

European Investment Bank

Information

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Den europæiske Investeringsbank
Europäische Investitionsbank
Ευρωπαϊκή Τράπεζα Ύνευδύσεωv
Banque Européenne d'Investissement
Banca Europea per gli Investimenti
Europese Investeringsbank

N° 29 · March 1982

ISSN 0250-3891

The International Capital Market in 1981

The international capital market after virtually stagnating in 1980 resumed its growth in 1981 but not without stresses and strains. Public issues of bonds were substantially higher in amount in 1981 than a year earlier whether they were made on the so-called eurobond market (including those launched partly or wholly on markets outside Europe) or on the foreign bond sectors of national markets. As may be seen in Table 1, issues of the first type rose last year by 7.7 billion ECUs and those of the second by 5.3 billion ECUs; taking the two forms together, public

bond issues raised 13 billion ECUs more in 1981, an increase of 64%. The growth of internationally syndicated medium and long-term credits of nearly 70% in terms of US dollars, in which most of the credits are denominated, was even greater. A substantial part of the growth in bank credits, however, consisted of a few exceptionally large borrowings of around \$ 45 billion by US oil companies at the beginning of the third quarter, either to finance take-over bids or to resist them, but the increase nevertheless remains significant after excluding such transactions.

The increase in international borrowing in 1981 was all the more remarkable in view of the higher rates of interest which generally prevailed. These circumstances led borrowers on fixed interest rate terms to concentrate their fund raising efforts in the brief periods when interest rates eased and "borrowing windows" appeared. They also encouraged the resort to new borrowing

formulae to tempt investors (such as attaching warrants to give bondholders the right to acquire within a stipulated period an equal amount of the same security on identical terms) or to exploit the exemption of certain investors from tax on capital gains (by issuing securities with a zero coupon and an issue price at a large discount on their redemption value). The maturities of fixed interest issues also tended to be shortened as borrowers sought to limit as far as possible the period during which they would be called upon to meet exceptionally high interest charges, possibly hoping to secure refinancing upon more favourable terms.

Increased resort to borrowing through issues of floating rate notes was evidently encouraged by the prevalence of high interest rates. A certain degree of resistance on the part of borrowers to the high charges resulting from the application of conventional floating rate terms induced them to seek lower spreads and/or reference interest rates which appeared likely to favour them.

Borrowers in developed countries seemed to be more prepared than others to pay the high interest rates prevailing in 1981 and were able to increase substantially their offtake from the international capital market (see Table 2). Most of this growth originated with borrowers in Canada and the USA – even if one excludes the exceptional deals negotiated by US oil companies – and in Japan. The EEC, in contrast, accounted for relatively little of the increase. Borrowers in non-OPEC developing countries secured more finance in 1981 but here the increase – mainly in syndicated bank credits – was confined to a small number of countries, including Brazil, Chile, Mexico and South Korea. On the other hand, the demands of OPEC countries for finance rose little and, with the interruption of lending to Poland, the total for Eastern Europe was smaller.

Greater resort by borrowers in North America to the international capital market in 1981 is partly explained by the unsettled conditions and high cost of raising finance which prevailed on their domestic markets.

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A further possible explanation of their willingness to tap the international market is that for the most part they were borrowing in their domestic currencies and so, at a time when the Canadian as well as the US dollar was appreciating in terms of most other currencies, were privileged as regards protection from exchange risk. The circumstances of the growth in borrowing by Japanese enterprises were somewhat different in that this was mostly in convertible issues which attracted strong support from investors because of the better prospects of industrial recovery in Japan, but here too the foreign exchange performance of the Yen may have reassured the firms approaching the market. The more extensive changes in 1981 in the relative exchange values of currencies than in recent years have, however, tended to distort statistical comparisons which should be taken as only broadly indicative.

