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The International Capital Market in 1983

The hopes entertained by the international capital market at the beginning of 1983 of a possible continuation of the decline in interest rates which had begun in 1982, accompanied perhaps by a slight weakening of the U.S. dollar, were quickly dissipated by developments centred in the U.S.A. A stronger than expected economic recovery, a large and growing Federal

budget deficit and an above-target rate of increase in the money supply in that country aroused fears of a re-emergence of inflationary pressures. An already tight monetary policy was reinforced and from about April onwards interest rates on dollar markets were mostly moving upwards, ending the year higher than when it began.

The powerful influence which events on dollar markets exercise on other markets was accentuated last year by a sustained appreciation of the U.S. dollar itself in terms of all major currencies except the Yen. The dollar was strengthened by a swing in capital movements from a net outflow from the U.S.A. in the first quarter of 1983 of nearly \$ 20 bn to a heavy inflow in the latter part of the year. According to a preliminary estimate of the Federal Reserve, the net inflow for the year as a whole was about \$ 40 bn which covered a current account deficit of approximately the same size. The capital inflow was largely inspired by expectations of further rises in interest rates and in the value of the dollar itself, as well as of increases in equity prices

as the economic recovery gathered momentum. The attraction of the dollar as a refuge currency also played a role at times when political tensions in the Caribbean and the Middle East became more acute. A further contribution to the capital inflow came from developing countries in that resource transfers from the U.S.A. to the Third World fell short of repayments of earlier loans.

Under the circumstances attempts by monetary authorities in Europe to uncouple interest rates in their respective markets from those in the U.S.A. or the dollar sector of the international market met with limited success. Long-term interest rates on some markets, for example those dealing in Deutsche Mark, Guilder or Belgian franc securities, ended the year higher than when it began while on others the decline achieved over the year as a whole was modest.

After their rapid expansion of 26 bn ECUs the previous year, international and foreign issues of securities increased more moderately, by 7 bn in 1983 (see Table 1) as issuing activity was adversely affected from time to time by uncertainty over the direction in which interest rates might move. Most of the growth in 1983 was indeed in floating rate issues and a further part was accounted for by convertible issues or issues carrying warrants. Making

due allowance for possible distortions caused by converting all currency amounts into ECU for the purposes of comparison (see inset on conversion rates), it would appear that there was not much change between the two years in the amount of public issues of straight, fixed-interest, securities.

In contrast to security issues on the international market, commitments under internationally syndicated credit agreements fell sharply by the equivalent of nearly 28 bn ECUs. The cut-back in the lending of international banking syndicates to developing countries and to Eastern European countries after the 1982 defaults on debt service was only partly offset by increased lending to borrowers in industrialised countries or, for the purpose of balance of payments support, to the industrialised countries themselves. Because of the fall in syndicated credits in 1983, the bond markets almost equalled them as international suppliers of capital.

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The security markets

In spite of the capital flows to the U.S.A. in 1983, the U.S. dollar remained by far the most traded currency on markets dealing in international and foreign securities, but the proportion of new issues denominated in U.S. dollars fell, as may be

seen in Table 3, from 69% in 1982 to 65% in 1983, entirely because of a contraction equivalent to 900 m ECUs raised by non-U.S. borrowers on the New York market.

The Deutsche Mark overtook the Swiss franc as the second currency used in international issues in accounting for 9.5% of the total. The Swiss franc and the Yen with more or less unchanged proportions of 8.2% and 5.4% of the total, retained their appeal for borrowers and investors alike. A surge in euro-sterling issues, however, raised the proportion of the total market accounted for by the U.K. currency from 3.3% to 4.5%. The rise in the proportion of ECU issues from 1.2% to 2.9% was even more marked.

The following developments of note occurred in the different sectors of international and foreign security markets:

U.S. dollars

The terms of borrowing on the New York market remained more costly

for most of 1983 than in the dollar sector of the eurobond market. Even Canadian borrowers who form the largest category of non-U.S. borrowers tended at times to find their domestic market more advantageous. The only other non-U.S. issues on fixed interest terms were launched by international development banks, the World Bank, the Asian Development Bank and the Inter-American Development Bank, and by three sovereign borrowers, Australia, Austria and Finland.

