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The International Capital Market in 1982

The changes that occurred in the international capital market in 1982 – such as in the slope of the yield curve in virtually all sectors, in issuing techniques, in the relative importance of sectors and currencies and even in sources of funds – left it looking very different at the end of the year. Short and long-term interest rates were widely expected to continue to decline from the peaks they reached around September/October 1981 (see graph on page 5) but it was significant that, encouraged by their respective authorities often acting in concert, interest rates in Europe led the decline while those in the U.S.A. held up until July.

The surge in issuing activity in 1982, particularly on the international market (see Table 1), resulted in a 94% increase to 67.4bn ECUs in public issues of international and foreign securities compared with 1981. Between the same two years internationally syndicated bank credits fell by 21% in amount (to 99.6bn ECUs). This fall reflects the jolt to such financing occasioned by a number of major debtors in Latin America

and in Eastern Europe suspending their service payments, not to mention the debt service problems encountered by several developing countries in Africa. Hardly surprisingly the international banking syndicates became more selective in the matter of risk exposure and preferred to lend to borrowers in developed countries and, in view of the swing into deficit of the petroleum exporting countries as a group, to OPEC borrowers as well.

The advance in 1982 of public issues on the international and foreign securities markets and the contraction of internationally syndicated bank credits needs to be interpreted with caution. Not only are all currency amounts converted for the sake of comparison into ECUs, which inevitably introduces distortions when conversion rates are changing (see table of conversion rates in 1981 and 1982), but certain special features in both forms of borrowing need to be taken into account. Security issues on the international market in 1982 have been inflated to the extent of approximately 5.1bn ECUs by the inclusion of the full nominal value of so-called "zero coupon" issues launched during January and Febru-

A sharper fall in short-term than in long-term interest rates on most markets, including in the latter part of 1982 that of the U.S.A., helped to reintroduce a more normal relationship between them, producing once more a positively sloped yield curve. This in turn reduced the cost for market intermediaries of financing their inventories of securities and so encouraged further the flow of new issues of bonds and notes that was already under way as borrowers sought to replace interim short-term finance with longer-term fixed interest funds on easier terms and investors, anticipating a continuing decline in rates, tried to lock in to higher yields while they were still available.

ary of that year although the amount subscribed by investors was very much less as the capital appreciation of the security to final maturity compensates for the absence of interest income. Internationally syndicated bank credits in 1981, on the other hand were unusually high because of the inclusion of several exceptional credits, amounting to nearly 42bn ECUs, to US oil companies in connection with take-over activities. If appropriate adjustments were to be made the conclusion regarding the relative changes in the two forms of borrowing would perhaps be similar but the contrast would be much less marked.

The bond markets

Development of new approaches to investors

Several new approaches were developed by issuing syndicates in 1982 in performing their traditional rôle of persuading institutional and private investors alike to subscribe to security issues. They involved essentially operations on the U.S. dollar sector of the international market but several techniques were adapt-

In this issue

The International Capital Market in 1982

Outline of main developments p. 1

The bond markets

— new approaches to investors

— currencies

— borrowers

— international issues by sector p. 1-7

Internationally syndicated credits p. 7-8

ECU exchange rates used for this review p. 2

able to other sectors in which indeed some appeared. This strengthening of a tendency to innovate occurred, it should be noted, when the market had already begun to show signs of expanding rapidly after several years of stagnation as borrowers seemed to make special efforts to secure better terms than those prevailing at the time of issue or to prepare well in advance for future approaches to investors. On the other hand, the usefulness of one or two devices introduced in earlier periods diminished.

The zero coupon issues that were such a feature in the dollar sector of the international market during the first two months of 1982 have already been mentioned above. The securities, which carried to the limit the existing practice of launching issues bearing coupons below current market levels at a deep discount so as to provide purchasers with a substantial capital appreciation of their holdings in lieu of interest income, appealed mainly to investors exempt from tax on capital gains, as

were residents in Japan at that time. Borrowers were accordingly able to launch their issues with lower yields to redemption than on conventional issues with similar lives. An additional benefit was available to borrowers under certain tax systems which permitted them to charge sums set aside annually for the ultimate redemption of zero coupon issues against their taxable income. The ban imposed by the Japanese authorities at the end of February on sales of such securities to their residents in effect ended that practice. The Japanese regulations were eased in early 1983, but the intervening suspension by the U.S. authorities of tax advantages enjoyed by borrowers on zero coupon terms had reduced the likelihood of any large scale revival of the technique.