The bond market

Market conditions

During 1981 bond markets continued to be strongly influenced by the tightening of credit in the USA which began the previous year. In their resolute attack on inflationary pressures, the US monetary authorities succeeded in reducing the growth rate of the money supply to well within the target range. To the extent that the rate of price inflation had fallen to single figures by the end of 1981, the policy could be said to have been effective but it also resulted in very high and very volatile interest rates on the US market as investors responded either directly to reports of weekly (and often erratic) changes in the domestic money supply or tried to anticipate the likely reaction of the Federal Reserve. The inflows of capital which were attracted by the high

returns available on the US market not only helped to strengthen further an exchange rate that was already firming but also transmitted US influences almost without delay to virtually all other capital markets.

The general rise in bond yields which occurred on the international market and foreign bond compartments of national markets in Europe during the first three quarters of 1981 (see chart of average yields on new bond issues) may thus be attributed more to events in the USA than to domestic developments in the other countries. For the first two months of the fourth quarter it looked as if tensions might be easing on the US capital market as the economy slid into recession. The decline in interest rates and bond yields in the USA which began in early October and, apart from a brief set-back in the second half of the same month, continued until early December provided an opportunity for substantial interest rate reductions on other markets. Hopes that the process of lowering interest rates could be carried further, particularly in countries where unemployment is high and rising, were disappointed in December when the US market was again unsettled by heavy issuing activity, upward revisions to the Federal Government's budgetary deficit and fresh increases in the money supply as a result of which rates began to climb once more.

In spite of their marked instability during the year, bond markets dealing in US dollars provided borrowers in 1981 with approximately double the amount of resources that they did in 1980 (see Table 3) but on average at higher cost. The dollar sector was not the only part of the international market to grow rapidly, as the Canadian dollar sector expanded more than two and a half times and the euro-Yen sector increased by about 85%, but in terms of sheer size it overshadowed the rest.

There may be some significance in the very substantial increase in the amount of issues denominated in Special Drawing Rights (SDR) during a year of considerable change in the relative values of the main cur-

Note

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

Eurobond 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, EURCO, 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 eurobond 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 1978 of less than US\$ 3 500. 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 ECU (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 |
|------|-------|--------|---------|-------|--------|-------|
| 1980 | 1 ECU | 1.393 | 2.519 | 2.332 | 319.38 | 5.840 |
| 1981 | 1 ECU | 1.160 | 2.527 | 2.222 | 251.44 | 5.974 |
| | | £ | Can. \$ | Fl | SDR | |
| 1980 | 1 ECU | 0.6099 | 1.630 | 2.755 | 1.0703 | |
| 1981 | 1 ECU | 0.5555 | 1.387 | 2.793 | 0.9656 | |

rencies traded on the international capital market. It seems, however, that the SDR in its new form of a five-currency rather than a sixteen-currency basket has been found to be a more convenient unit for bond issues and has also encouraged the creation of a market in SDR certificates of deposit. A number of issues, including two by the European Investment Bank, have been denominated in ECU, a similar unit consisting of nine currencies of Member States of the EEC (see note p. 2). Of much more recent origin than the SDR and appealing more perhaps to borrowers and investors within the European Community than those outside, the ECU nevertheless stands comparison with the SDR as a fund-raising instrument.

Foreign issues on the New York market in 1981 were nearly two and a half times the amount of those in the previous year but most of this increase was in borrowing by Canadian enterprises and public authorities. The greater part of the issuing activity was in the first half of the year before borrowing costs climbed to their highest point in the third quarter. As these costs declined from October to early December the flow of new issues, including two large-scale operations by the World Bank and one each by the European Investment Bank and the Inter-American Development Bank, again became heavy.

Foreign issues on the Swiss, Japanese and Netherlands national markets were all substantially higher in 1981 than in recent years. While activity on these primary markets was fairly evenly distributed between the two halves of 1981, foreign issues on the London market, which also rose sharply in amount, were particularly heavy in the earlier part of the year when the cost of borrowing was tending to decline. In contrast, public issues of foreign bonds on the German domestic market together with issues denominated in Deutsche Marks on the international market fell back in 1981 as investment demand for both was affected adversely until September by rising yields on dollar markets and by the weakness of the Deutsche Mark against the dollar.