The year 1983 opened with a flurry of activity in fixed-interest rate international issues denominated in dollars as investors anticipated a continuation of the decline in offering yields. New issues of fixed interest securities then fell during the next two quarters as investors turned hesitant in the face of conflicting indications of the direction interest rates might take. More was raised through floating rate issues in the third quarter than by fixed-rate issues and although the amount of

fixed-rate issues in the final quarter of 1983 was more or less the same as that of floating rate issues, it was the latter that were predominant in December when activity in fixed-rate issues came almost to a standstill. By this time the demand for floating rate notes was so strong that interest rate spreads were being reduced by a widening range of borrowers.

Further features of the dollar sector of the international market in 1983 were a trebling of the amount raised by convertible issues and a more modest increase in issues with warrants attached. The first of these reflected the response of investors to the upturn in economic activity in the U.S.A. and Japan, while the second represented attempts by some borrowers to raise funds at rather less than the prevailing cost by offering rights to purchase similar securities after an interval during which interest rates hopefully might fall.

Deutsche Mark

Issuing activity in this currency was also very heavy in the first quarter of 1983 but declined thereafter. After the realignment of reference rates in the European Monetary System in March, the Deutsche Mark, which was revalued against other participating currencies, became the main sufferer in the European Community from capital outflows towards the U.S.A. A simultaneous increase in the rate of growth of the money supply led to a tightening of monetary policy until the Autumn. Although an attempt was made subsequently to revive issuing activity by increasing the size of the new issues calendar, the market had difficulty in absorbing the new securities.

Swiss francs

New foreign issues were more evenly spread throughout the year than those in the two preceding currencies. During periods of international tension the Swiss franc tended to be regarded as a refuge currency, like the U.S. dollar though to a much less extent, and the resultant inflows of capital helped to sustain market activity. The flow of new issues, particularly in the form of convertible securities launched by Japanese enterprises, threatened at times to become too heavy but short- and long-term interest rates remained lower than on other markets and towards the end of the year the banks found

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 1981 of up to about US\$ 5 500. 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	£
1982	1 ECU	0.993	2.390	1.979	244.7	0.557
1983	1 ECU	0.911	2.268	1.889	216.0	0.596
		Can. \$	Fl.	Ffrs.		
1982	1 ECU	1.225	2.633	6.403		
1983	1 ECU	1.121	2.535	6.732		

it possible to introduce some interest rate reductions.

Yen

Yields of foreign (Samurai) issues on the Japanese domestic market tended to rise until mid-year and then to decline as the Yen followed the U.S. dollar in its rise in terms of other currencies. This prompted a cut in the Discount rate which in the formally structured Japanese market led other interest rates downwards. They remained about two percentage points higher than those on the Swiss market but this nevertheless meant that borrowers prepared to accept the exchange risk could find them attractive. While the amount raised by "Samurai" issues increased, euro-yen issues on the international market declined partly on account of the strict regulation of this sector of the market by the Japanese authorities.

Pounds sterling

Issuing activity remained fairly low during the first half of the year both in the euro-sterling sector of the international market and in foreign (Bulldog) issues on the domestic market, largely in reflection of the uncertainty over the movement of interest rates and the exchange rate for the pound against the U.S. dollar. Euro-sterling issues revived in the third quarter, however, as institutional investors returned to the market and in the fourth quarter the flow of "Bulldog" as well as euro-sterling issues increased substantially. About 75% of the amount raised in the euro-sterling sector, however, was on floating rate terms.

Guilders

At the beginning of 1983 the strength of the Netherlands market was such that the differential at which yields stood over those on the neighbouring German market had been greatly reduced. After the realignment of reference rates in the EMS in March in which the Guilder was revalued to a smaller extent than the Deutsche Mark, investors tended to neglect Guilder securities for a while. The consequent rise in yields re-established the customary differential over yields on Deutsche Mark securities and by the fourth quarter issuing activity had been fully resumed. To put matters in perspective, it should be emphasized that private placements on the euro-guilder market which are

Table 1: Total international financing 1979-1983 through public issues of securities and syndicated bank credits

	million ECUs				
	1979	1980	1981	1982	1983
International securities	10 693	13 312	20 981	43 902	49 959
Foreign securities	7 943	6 907	13 700	16 847	17 633
Bond issues, total (of which floating rate notes)	18 636 (2 836)	20 219 (3 124)	34 681 (5 776)	60 749 (10 570)	67 592 (13 567)
Syndicated bank credits	57 298	57 379	126 202*	98 382	70 620
	75 934	77 598	160 883*	159 131	138 212

* Including approximately U.S.\$ 50 billion of stand-by credits for U.S. corporations' take-over activities.