Two other modifications to the normal terms of fixed-interest issues introducing greater flexibility in the determination of the life of the securities bore a certain resemblance to each other although they are intended to work in opposite direc-

tions. In one of the modifications the life of the securities is usually referred to as "retractable" because the terms of issue permit the borrower to adjust the coupon at regular intervals of years but confer on the holder the option either of renewing his investment at the new interest rate or of requesting redemption at par and hence of shortening the life of the investment. In the other modification, however, the holder has the option of extending the original life of the securities by a stipulated number of years but, in the event of this option being exercised, the borrower also has the option of adjusting the coupon of the "extendable" issue.

The device of attaching warrants to fixed-interest securities is by no means new but from mid — 1982 onwards it was exploited to a more than usual degree on the international market in offering purchasers of new issues the option of buying further securities on identical terms after a lapse of perhaps six months during which conditions appeared likely to move in their disfavour. Banking on the market's expectation of a continuing decline in yields at issue, borrowers sought to trim the cost of their funds to rather less than they would be required to pay on an issue without warrants. In most operations the warrants were sold as part of the securities at no extra cost and hence as an option to be exercised by the investor but in a few issues the warrants were sold separately, thereby assuring the borrower of a further inflow of funds.

The requiring of only a proportion of the issue price of a security to be paid on application is a long-established practice on several national capital markets but was only developed on the international market in the latter part of 1982. With between 10% and 30% of the issue price payable initially and the balance in instalments over several months, borrowers were able to launch larger issues with a better chance of success than if the whole amount had to be subscribed in the traditional way. Together with sales of warrants entitling holders to purchase securities by some future date, partly paid issues could be regarded as a device to secure for the borrowers concerned a part of future flows of investable funds into the market. The amounts pre-empted in either of these ways, however, have not as yet been particularly large.

Note

Unless otherwise stated, the statistics of bond issues in this article are of public issues on the international market or of public issues by foreign borrowers on national markets.

International issues are those which are sold through international banking syndicates, usually in more than one market including markets outside Europe; they include all issues to which special monetary clauses are attached (ECU, EUA, SDR and other multiple-currency issues).

Foreign bond issues are those which are sold on a single national market on behalf of non-resident borrowers by financial institutions of the country concerned. The distinction between international and foreign bond issues is no longer clear-cut.

Syndicated credits consist of loans granted by international banking syndicates as publicly reported; they are recorded at the time of signature and not of drawdown.

The classification of **developed** or "industrialised" and **developing countries** is based on that of the World Bank, i.e., developing countries are mostly those which had an average income per head in 1980 of up to US\$ 4 500. South Africa, however, has been classified as an industrialised country.

For the purpose of comparison, amounts in various currencies and currency units have been converted in the summary tables into ECUs (consisting of specific amounts of the currencies of EEC Member Countries, excluding the Greek drachma). The rates applied in this article in converting the ECU into the main currency units in use on the international market are as follows:

		US\$	DM	Sfrs	Yen	Ffrs
1981	1 ECU	1.160	2.527	2.222	251.44	5.974
1982	1 ECU	0.993	2.390	1.979	244.7	6.403
		£	Can. \$	Fl		
1981	1 ECU	0.5555	1.387	2.793		
1982	1 ECU	0.5567	1.225	2.623		

A further practice to which increasing resort was made in 1982, entirely to suit the convenience of borrowers, was the swapping of proceeds of issues either to exchange a fixed-interest liability for a floating-rate liability (or vice versa) or to exchange proceeds in one currency for the equivalent in another currency, most probably bearing a different interest rate. As an example of the possible benefits for both parties of a straight interest rate swap, a bank based in Europe and able to borrow on the best fixed-interest terms in the dollar sector of the international capital market but wishing to raise floating-rate finance could find it advantageous to arrange a swap with a less highly rated U.S. corporation discouraged so far from raising the fixed-rate finance it requires by cost considerations but having access to floating-rate funds in the U.S.A. on better terms than available on the international market. The cost advantage for both borrowers in the swaps that have been concluded, including the fees payable to intermediaries, would evidently be worthwhile. Significantly a substantial number of issues by banks based in Europe have been launched with the idea of raising fixed-interest finance for swapping into floating-rate debt, though the partner to the transaction is not usually disclosed.