The currencies

The resultant sharp decline in the use of the Deutsche Mark in international and foreign bond issues from 17.2% of the total of such issues in 1980 to 5.6% last year was almost exactly counterbalanced by an increase in the percentage of issues denominated in US dollars from 54.3% to 66.2%. On a smaller scale, issues denominated in Yen, at 6.9% compared with 4.9% a year earlier, and in Canadian dollars, at 1.5% as against 0.9%, gained at the expense

of issues in Swiss francs, down from 12.0% to 10.5%, and issues in French francs which fell from 3.8% of the total to 1.8%. The fall in the proportion of total issues accounted for by those on the Swiss market, it should be noted, occurred in spite of a growth of about 45% in the amount of such issues in 1981, thus emphasising how large was the increase in total activity.

The relative importance of the pound sterling and the Dutch guilder as currencies used in interna-

Table 1: Total international financing 1977-1981 through public bond issues and syndicated bank credits

| | million ECUs | | | | |
|-------------------------|---------------|---------------|---------------|---------------|----------------|
| | 1977 | 1978 | 1979 | 1980 | 1981 |
| Eurobonds | 13 095 | 9 310 | 10 693 | 13 312 | 21 023 |
| Foreign bonds | 8 898 | 9 277 | 7 943 | 6 907 | 12 183 |
| Syndicated bank credits | 29 764 | 52 338 | 56 713 | 57 360 | 115 732 |
| | 51 757 | 70 925 | 75 349 | 77 579 | 148 938 |

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

| | million ECUs | | | | | | | |
|--|---------------|---------------|---------------|--------------|---------------|---------------|----------------|--------------|
| | 1980 | | | | 1981 | | | |
| | 1st.H. | 2nd.H. | Total | % | 1st.H. | 2nd.H. | Total | % |
| Eurobonds | 5 433 | 7 879 | 13 312 | 17.2 | 7 496 | 13 527 | 21 023 | 14.1 |
| Foreign bonds | 3 244 | 3 663 | 6 907 | 8.9 | 6 285 | 5 898 | 12 183 | 8.2 |
| Total bonds | 8 677 | 11 542 | 20 219 | 26.1 | 13 781 | 19 425 | 33 206 | 22.3 |
| Syndicated credits | 23 092 | 34 275 | 57 367 | 73.9 | 37 442 | 78 290 | 115 732 | 77.7 |
| TOTAL | 31 769 | 45 817 | 77 586 | 100.0 | 51 223 | 97 715 | 148 938 | 100.0 |
| Borrowers | | | | | | | | |
| Developed countries | 16 148 | 27 000 | 43 148 | 55.6 | 26 733 | 70 021 | 96 754 | 64.9 |
| Borrowers in EEC countries (inc. EEC organisations) | 7 704 | 11 421 | 19 125 | 24.6 | 11 355 | 10 797 | 22 152 | 14.8 |
| Other developed countries | 8 444 | 15 579 | 24 023 | 31.0 | 15 378 | 59 224 | 74 602 | 50.1 |
| Developing countries | 13 484 | 16 759 | 30 243 | 39.0 | 21 829 | 24 778 | 46 607 | 31.3 |
| OPEC countries | 1 823 | 2 621 | 4 444 | 5.7 | 2 338 | 2 713 | 5 051 | 3.4 |
| Other developing countries | 11 661 | 14 138 | 25 799 | 33.3 | 19 491 | 22 065 | 41 556 | 27.9 |
| Eastern European countries (inc. Comecon organisations) | 705 | 1 245 | 1 950 | 2.5 | 1 023 | 278 | 1 301 | 0.9 |
| Other international organisations | 1 460 | 768 | 2 228 | 2.7 | 1 638 | 2 638 | 4 276 | 2.9 |
| Unallocated | 72 | 45 | 117 | 0.2 | | | | |
| TOTAL | 31 769 | 45 817 | 77 586 | 100.0 | 51 223 | 97 715 | 148 938 | 100.0 |