Table 2: Secondary bond market yields of international and foreign issues

	1982	1983	1983	1983
	average	average	January	December
Bonds denominated in				
U.S. dollars	14.28	12.21	12.27	12.46
Deutsche Mark	9.0	7.8	7.6	8.1
Guilders	10.14	8.23	7.71	8.31
ECU	13.36	12.51	12.49	11.93
Yen	8.57	7.78	7.57	7.58
Swiss francs	n.a.	6.10	5.99	6.11

Table 3: Total financing through public issues of international and foreign securities and internationally syndicated credits, classified according to borrowers

	million ECUs							
	1982				1983			
	1st H.	2nd H.	Total	%	1st H.	2nd H.	Total	%
International issues	25 168	18 734	43 902	27.6	26 594	23 365	49 959	36.1
Foreign issues	7 042	9 805	16 847	10.6	9 322	8 311	17 633	12.8
Total issues	32 210	28 539	60 749	38.2	35 916	31 676	67 592	48.9
Syndicated credits	53 287	45 095	98 382	61.8	41 889	28 731	70 620	51.1
TOTAL	85 497	73 634	159 131	100.0	77 805	60 407	138 212	100.0
Borrowers								
Developed countries	54 440	51 035	105 475	66.3	50 947	40 890	91 837	66.4
Borrowers in EEC countries (incl. EEC organisations)	17 242	18 716	35 958	22.6	18 779	17 424	36 203	26.2
Other developed countries	37 198	32 319	69 517	43.7	32 168	23 466	55 634	40.2
Developing countries	27 378	18 145	45 523	28.6	22 398	14 513	36 911	26.7
OPEC countries	4 940	4 161	9 101	5.7	4 357	2 739	7 096	5.1
Other developing countries	22 438	13 984	36 422	22.9	18 041	11 774	29 815	21.6
Eastern European countries (incl. Comecon organisations)	385	324	709	0.4	220	760	980	0.7
Other international organisations	3 218	4 080	7 298	4.6	3 856	3 844	7 700	5.6
Unallocated	76	50	126	0.1	384	400	784	0.6
TOTAL	85 497	73 634	159 131	100.0	77 805	60 407	138 212	100.0

Table 4: International and foreign security classified according to currency or currency unit, in million ECUs

Currencies	International issues						Foreign securities						Total				
	1982			1983			1982			1983			1982		1983		
	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	%
U.S. dollars	21 134	15 082	36 216	21 022	17 822	38 844	1 814	4 130	5 944*	2 883	2 164	5 047*	69.4	23 905	19 986	43 891	64.9
Deutsche Mark	2 014	1 939	3 953	3 362	1 717	5 079	292	502	794	661	684	1 345	7.8	4 023	2 401	6 424	9.5
Swiss francs	—	—	—	—	—	—	2 387	2 695	5 082	2 708	2 828	5 536	8.3	2 708	2 828	5 536	8.2
Yen	290	184	474	162	162	324	1 565	1 144	2 709	1 829	1 503	3 332	5.4	1 991	1 665	3 656	5.4
Pounds sterling	270	557	827	478	1 568	2 046	450	725	1 175	373	650	1 023	3.3	851	2 218	3 069	4.5
Canadian dollars	1 023	269	1 292	513	669	1 182	—	—	—	—	—	—	2.1	513	669	1 182	1.8
Guilders	72	87	159	128	103	231	342	391	733	466	430	896	1.4	594	533	1 127	1.7
French francs	—	—	—	—	—	—	156	78	234	212	—	212	0.4	212	—	212	0.3
ECUs	197	525	722	900	1 030	1 930	—	—	—	—	—	—	1.2	900	1 030	1 930	2.9
Other currencies/currency units	168	91	259	29	294	323	36	140	176	190	52	242	0.7	219	346	565	0.8
Total	25 168	18 734	43 902	26 594	23 365	49 959	7 042	9 805	16 847	9 322	8 311	17 633	100.0	35 916	31 676	67 592	100.0