Currency swaps as distinct from straight interest rate swaps have tended to be arranged in recent years between as well as within multinational corporations without borrowing necessarily being involved but the World Bank's swapping of the proceeds of a dollar issue on the international market in August 1981 for Deutsche Marks and Swiss francs held by IBM which carried lower rates of interest set a pattern that it and others followed in 1982. While the lower interest rate on a currency obtained under the swap arrangements could be the motive for one of the partners to the deal, the main motives for the other could well be a reduction in exposure to exchange risk and/or the realisation of profits from exchange rate fluctuations. A fairly wide range of circumstances could be envisaged as likely to produce an advantage for both sides from currency swaps but it would seem that fewer issues were made in 1982 with this purpose in view than for the simple transformation of a fixed into a floating-rate interest liability.

The development of these various techniques helped to widen the

range of activity on the international market and to swell the amount of new issues but certain longer established forms of capital raising should also be mentioned as contributing to the growth of the market. Among these were issues of floating-rate notes which reached a peak in the second quarter of 1982 when interest rates in the dollar sector were still very high. As interest rates came down, however, so did issuing activity in floating-rate notes and the so-called "drop-lock" clause (under which the variable interest rate, if it were to fall below a specified level, would remain fixed at that level for the remainder of the life of the securities) disappeared from prospectuses but, on the other hand, investors have been given the opportunity in some floating-rate issues of opting for a fixed coupon after a number of years.

It might have been expected that issues denominated in currency units which offer a hedge against exchange risk would continue to contribute to the growth of the international market during a year in which the major currencies fluctuated fairly widely against one another. As it happened, however, no issues denominated in Special Drawing Rights were made during 1982, despite the reduction in 1981 of the number of currencies in this basket unit from sixteen to five; it would appear that it became impractical for the SDR to compete against the strong attraction of its main component, the U.S. dollar. One public issue was, on the other hand, denominated in the long-standing European Unit of Account before this too ceased to be used as its promoters turned their attention to participating in issues denominated

Table 1: Total international financing 1978-1982 through public issues of securities and syndicated bank credits

	million ECUs				
	1978	1979	1980	1981	1982
International securities	9 310	10 693	13 312	21 023	50 249
Foreign securities	9 277	7 943	6 907	13 700	17 149
Syndicated bank credits	52 338	57 298	57 379	125 751	99 645
	70 925	75 934	77 598	160 474	167 043

Table 2: Total financing through public issues of international and foreign securities and internationally syndicated credits, classified according to borrowers

	million ECUs							
	1981				1982			
	1st H.	2nd H.	Total	%	1st H.	2nd H.	Total	%
International issues	7 496	13 527	21 023	13.1	31 111	19 138	50 249	30.1
Foreign issues	6 457	7 243	13 700	8.5	7 042	10 107	17 149	10.2
Total issues	13 953	20 770	34 723	21.6	38 153	29 245	67 398	40.3
Syndicated credits	37 615	88 136	125 751	78.4	53 287	46 358	99 645	59.7
TOTAL	51 568	108 906	160 474	100.0	91 440	75 603	167 043	100.0
Borrowers								
Developed countries	29 604	81 013	110 617	68.9	60 383	51 533	111 916	67.0
Borrowers in EEC countries (incl. EEC organisations)	11 394	11 670	23 064	14.4	17 476	18 769	36 245	21.7
Other developed countries	18 210	69 343	87 553	54.5	42 907	32 764	75 671	45.3
Developing countries	19 303	24 977	44 280	27.6	27 378	19 314	46 692	28.0
OPEC countries	2 338	2 839	5 177	3.2	4 941	4 188	9 129	5.5
Other developing countries	16 965	22 138	39 103	24.4	22 437	15 126	37 563	22.5
Eastern European countries (incl. Comecon organisations)	1 023	278	1 301	0.8	385	324	709	0.4
Other international organisations	1 638	2 638	4 276	2.7	3 218	4 382	7 600	4.5
Unallocated					76	50	126	0.1
TOTAL	51 568	108 906	160 474	100.0	91 440	75 603	167 043	100.0

Table 3: International and foreign security issues classified according to currency or currency unit million ECUs