Table 3: Eurobond and foreign bond issues classified according to currency or currency unit million ECUs

| Currencies | Eurobonds | | | | | | Foreign bonds | | | | | | Total | | | | | | | | |
|-----------------------------------|--------------|--------------|---------------|--------------|---------------|---------------|---------------|--------------|--------------|--------------|--------------|---------------|--------------|---------------|---------------|--------------|---------------|---------------|---------------|--------------|-----|
| | 1980 | | | 1981 | | | 1980 | | | 1981 | | | 1980 | | | | 1981 | | | | |
| | 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 | 3 695 | 5 363 | 9 058 | 5 954 | 11 249 | 17 203 | 1 073 | 851 | 1 924* | 2 607 | 2 158 | 4 765* | 4 768 | 6 214 | 10 982 | 54.3 | 8 561 | 13 407 | 21 968 | 66.2 | |
| Swiss francs | | | | | | | 1 106 | 1 311 | 2 417 | 1 746 | 1 755 | 3 501 | 1 106 | 1 311 | 2 417 | 12.0 | 1 746 | 1 755 | 3 501 | 10.5 | |
| Japanese Yen | 47 | 125 | 172 | 139 | 180 | 319 | 363 | 454 | 817 | 915 | 1 054 | 1 969 | 410 | 579 | 989 | 4.9 | 1 054 | 1 234 | 2 288 | 6.9 | |
| Deutsche Mark | 1 056 | 1 395 | 2 451 | 235 | 990 | 1 225 | 377 | 655 | 1 032 | 218 | 415 | 633 | 1 433 | 2 050 | 3 483 | 17.2 | 453 | 1 405 | 1 858 | 5.6 | |
| Pounds sterling | 213 | 429 | 642 | 268 | 184 | 452 | | 123 | 123 | 549 | 189 | 738 | 213 | 552 | 765 | 3.8 | 817 | 373 | 1 190 | 3.6 | |
| French francs | 235 | 346 | 581 | 500 | | 500 | 120 | 69 | 189 | | 84 | 84 | 355 | 415 | 770 | 3.8 | 500 | 84 | 584 | 1.8 | |
| Canadian dollars | 80 | 104 | 184 | 36 | 458 | 494 | | | | | | | 80 | 104 | 184 | 0.9 | 36 | 458 | 494 | 1.5 | |
| Dutch guilders | 34 | 32 | 66 | 42 | 30 | 72 | 98 | 127 | 225 | 199 | 179 | 378 | 132 | 159 | 291 | 1.4 | 241 | 209 | 450 | 1.3 | |
| SDRs | 14 | | 14 | 176 | 135 | 311 | | | | | | | 14 | | 14 | 0.1 | 176 | 135 | 311 | 0.9 | |
| ECUs | | | | 75 | 115 | 190 | | | | | | | | | | | | 75 | 115 | 190 | 0.6 |
| Other currencies / currency units | 59 | 85 | 144 | 71 | 186 | 257 | 107 | 73 | 180 | 51 | 64 | 115 | 166 | 158 | 324 | 1.6 | 122 | 250 | 372 | 1.1 | |
| Total | 5 433 | 7 879 | 13 312 | 7 496 | 13 527 | 21 023 | 3 244 | 3 663 | 6 907 | 6 285 | 5 898 | 12 183 | 8 677 | 11 542 | 20 219 | 100.0 | 13 781 | 19 425 | 33 206 | 100.0 | |