Table 5: International and foreign security issues classified according to borrower, million ECUs

Borrowers	International issues						Foreign securities						Total				
	1982			1983			1982			1983			1982		1983		
	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	21 965	16 427	38 392	25 055	20 283	45 338	5 330	7 043	12 373	6 496	6 118	12 614	83.6	31 551	26 401	57 952	85.7
<i>Borrowers in EEC countries (incl. EEC organisations)</i>	5 706	5 737	11 443	10 604	9 742	20 346	1 386	2 208	3 594	1 680	1 634	3 314	24.8	12 284	11 376	23 660	35.0
<i>Other developed countries</i>	16 259	10 690	26 949	14 451	10 541	24 992	3 944	4 835	8 779*	4 816	4 484	9 300*	58.8	19 267	15 025	34 292	50.7
II. Developing countries	1 910	959	2 869	277	1 269	1 546	167	41	208	232	162	394	5.0	509	1 431	1 940	2.9
<i>OPEC countries</i>	201	75	276	8	292	300	—	41	41	32	46	78	0.5	40	338	378	0.6
<i>Other developing countries</i>	1 709	884	2 593	269	977	1 246	167	—	167	200	116	316	4.5	469	1 093	1 562	2.3
III. Eastern European countries (incl. Comecon organisations)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
IV. Other internat. organisations ⁽¹⁾	1 293	1 348	2 641	1 262	1 813	3 075	1 545	2 721	4 266	2 594	2 031	4 625	11.4	3 856	3 844	7 700	11.4
Total	25 168	18 734	43 902	26 594	23 365	49 959	7 042	9 805	16 847	9 322	8 311	17 633	100.0	35 916	31 676	67 592	100.0

* Including private placements by Canadian borrowers.

⁽¹⁾ African Development Bank, Asian Development Bank, Council of Europe, Eurofima, Inter-American Development Bank, Nordic Investment Bank, World Bank.

Source: EIB.

not included in Table 3 amounted to more than three times the public euro-guilder issues recorded in these statistics and would place the Guilder ahead of the Canadian dollar.

Canadian dollar

An impetus to new issue activity in the Canadian dollar sector was given in the early part of the year by a reduction in interest rates on the Canadian domestic market. The differential between yields on Canadian dollar securities issued on the international market and the usually lower yields on U.S. dollar securities

narrowed during the course of the year. While Canadian borrowers raised a smaller amount in their own currency on the international market in 1983 than in the previous year because of more attractive terms of issue available on their domestic market, a larger number of non-Canadian borrowers approached the Canadian dollar sector taking advantage of the relative improvement in conditions. Among non-Canadian borrowers tapping this sector of the market for the first time, the European Investment Bank launched a Can\$ 80.6 m issue in December 1983.