Currencies	International issues						Foreign securities						Total							
	1981			1982			1981			1982			1981			1982				
	1st H.	2nd H.	Total	1st H.	2nd H.	Total	1st H.	2nd H.	Total	1st H.	2nd H.	Total	1st H.	2nd H.	Total	%	1st H.	2nd H.	Total	%
US dollars	5 954	11 249	17 203	27 077	15 486	42 563	2 779	3 503	6 282*	1 814	4 432	6 246*	8 733	14 752	23 485	67.6	28 891	19 918	48 809	72.4
Swiss francs							1 746	1 755	3 501	2 387	2 695	5 082	1 746	1 755	3 501	10.1	2 387	2 695	5 082	7.5
Yen	139	180	319	290	184	474	915	1 054	1 969	1 565	1 144	2 709	1 054	1 234	2 288	6.6	1 855	1 328	3 183	4.7
Deutsche Mark	235	990	1 225	2 014	1 939	3 953	218	415	633	292	502	794	453	1 405	1 858	5.4	2 306	2 441	4 747	7.0
Pounds sterling	268	184	452	270	557	827	549	189	738	450	725	1 175	817	373	1 190	3.4	720	1 282	2 002	3.0
French francs	500		500					84	84	156	78	234	500	84	584	1.7	156	78	234	0.4
Canadian dollars	36	458	494	1 023	269	1 292							36	458	494	1.4	1 023	269	1 292	1.9
Guilders	42	30	72	72	87	159	199	179	378	342	391	733	241	209	450	1.3	414	478	892	1.3
SDRs	176	135	311										176	135	311	0.9				
ECUs	75	115	190	197	525	722							75	115	190	0.5	197	525	722	1.1
Other currencies / currency units	71	186	257	168	91	259	51	64	115	36	140	176	122	250	372	1.1	204	231	435	0.7
Total	7 496	13 527	21 023	31 111	19 138	50 249	6 457	7 243	13 700	7 042	10 107	17 149	13 953	20 770	34 723	100.0	38 153	29 245	67 398	100.0

Table 4: International and foreign security issues classified according to borrower million ECUs

Borrowers	International issues						Foreign securities						Total							
	1981			1982			1981			1982			1981			1982				
	1st H.	2nd H.	Total	1st H.	2nd H.	Total	1st H.	2nd H.	Total	1st H.	2nd H.	Total	1st H.	2nd H.	Total	%	1st H.	2nd H.	Total	%
I. Developed countries	6 117	11 747	17 864	27 908	16 831	44 739	5 144	4 979	10 123	5 330	7 043	12 373	11 261	16 726	27 987	80.6	33 238	23 874	57 112	84.7
Borrowers in EEC countries (incl. EEC organisations)	2 286	2 741	5 027	5 939	5 737	11 676	1 107	1 432	2 539	1 386	2 208	3 594	3 393	4 173	7 566	21.8	7 325	7 945	15 270	22.6
Other developed countries	3 831	9 006	12 837	21 969	11 094	33 063	4 037	3 547	7 584*	3 944	4 835	8 779*	7 868	12 553	20 421	58.8	25 913	15 929	41 842	62.1
II. Developing countries	673	1 117	1 790	1 910	959	2 869	381	289	670	167	41	208	1 054	1 406	2 460	7.1	2 077	1 000	3 077	4.6
OPEC countries		61	61	201	75	276	205	86	291		41	41	205	147	352	1.0	201	116	317	0.5
Other developing countries	673	1 056	1 729	1 709	884	2 593	176	203	379	167		167	849	1 259	2 108	6.1	1 876	884	2 760	4.1
III. Eastern European countries (incl. Comecon organisations)																				
IV. Other internat. organisations (!)	706	663	1 369	1 293	1 348	2 641	932	1 975	2 907	1 545	3 023	4 568	1 638	2 638	4 276	12.3	2 838	4 371	7 209	10.7
Total	7 496	13 527	21 023	31 111	19 138	50 249	6 457	7 243	13 700	7 042	10 107	17 149	13 953	20 770	34 723	100.0	38 153	29 245	67 398	100.0

* Including private placements by Canadian borrowers.

(!) African Development Bank, Asian Development Bank, Council of Europe, Eurofima, Inter-American Development Bank, Nordic Investment Bank, World Bank.
Source: EIB

in ECUs. Thus it was that the ECU came to be the main currency unit used in 1982 in new issues on the international capital market. Public issues denominated in ECUs rose from 190m ECUs, only 0.5% of the total of international and foreign issues in 1981, to 722m ECUs in 1982 when they formed 1.1% of a much larger total market.