Table 4: Eurobond and foreign bond issues classified according to borrower million ECUs

| Borrowers | Eurobonds | | | | | | Foreign bonds | | | | | | Total | | | | | | | |
|--|--------------|--------------|---------------|--------------|---------------|---------------|---------------|--------------|--------------|--------------|--------------|---------------|--------------|---------------|---------------|--------------|---------------|---------------|---------------|--------------|
| | 1980 | | | 1981 | | | 1980 | | | 1981 | | | 1980 | | | | 1981 | | | |
| | 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 | % |
| Developed countries | 4 495 | 7 265 | 11 760 | 6 031 | 11 695 | 17 726 | 2 503 | 2 777 | 5 280 | 4 925 | 3 612 | 8 537 | 6 998 | 10 042 | 17 040 | 84.3 | 10 956 | 15 307 | 26 263 | 79.1 |
| Borrowers in EEC countries (inc. EEC organisations) | 2 101 | 2 558 | 4 659 | 2 286 | 2 741 | 5 027 | 931 | 1 461 | 2 392 | 1 107 | 1 432 | 2 539 | 3 032 | 4 019 | 7 051 | 34.9 | 3 393 | 4 173 | 7 566 | 22.8 |
| Other developed countries | 2 394 | 4 707 | 7 101 | 3 745 | 8 954 | 12 699 | 1 572 | 1 316 | 2 888* | 3 818 | 2 180 | 5 998* | 3 966 | 6 023 | 9 989 | 49.4 | 7 563 | 11 134 | 18 697 | 56.3 |
| Developing countries | 432 | 504 | 936 | 759 | 1 169 | 1 928 | 238 | 228 | 466 | 428 | 311 | 739 | 670 | 732 | 1 402 | 6.9 | 1 187 | 1 480 | 2 667 | 8.0 |
| OPEC countries | | 96 | 96 | | 61 | 61 | | | | 205 | 86 | 291 | | 96 | 96 | 0.5 | 205 | 147 | 352 | 1.1 |
| Other developing countries | 432 | 408 | 840 | 759 | 1 108 | 1 867 | 238 | 228 | 466 | 223 | 225 | 448 | 670 | 636 | 1 306 | 6.4 | 982 | 1 333 | 2 315 | 6.9 |
| Eastern European countries (inc. Comecon organisations) | 36 | | 36 | | | | | | | | | | 36 | | 36 | 0.2 | | | | |
| Other internat. organisations (*) | 470 | 110 | 580 | 706 | 663 | 1 369 | 503 | 658 | 1 161 | 932 | 1 975 | 2 907 | 973 | 768 | 1 741 | 8.6 | 1 638 | 2 638 | 4 276 | 12.9 |
| Total | 5 433 | 7 879 | 13 312 | 7 496 | 13 527 | 21 023 | 3 244 | 3 663 | 6 907 | 6 285 | 5 898 | 12 183 | 8 677 | 11 542 | 20 219 | 100.0 | 13 781 | 19 425 | 33 206 | 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

tional and foreign issues, in contrast to those mentioned above, changed little during 1981 though the indications in the second half of the year were of a decline in issues denominated in sterling. It is perhaps a little early to assess how far the role played in international issues in 1981 by the SDR and the ECU (in accounting together for 1.5% of the total market after one small issue denominated in SDR in 1980) might have been influenced by special circumstances prevailing at the time or how it corresponds with longer-lasting ideas among investors.

The borrowers

Of the total increase of 13 billion ECUs in public bond issues in 1981, developed countries accounted for 9 billion and within this EEC borrowers took only half a billion more than in 1980 (see Table 4), with a consequent fall in their share of the market from 34.9% to 22.8%. As indicated earlier, most of the increase in capital raising by developed countries was on account of borrowers in the USA, Canada and Japan. This applies to public bond issues as well as to other forms of international borrowing. In addition, Australia, New Zealand and Finland borrowed more in 1981 but on the other hand the Scandinavian countries Norway and Sweden took less.

Largely because of the low demand from the EEC, the share of the market accounted for by developed countries fell from 84.3% to 79.1% while OPEC and non-OPEC countries each increased their proportion by 0.5% to 1.1% and 6.9% respectively. Among OPEC members, Venezuela borrowed more and among the others Mexican borrowers tapped several markets, raising substantial amounts through floating rate issues denominated in US dollars on the international market but also launching fixed interest rate issues on the US, German, Swiss and UK markets.