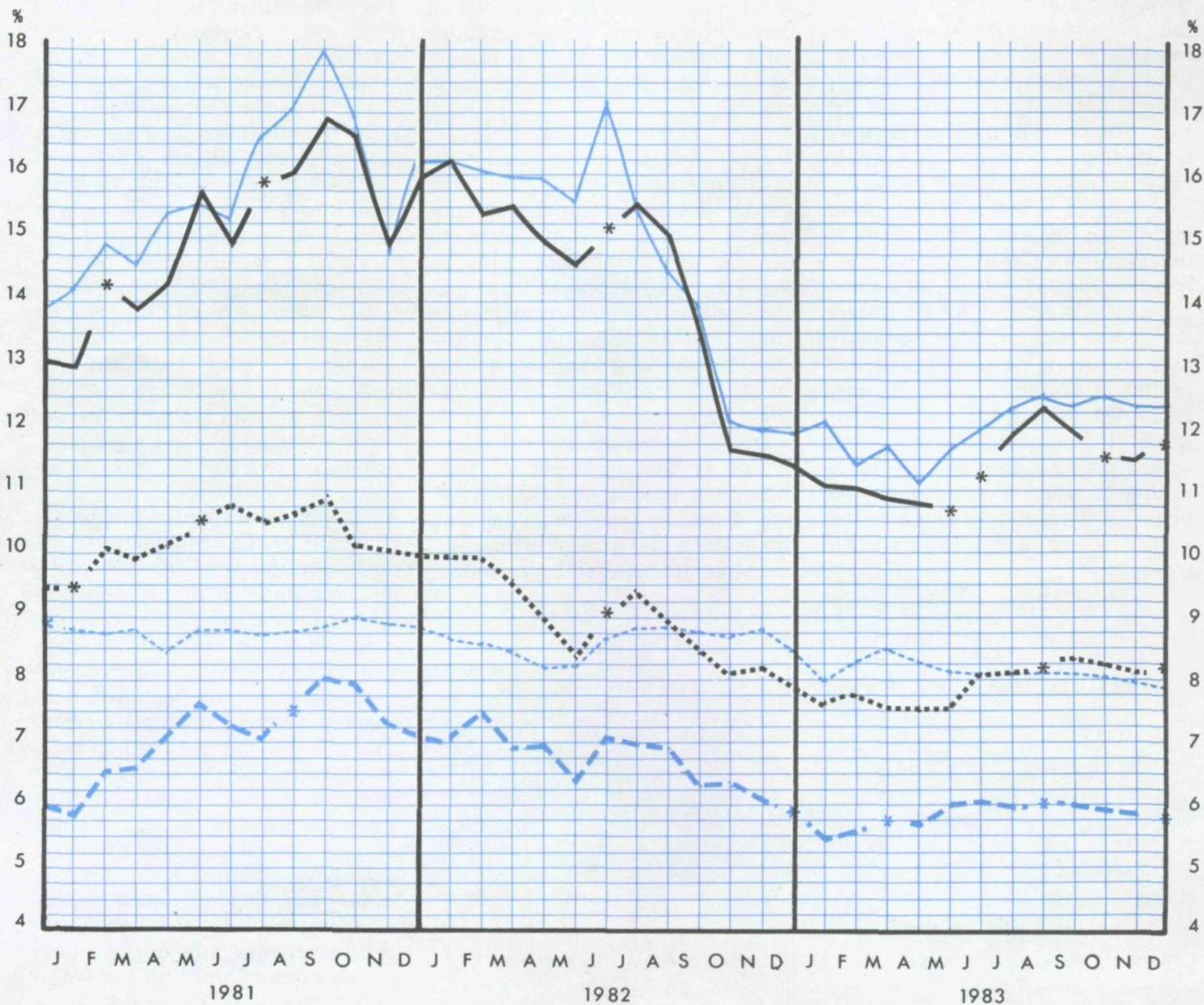
Other currencies

The amount of French francs borrowed in the form of foreign issues remained small in 1983. Other small amounts were raised in Belgian and Luxembourg francs, Kuwaiti dinars, Australian and New Zealand dollars, Norwegian kroner and Austrian schillings. A first issue denominated in Danish kroner made its appearance.

ECU (European Currency Unit) issues

The ECU sector continued to expand at a rapid pace reminiscent of

Average yields on new bond issues made in selected markets



— International U.S.\$ bond market
 - - - International DM bond market
 - - - Swiss market in foreign issues
 . . . Japanese market in foreign issues
 — U.S. domestic market (medium-term issues by Aa rated public utilities)

} bonds with maturities between 7 and 15 years issued by first class borrowers
 Source: EIB
 Source: Salomon Brothers

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.

the start up of the eurobond market in the early 1960s. The amount of new issues more than doubled to reach 1 930 m ECUs in 1983 or nearly 3% of the market as a whole. This sector of the market has now come to be tapped by borrowers from outside as well as from within the European Community. At the beginning of the year yields on ECU securities were about 1/4% higher than the weighted average of yields in its component currencies; as the market grew in importance this differential disappeared.

