interbank liabilities (\$40 billion) more than compensated for the increase in liabilities to nonbanks in these countries (\$13 billion). Cross border liabilities to the United Kingdom fell by \$18 billion while liabilities to other European countries declined by \$9 billion.

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

2/ The BIS reports that the activities of Japanese banks were the major factor behind the absolute declines in the external assets of banks in the United States, the United Kingdom, and Belgium.

3/ This amount includes errors and omissions of \$6 billion.

III. Cross-Border Banking Activity with Developing Countries

International bank claims on developing countries, other than offshore banking centers, increased by \$9.3 billion in the first quarter of 1992. Claims on the group of heavily indebted countries rose by \$2.0 billion, almost the same as in the previous quarter. Comprehensive debt reduction packages had a smaller impact on bank assets during the period than in any quarter in 1991 and net accumulations of interest arrears declined due to a disbursement by Brazil. 1/ Claims on developing countries, other than heavily indebted countries, showed a stable increase of \$7.4 billion. International bank liabilities to developing countries, other than offshore banking centers, decreased by \$2.3 billion in the first quarter, compared to the average quarterly growth of \$6.0 billion in 1991; an increase in liabilities to the group of heavily indebted countries (\$3.4 billion) was more than offset by a decline in liabilities to other developing countries (\$5.6 billion). Net claims on developing countries showed an increase of \$11.6 billion in the first quarter, in contrast to an average \$5.5 billion decrease recorded in the previous two quarters.

On a regional basis, international bank claims on African countries rose by \$0.4 billion in the first quarter of 1992 after five consecutive quarters of decline. Claims on Asian countries increased by \$3.2 billion, less than half of the average growth (\$7.6 billion) in 1991, with major changes occurring in Korea (\$1.9 billion), and Taiwan, Province of China (\$1.3 billion). Bank claims on developing European countries decreased slightly by \$1.1 billion. Claims on Middle Eastern countries rose \$2.5 billion, dominated by an increase for Kuwait (\$2.5 billion, reflecting disbursement of syndicated loans). Claims on developing countries in the Western Hemisphere increased by \$4.4 billion, more than offsetting the decrease in 1991, with increased claims on Mexico (\$2.9 billion), and Brazil (\$0.9 billion). 2/ Outside these regions, claims on former U.S.S.R. countries increased by \$1.4 billion, reflecting new officially guaranteed credits to the countries.

International bank liabilities to African countries were reduced by \$1.1 billion. Deposits by Asian countries declined by \$1.7 billion, marking a drop for the first time since the second quarter of 1989, with a substantial decline in Taiwan, Province of China (\$4.0 billion, consistent with a change in reserves during the period). Deposits of developing European countries rose by \$0.9 billion, virtually unchanged for each country. Deposits by Middle Eastern countries fell by \$5.4 billion with

1/ 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 first quarter of 1992, net accumulation of interest arrears of about negative \$0.5 billion and debt sales and conversions of about \$0.2 billion.

2/ The BIS reports that Mexico and Brazil were also major borrowers in the international bond market.

continuous large withdrawals of deposits by Saudi Arabia (\$2.1 billion) reflecting the effects of the Gulf War and the United Arab Emirates (\$2.1 billion). Deposits of Western Hemisphere countries rose by \$5.0 billion dominated by an increase for Brazil (\$6.9 billion) where reserves accumulated reflecting active capital inflows. Deposits by former U.S.S.R. countries decreased by \$0.6 billion during the same period.

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).