The currencies

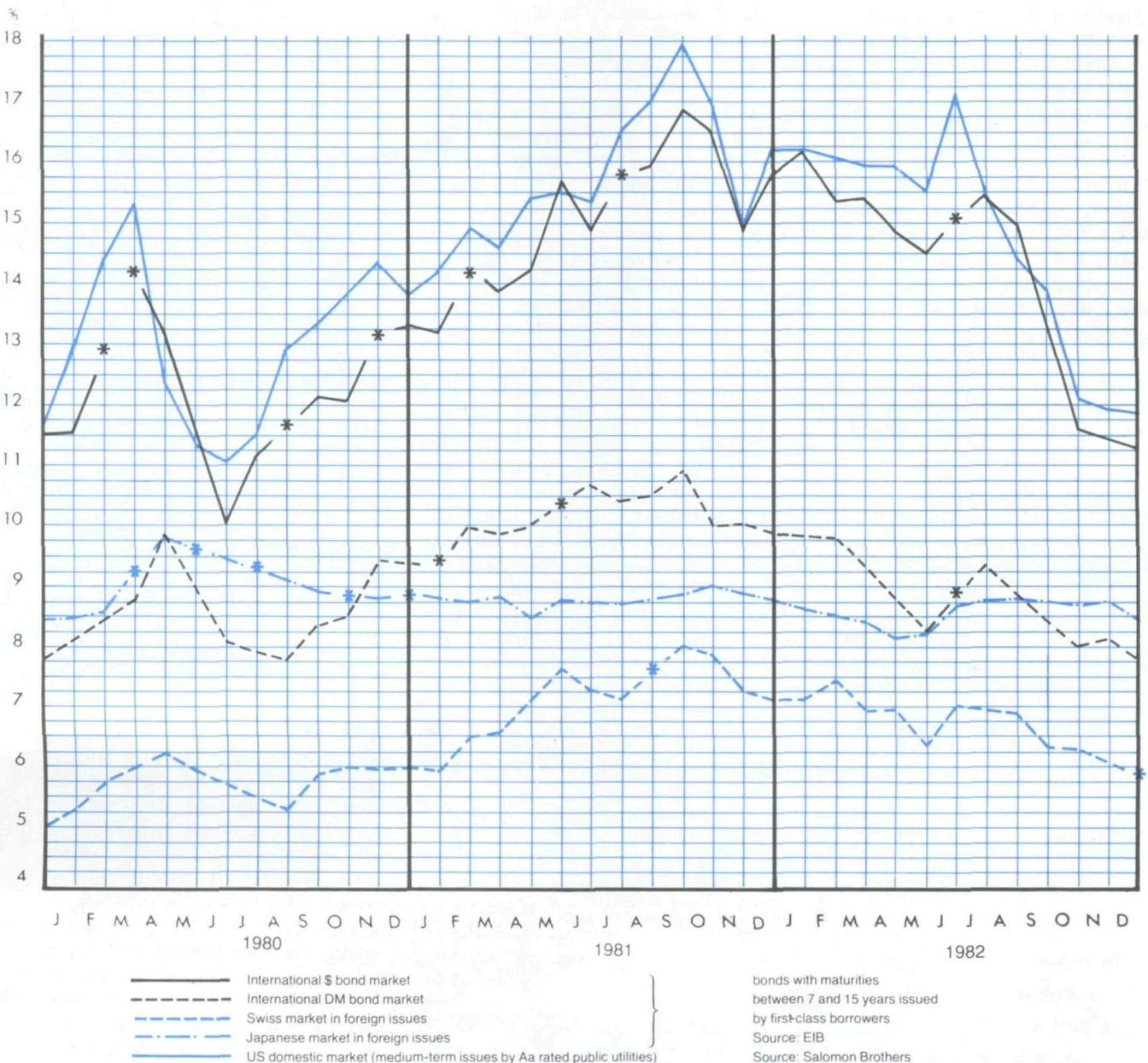
For the most part international and foreign borrowing operations continued to be conducted in 1982 in the same currencies as in the previous year if with some shifts between markets in the general expansion of activity.

The borrowing of U.S. dollars continued to grow more rapidly than that of other currencies put together, rising from 67.6% of the total of public issues in 1981 to 72.4% in 1982 (see Table 3). All of this growth occurred in international issues which during the greater part of the year carried a lower cost for the borrower than that for a foreign issuer on the New York (Yankee bond) market. As mentioned earlier, however, the international issues in U.S. dollars during the first half of 1982, equivalent to 27bn ECUs, include the full nominal amount of some 7bn ECUs of zero coupon issues or about 5.1bn ECUs more than was in fact subscribed by investors. A further feature contributing

to the fall of 11.6bn ECUs between the two halves of 1982 was an abrupt decline in issues of floating-rate notes from the equivalent of about 7bn ECUs in the first six months when interest rates were still very high and the outlook uncertain to approximately half this amount in the second six months when interest rates were moving steeply downwards.