The borrowers

As shown in Table 4, the offtake of developed countries from the international market and foreign bond markets through public issues of securities increased in 1983 not only in amount but as a proportion of the total. The share of the market taken by developed countries as a whole rose from 83.6% in 1982 to 85.7% last year as a result of increased activity on the part of borrowers in the European Community who accounted for 35% of the total compared with 24.8% in 1982. A substantial part of the European Community's borrowing consisted of issues by the Governments of Member Countries and their public enterprises; the proceeds of such issues served the dual purpose of helping to finance balance of payments deficits on current account and the public sector borrowing requirement.

A significant number of the issues were launched on floating rate terms. In earlier years issuing activity in floating rate notes gave the appearance of being almost an inter-bank market but the international banks, having cut down their syndicated loans to developing countries in the aftermath of the 1982 debt service defaults, have themselves been seeking to broaden the scope for lending to prime borrowers on floating rate terms. From the angle of borrowing, the large amounts that could be raised in a single operation — up to \$ 1.8 bn. in an EEC floating rate issue for onlending to France for balance of payments support — maturities stretching out to twenty years and a sharp reduction in interest rate spreads in the latter part of 1983 made floating rate issues a better proposition, at least for first class borrowers, than alternative forms of floating rate finance such as internationally syndicated bank credits.

A small decline in the amount (in ECU terms) of borrowing accounted for by developed countries other than members of the European Community was brought about by the decline in the approaches of U.S. and Canadian enterprises to international markets. For U.S. corporations the revival of economic activity no doubt helped to increase international resources and the buoyancy of Wall Street provided an opportunity for reinforcing financial ratios through the issue of fresh capital. For Canadian borrowers it was rather the better tone of the domestic market that offered a more effective

alternative to external fund raising than in recent years.

The performance of Japanese corporations was in sharp contrast to that of their U.S. and Canadian counterparts. Japanese corporations almost doubled their borrowing on external markets in 1983, taking advantage in particular of access to the Deutsche Mark and Swiss franc markets on relatively advantageous terms as well as of the appetite of investors for Japanese equity linked bonds. Issues by Sweden and Swedish public corporations also rose substantially in 1983.

The sectoral breakdown of international bond issues in Table 6 reflects a number of significant changes that occurred between 1982 and 1983. The main increase between the two years was in borrowing by financial institutions in their efforts to broaden their access to longer term funds for use in their lending. Banks without a dollar-deposit base had to seek a solution to the problem of compensating for the stretching out maturities of earlier dollar lending to developing countries. In the absence of a replenishment of their resources through floating rate issues, either directly or through swapping fixed-interest for floating rate debt, the ability of such banks to participate as fully as previously in the dollar roll-over credits of international syndicates would have been curtailed.

A halving of the share of the market taken up by the manufacturing industry, on the other hand, is partly the consequence of reduced borrowing by U.S. and other corporations which, as mentioned earlier, found that their cash flow problems were eased in the resurgence of economic activity and that they were also able to improve their gearing ratios by launching equity issues on receptive markets. The second of these considerations would apply also to the sharp contraction in issues by enterprises engaged in mining and the exploitation of hydrocarbon deposits, although as far as oil companies are concerned the excess production of oil evident in 1983 appears to have induced a slowing of output and hence probably of investment activity in the petroleum industry.

The doubling of the proportion of issues by international organisations is very largely the result of the

Table 6: International issues by sector

	Percentage of total			
	1980	1981	1982	1983
Mining, exploitation of hydrocarbon deposits	6.7	7.9	7.2	2.2
Manufacturing	13.6	20.2	24.9	12.4
Transport and communication	4.3	5.4	5.8	3.0
Public utilities (electricity, gas, water)	8.3	10.5	8.8	5.8
Financial institutions	40.2	37.0	26.8	40.4
International organisations	10.8	9.0	7.6	15.7
National governments, provincial and local authorities	12.5	7.8	16.2	18.1
Miscellaneous	0.4	0.6	0.7	0.8
	100.0	100.0	100.0	100.0

exceptional 4 bn ECUs borrowing by the EEC on behalf of France, including the \$ 1.8 bn. issue of floating rate notes mentioned earlier.

The increased borrowing by financial institutions in developed countries for reasons connected with their lending to the Third World should be taken into consideration in assessing the fall in the proportion of the market accounted for by developing countries from 5% in 1982 to a little under 3% last year. Within the general category of developing countries, OPEC slightly increased its share of the total market while the share of others was more or less halved. The only developing countries to launch new issues in which the EIB has lent were Egypt, Israel and Tunisia. Eastern European countries including Comecon have not made an issue since 1981.

In 1983 international organisations other than those of the European Community again took 11.4% of the market total. Nine-tenths of these funds which were raised by international institutions whose role is to lend to developing countries should accordingly be included in the flow of resources from the international capital market to the Third World. The proceeds of private placements, as far as they are known, have been included in Table 7 together with those of public issues by official international institutions for financing development. Only about 10%, however, of the lending of the last institution in the table, the EIB, out of its own resources goes to projects outside the European Community.

Internationally syndicated bank loans

New medium- and long-term international lending by banking syndicates declined by almost 30% in 1983 as indicated in Table 7. Moreover, if new credits to developing countries which were extended as part of debt reschedulings and IMF supported readjustment programmes are excluded, new lending activity would have fallen by 45%.

Although the debt servicing problems of certain developing countries remained a major element behind the slowdown in new lending, other factors tended to reduce the supply

and demand for credits. The swing in the OPEC current account balance from a large surplus to a significant deficit — caused by the lower price and demand of oil — seems to have played at least as important a role as the debt crisis. In addition some commercial banks seemed to be nearing their ceilings — either regulatory or voluntary — for foreign lending following a protracted period in which international bank lending had grown rapidly.

For European-based banks the further decline of the rates of major European currencies against that of the U.S. dollar in 1983 caused the value of the dollar loans in their portfolio to increase against their other assets and to distort their capital-asset ratios. On the other hand

the relatively slow pace of economic activity outside the U.S. held down credit demand from potential borrowers in many industrialised countries and in view of the improved terms available on issues of floating rate notes, first class borrowers preferred to tap bond markets rather than arrange syndicated credits.

The fall in credits accorded to borrowers in developed countries was steeper than in those accorded to the Third World which indeed secured nearly half of the total granted in 1983. Within the category of developing countries, borrowing by OPEC changed little in proportion to the total but declined in amount mainly due to the near disappearance as a borrower of Venezuela which had accounted for more than

Table 7: Resources raised by official international institutions for financing development

	million ECUs			
	1982		1983	
	Public bond issues	Other	Public bond issues	Other
World Bank	4 893	5 719	4 345	5 683
Inter-American Development Bank	827	479	1 180	366
Asian Development Bank	699	189	811	202
African Development Bank	42	410	25	n.a.
European Investment Bank	1 826	1 379	2 315	1 304

Table 8: Internationally syndicated bank loans, classified according to borrowers

	million ECUs							
	1982				1983			
	1st H.	2nd H.	Total	%	1st H.	2nd H.	Total	%
Developed countries	27 145	27 565	54 710	55.6	19 396	14 489	33 885	48.0
Borrowers in EEC countries (incl. EEC organisations)	10 150	10 771	20 921	21.3	6 495	6 048	12 543	17.8
Other developed countries	16 995	16 794	33 789	34.3	12 901	8 441	21 342	30.2
Developing countries	25 301	17 145	42 446	43.2	21 889	13 082	34 971	49.5
OPEC countries	4 739	4 045	8 784	9.0	4 317	2 401	6 718	9.5
Other developing countries	20 562	13 100	33 662	34.2	17 572	10 681	28 253	40.0
Eastern European countries (incl. Comecon organisations)	385	324	709	0.7	220	760	980	1.4
Other international organisations	380	11	391	0.4	-	-	-	-
Unallocated	76	50	126	0.1	384	400	784	1.1
TOTAL	53 287	45 095	98 382	100.0	41 889	28 731	70 620	100.0

half of new credits arranged in 1982. Algeria and Indonesia, however, borrowed more.