In contrast foreign issues on the New York market were about 2.6bn ECUs higher in the second half of the year than the first. Until the end of July interest rates in the U.S.A. were so high that they discouraged even top rated domestic borrowers from taking on the risk of incurring long-term liabilities on fixed-interest

Average yields on new bond issues made in selected markets



Yields are calculated according to the standard method used by the International Association of Bond Dealers - I.A.B.D.
The sign * indicates the absence of new issues by first-class borrowers.

rate terms. From August onwards, however, interest rates declined across the board as inflationary pressures abated; though on the securities market the heavy borrowing programme of the U.S. Treasury tended to slow the decline in yields on issues of Government paper. The yield gap between Government and other issues accordingly narrowed, encouraging non-Government borrowers, including foreign entities, to approach the market on the comparatively favourable terms which lasted until the end of November when interest rates began to edge upwards once more in the expectation that the prospective economic recovery in 1983 might strain the market's resources.

Among issues denominated in other non-Community currencies, those in Canadian dollars, continuing the revival in activity which began in December 1981, rose further in 1982 to account for 1.9% of a larger market total as against 1.4% in the previous year; in contrast to earlier years, two non-Canadian borrowers, both financial institutions, tapped this sector of the market in 1982. Foreign issues denominated in Swiss francs rose in ECU terms from 3.5bn to 5bn while the total of *euroyen* and foreign issues on the domestic (Samurai) market of Japan increased from 2.3bn to 3.2bn but their growth did not match that of international and foreign issues as a whole and the proportions they accounted for fell accordingly to 7.5% and 4.7%.

In the sectors of the market denominated in the currencies of the European Community, issues denominated in Deutsche Mark continued in the lead, doubling in amount to form 7% of the total of international and foreign public issues. The cuts in administrative interest rates introduced by the authorities during the

first quarter of 1982 and supported by similar cuts in other European countries helped to initiate an improvement in sentiment on the bond market which however led to such a flow of new issues that issuing activity was suspended from early June until July to provide a breathing space. The broadening of the decline in interest rates in the second half of 1982 and a somewhat stronger performance of the exchange rate for the Deutsche Mark particularly against the U.S. dollar contributed towards re-establishing the bond market's capacity for absorbing new issues.

By generally excluding private placements on which information is incomplete, the new issues recorded in Table 3 understate the rôle played by the Netherlands guilder in international financing. The private placements on the euroguilder market in 1982, all with a five year life, amounted to the equivalent of 668m ECUs, more than four times public euroguilder issues which came to 159 m ECUs. Public issues denominated in guilders, taking together issues on the euroguilder market and issues by foreigners on the domestic market, doubled in amount between 1981 and 1982, thereby providing the same proportion (1.3%) of total public issues in the two years.

Against a background of falling interest rates issues denominated in pounds sterling, whether on the eurosterling market or on the domestic (Bulldog) market, rose substantially in amount from 1.2bn ECUs in 1981 to 2bn ECUs in 1982. Issuing activity slowed however from late November onwards as the pressure brought to bear on the exchange rate for the pound by weakening oil prices discouraged investors. In spite of the increase in their amount, issues denominated in

pounds sterling fell as a proportion of the total to 3% from 3.4% the previous year. With no issues in eurofrancs being recorded in 1982, the fall to 0.4% which issues denominated in French francs formed of the total was more marked.

In a difficult period from the point of view of balance of payments deficits on current account and disturbed conditions in foreign exchange markets, the rôle played by the Belgian franc in foreign issues of securities in 1982 was relatively minor.

The borrowers

In 1982 the general category of developed countries including the EEC more or less doubled its borrowing through security issues. A significant part consisted of borrowing for balance of payments reasons by national Governments, either directly or through subsidiary authorities and national enterprises.

Despite the adverse effect on the confidence of investors of suspensions of debt service by developing countries, these also increased their borrowing in 1982 but by a comparatively modest 31% in ECU terms. Within the total of 3 489m ECUs raised by the Third World, the amount going to petroleum exporting countries of 317m ECUs was a little lower than in the previous year. Virtually all the remainder went to Latin American or South East Asian countries with nothing for the African, Caribbean or Pacific areas and only one issue for Egypt among Mediterranean countries. Certain developing countries, however, would benefit from the proceeds of capital issues made by the World Bank and regional development banks and included in the 7 209m ECUs for "Other international organisations", which was nearly 3bn ECUs more (mentioned in Table 4), than in 1981.

As far as they are known, amounts obtained through private placements in 1981 and 1982 by the World Bank and regional development banks have been included in Table 5 along with the proceeds of their public issues. The contribution of private placements towards financing development in the Third World can be seen to be substantial and more or less of the same order as that of public issues of securities. The resources raised by the European Investment Bank appear at the foot of the Table by way of illustration. As nine-tenths of its operations are concerned with projects within

Table 5: Resources raised by official international institutions for financing development

	million ECUs			
	1981		1982	
	Public bond issues	Other	Public bond issues	Other
World Bank	2 949	2 841	4 893	5 719
Inter-American Development Bank	508	170	1 289	100
Asian Development Bank	354	260	679	n.a.
African Development Bank	0	161	42	n.a.
European Investment Bank	1 268	1 042	1 826	1 379

the Community and only one-tenth with those outside, the EIB's borrowings on capital markets are in a somewhat different category from those of the other institutions in the Table.