Including Algeria, countries around the Mediterranean Basin, in which the EIB lends, obtained almost 50% more in syndicated credits in 1983. The increase was attributable not only to Algerian operations but also to those of Spain, Jordan and Tunisia. A decline in borrowing by Portugal and Morocco partly offset this increase. Reduced borrowing by the Ivory Coast, Papua New Guinea, Nigeria and Bermuda was responsible for a more than halving of lending to the signatories of the Lomé Convention.

A smaller amount of new credit was arranged for Latin-American borrowers in 1983. Only a small part consisted of the "voluntary and spontaneous" granting of credit as opposed to special financial packages that included debt rescheduling. Among major Latin-American borrowers only Argentina and Chile arranged larger amounts of new credit in 1983 than in the previous year. Lending to Eastern European countries remained of minor importance as banks continued to hesitate over entering into new commitments and lending mostly of a short-term trade related nature was generally to East Germany and Hungary.

Banks based in the U.S. continued to be the largest lenders followed by Japanese banks which benefited from the yen's relative stability against the U.S. dollar. In spite of the external deficit experience by most OPEC countries, Arab banks also remained substantial suppliers of funds.

The U.S. dollar retained its dominance as a vehicle currency for international credits but lending developed, if on a limited scale, in a number of other currencies including the pound sterling, Belgian and Luxembourg franc, Deutsche Mark, French franc, Swiss franc, Peseta, Canadian dollar, Saudi riyal, Yen, Hong Kong dollar, Australian dollar, Singapore dollar. In line with its performance on the international bond market, the ECU has been accepted as a vehicle for syndicated credits.

The greater degree of caution adopted by international banks in 1982 in their syndicated lending continued to be evident in the terms attached to their credits in 1983

although a slight easing was discernible towards the end of last year in credits negotiated with first class borrowers. Belgium, for example, obtained a 7-year credit in early 1983 in which a spread above the London inter-bank offered rate (LIBOR) of 0.375% applied to the first two years and one of 0.5% to the last five years. The same borrower obtained an eight year credit towards the end of 1983 in which the 0.375% spread applied to the first four years and the 0.5% spread to the remaining four.

Not many internationally syndicated credits were granted to developing countries in the early part of 1983 but those which later succeeded in negotiating fresh credits obtained much the same terms as they had before. The spreads ranged from those on an eight year credit for Papua New Guinea of 0.625% above LIBOR for the first two years and 0.75% for the remaining six to 2.125% above LIBOR or 1.875% above the U.S. prime rate on the eight year credits which Brazil and Brazilian state enterprises managed to secure from the second quarter of the year onwards.

Borrowers, such as Sonatrach of Algeria were nearer the lower end of the range with spreads of 0.875% for the first nine years of a thirteen year credit and of 1% for the remaining four. Gabon with spreads on its eight year borrowing split evenly between 1% and 1.125% appeared in the middle of the range. These few examples illustrate the conditions under which international banks continued to meet the financing requirements of a number of developing countries in 1983.

In Eastern Europe which had also presented problems to lending syndicates the National Bank of Hungary obtained spreads of 1% above LIBOR or 1.25% above the U.S. prime rate on a three year credit granted in the first quarter of the year; the same spreads were attached to a further credit negotiated in the third quarter of the year in which, however, the maturity was extended to six years. By the fourth quarter of 1983 the Czechoslovak Obchodni Banka had negotiated a four year credit carrying a 1.125% spread above LIBOR.

The international capital market showed in 1983 its resilience and

adaptability in dealing simultaneously with an unsettling appreciation of the currency in which it mainly deals, the U.S. dollar, in terms of most other currencies, a substantial drainage of resources into the U.S.A. and some disquieting rises during 1983 in interest rates in a number of major currencies as well as the aftermath of the 1982 debt crisis of developing countries. The market has, however, grown to such a size that the reflux of funds in the form of interest maturities and capital redemptions gives it a certain momentum. In addition the inventiveness of borrowers and their agents has never failed to inspire them to seek ways of stimulating the appetites of investors who, it would seem, are unable or unwilling to remain on the sidelines indefinitely.

The set-back to the syndicated credit market, however, has been serious and it has had to give ground to the advance of issues of floating rate notes. Signs were nevertheless appearing in the latter part of 1983 of a prudent rebuilding of lending activity.

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