In 1982, as in 1981, no public issues of securities were made on the markets covered in this article either by Comecon organisations or by Eastern European countries some of which have been experiencing debt servicing problems.

International issues by sector

The pattern of borrowing by individual sectors of activity as illustrated in Table 6 has diverged surprisingly little while growing rapidly in total amount. The largest changes were a fall of 6.5 percentage points in the proportion accounted for by financial institutions counterbalanced by a gain of about 7 percentage points in the share of national governments and subsidiary authorities. The latter movement is partly or even largely the result of national authorities' efforts to finance balance of payments deficits by recourse to external borrowing rather than by drawing on foreign exchange reserves.

The increases in the percentages accounted for by manufacturing (+ 2.5%) and commerce (+ 1.9%) may have been more a response to more favourable terms for borrowers on capital markets as enterprises sought to fund their short-term debts than the arranging of finance for an expansion of activity, though some concerns may have been looking forward to an economic upturn in 1983.

The share of the international market obtained by public utilities at 8.1% in 1982 fell back to near where it stood in 1980 but the 1982 proportion was of a total several times higher. The proportion secured by international organisations has been declining for a number of years but the proceeds of their public issues have risen in amount and, as may be seen in Table 5, international development finance institutions have derived a large part of their resources from private placements.

Internationally syndicated credits

The sharp check to the expansion of lending by international banking syndicates in 1982 (see Table 7) may be said to have been partly attribut-

able to a fall in demand in that there was no repetition of the heavy borrowing by U.S. oil companies which occurred the previous year but the banks themselves, for a variety of reasons, were generally more cautious in their lending.

Among the reasons for a more cautious and selective approach to lending, were obviously the fairly widespread debt servicing difficulties of countries in Latin America, Eastern Europe, Africa and the Caribbean but a number of banks based outside the U.S.A. also found that the strength of the U.S. dollar against all other currencies during the first three quarters of the year posed a problem in adding substantially to the valuation of the dollar loans in

their portfolios in proportion to their other assets and to their equity. It also seems possible that, with higher interest rates prevailing on dollar markets than on those dealing in other major currencies, banks without a large deposit base in U.S. dollars experienced a drain on their resources, particularly when short-term interest rates fell faster during the second half of the year, thereby re-establishing the normal, positive, slope of the yield curve.

As a result of these factors the main lenders in the international syndicates were U.S. banks. Arab and Japanese banks also played a significant rôle, despite the probable effect on the first of the swing of OPEC into deficit and the request

Table 6: International issues by sector

	Percentage of total			
	1979	1980	1981	1982
Mining, exploitation of hydrocarbon deposits	5.9	6.7	7.9	7.5
Manufacturing	18.1	13.6	20.2	22.7
Commerce	3.5	3.2	1.6	3.5
Transport and communications	3.8	4.3	5.4	5.0
Public utilities (electricity, gas, water)	4.6	8.3	10.5	8.1
Financial institutions	36.7	40.2	37.0	30.5
International organisations	11.9	10.8	9.0	7.2
National governments, provincial and local authorities	15.4	12.5	7.8	14.9
Miscellaneous	0.1	0.4	0.6	0.6
	100.0	100.0	100.0	100.0

Table 7: Internationally syndicated bank loans, classified according to borrowers

	million ECUs							
	1981				1982			
	1st.H.	2nd.H.	Total	%	1st.H.	2nd.H.	Total	%
Developed countries	18 343	64 287	82 630	65.7	27 145	27 659	54 804	55.0
Borrowers in-EEC countries (incl. EEC organisations)	8 001	7 497	15 498	12.3	10 151	10 824	20 975	21.0
Other developed countries	10 342	56 790	67 132	53.4	16 994	16 835	33 829	34.0
Developing countries	18 249	23 571	41 820	33.3	25 301	18 314	43 615	43.8
OPEC countries	2 133	2 692	4 825	3.9	4 740	4 072	8 812	8.9
Other developing countries	16 116	20 879	36 995	29.4	20 561	14 242	34 803	34.9
Eastern European countries (incl. Comecon organisations)	1 023	278	1 301	1.0	385	324	709	0.7
Other international organisations					380	11	391	0.4
Unallocated					76	50	126	0.1
TOTAL	37 615	88 136	125 751	100.0	53 287	46 358	99 645	100.0

the Japanese Ministry of Finance made of the second that, as from October, they limit their share of syndicated loans to 15% instead of 20% as previously. Although the vast mass of international credits continues to be denominated in U.S. dollars, the widening range of currencies used in 1982 (including the yen, Swiss franc, Canadian dollar, Kuwaiti dinar, Saudi riyal and Hong Kong dollar, as well as the Deutsche Mark, the pound sterling and the Belgian and Luxembourg francs, not to mention the ECU) indicates an active participation by banks with a deposit base in the currencies concerned.

The more selective evaluation by international banking syndicates in 1982 of their risk exposure was reflected in a reduction of 2.8bn ECUs in their lending to non-OPEC developing countries and to Eastern Europe which was largely counter-balanced by an increase of 5.5bn ECUs in their loans to borrowers in the EEC (see Table 7). This last amount includes the U.S.\$4bn balance of payments support credit obtained by France. The main contraction in activity was, however, in lending to U.S. borrowers which are recorded under "Other developed countries", down 33bn ECUs in the Table. Lending to OPEC on the other hand rose by a little under 4bn ECUs and after a year's interval the African Development Bank, which is included under "Other international organisations", negotiated a syndicated credit of 0.4bn ECUs.

Both groups of developing countries in which the EIB lends, experienced a contraction in the amount of their borrowing from banking syndicates, that of signatories of the Lomé Convention (in Africa, the Caribbean and the Pacific) falling by about 28% and that of countries in the Mediterranean area by 10%. Although the contraction of 22% in lending to Latin American countries seemed to be of the same pattern, in terms of amount it was several times larger.

International banking syndicates during the course of 1982 sought to harden the terms of their lending to developing countries rather more than in their loans in and to industrialised countries in conformity with changes in the element of risk. Broadly speaking borrowers in Western Europe were being asked earlier in the year to pay spreads of 0.375% above the London interbank offered rate (LIBOR) on credits

of up to five years duration or a split-spread of 0.375%/0.5% on longer-dated credits. If borrowers were more heavily indebted, these spreads would have been set 0.125% higher. Where the U.S. prime lending rate was chosen as a reference rate instead of LIBOR, the spreads would in most instances be 0.125% less. Thus when banking syndicates sought in the latter part of 1982 to widen the spreads they charged, some borrowers chose, apparently for the sake of maintaining a lower spread, to base the interest rate on U.S. prime rate, even though this often stood above LIBOR.

The spreads attached to loans to borrowers in developing countries vary widely in accordance with the assessment made by the lenders and are naturally substantially higher than in operations in industrial countries but loans to borrowers in countries in the Mediterranean area and in Africa in which the European Investment Bank itself lends would commonly bear spreads within the range of 1.0% to 1.75% above LIBOR compared with, for example, 2.125% on Brazilian loans. From about late 1981 to the end of 1982 spreads on loans to developing countries widened by about 0.25%. Nigerian borrowers were an exception to the general rule in securing eight year funds on a spread of 0.875% throughout 1982, the same as they did in 1981.

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The foregoing account of developments in international fund raising activities in 1982 mark the year as one of significant change. The growth of public issues of fixed-interest and floating-rate securities, aided by the introduction of new techniques and fed by an increasing reflux of interest payments and redemption proceeds from earlier borrowing has been impressive. Whether the growth owes anything to a possible restoration of capital flows to traditional channels as a consequence of the ending of OPEC surpluses or whether it just happened to coincide remains to be seen. The momentum built up during 1982, however, together with the resourcefulness and adaptability shown by the market in profiting from changing attitudes augur well for the future of international borrowing.

The international banking syndicates, on the other hand, were ob-

liged to modify their lending patterns not only by changes in demand from borrowers and in their resources but also by a number of defaults within the year on debt service obligations, some by Eastern Europe but several of them by developing countries. Solutions are currently emerging, if not without their cost for the lenders, for some at least of these debt service problems but the set-back to the economies of developing countries through the joint impact of recession and inflation on their export proceeds and their debt service burden remains a matter for concern. The lessons learned in 1982 could mark an important step in relations between international banks and the Third World in leading, possibly, to operations such as those envisaged by the World Bank in its recently announced plans for participating in syndicated credits. In order to meet the financial needs of developing countries in the years to come it would seem essential to ensure that they are able to improve their access to the international capital market as well as to provide flows of official aid and support from international financial institutions.

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