To the amounts raised on behalf of developing countries should be added borrowing by international organisations which lend to them, namely the World Bank, Inter-American Development Bank, Asian Development Bank, and African Development Bank. In 1981 the first three of these increased the

amounts they raised through public bond issues and thus accounted for the greater part of the rise of 2.5 billion ECUs borrowed by "Other international organisations".

Eurobond issues by sector

An attempt has been made in Table 5 to identify the purposes for which public bond issues on the international capital market were launched and within the limitations of the statistics to examine how the probable end-uses of resources have developed in recent years. In this last respect the much larger amount raised on eurobond markets in 1981

resulted from heavier borrowing by all of the sectors shown in the Table, though their relative importance changed.

Perhaps the most outstanding feature in 1981 was the increased share of the market secured by manufacturing industry after its set-back in 1980. This, however, was more the result of Japanese enterprises exploiting the favourable reception given by the market to their issues of convertible bonds than an indication of a general improvement in the outlook for industry.

The role of the international market in financing energy supplies under-

Table 5: Eurobond issues by sector

| | Percentage of total | | | |
|--|---------------------|-------|-------|-------|
| | 1978 | 1979 | 1980 | 1981 |
| Mining, exploitation of hydrocarbon deposits | 9.9 | 5.9 | 6.7 | 7.9 |
| Manufacturing | 12.4 | 18.1 | 13.5 | 20.2 |
| Commerce | 2.6 | 3.5 | 3.2 | 1.6 |
| Transport and communications | 4.0 | 3.8 | 4.3 | 5.4 |
| Public utilities (electricity, gas, water) | 4.9 | 4.6 | 8.3 | 10.5 |
| Financial institutions | 29.4 | 36.7 | 40.2 | 37.0 |
| International organisations | 13.4 | 11.9 | 10.8 | 9.0 |
| National governments, provincial and local authorities | 23.4 | 15.4 | 12.5 | 7.8 |
| Miscellaneous | | 0.1 | 0.4 | 0.6 |
| | 100.0 | 100.0 | 100.0 | 100.0 |

Table 6: Internationally syndicated bank loans, classified according to borrowers

| | million ECUs | | | | | | | |
|--|---------------|---------------|---------------|--------------|---------------|---------------|----------------|--------------|
| | 1980 | | | | 1981 | | | |
| | 1st H. | 2nd H. | Total | % | 1st H. | 2nd H. | Total | % |
| Developed countries | 9 150 | 16 958 | 26 108 | 45.5 | 15 777 | 54 714 | 70 491 | 60.9 |
| Borrowers in EEC countries (inc. EEC organisations) | 4 672 | 7 402 | 12 074 | 21.0 | 7 962 | 6 624 | 14 586 | 12.6 |
| Other developed countries | 4 478 | 9 556 | 14 034 | 24.5 | 7 815 | 48 090 | 55 905 | 48.3 |
| Developing countries | 12 814 | 16 027 | 28 841 | 50.3 | 20 642 | 23 298 | 43 940 | 38.0 |
| OPEC countries | 1 823 | 2 525 | 4 348 | 7.6 | 2 133 | 2 566 | 4 699 | 4.1 |
| Other developing countries | 10 991 | 13 502 | 24 493 | 42.7 | 18 509 | 20 732 | 39 241 | 33.9 |
| Eastern European countries (inc. Comecon organisations) | 669 | 1 245 | 1 914 | 3.3 | 1 023 | 278 | 1 301 | 1.1 |
| Other international organisations | 387 | | 387 | 0.7 | | | | |
| Unallocated | 72 | 45 | 117 | 0.2 | | | | |
| TOTAL | 23 092 | 34 275 | 57 367 | 100.0 | 37 442 | 78 290 | 115 732 | 100.0 |

lies the increased offtake by public utilities, most of whose borrowing was to finance electricity generation in one form or another, as well as the higher proportion of resources going to mining and, predominantly, the exploitation of hydrocarbon deposits.

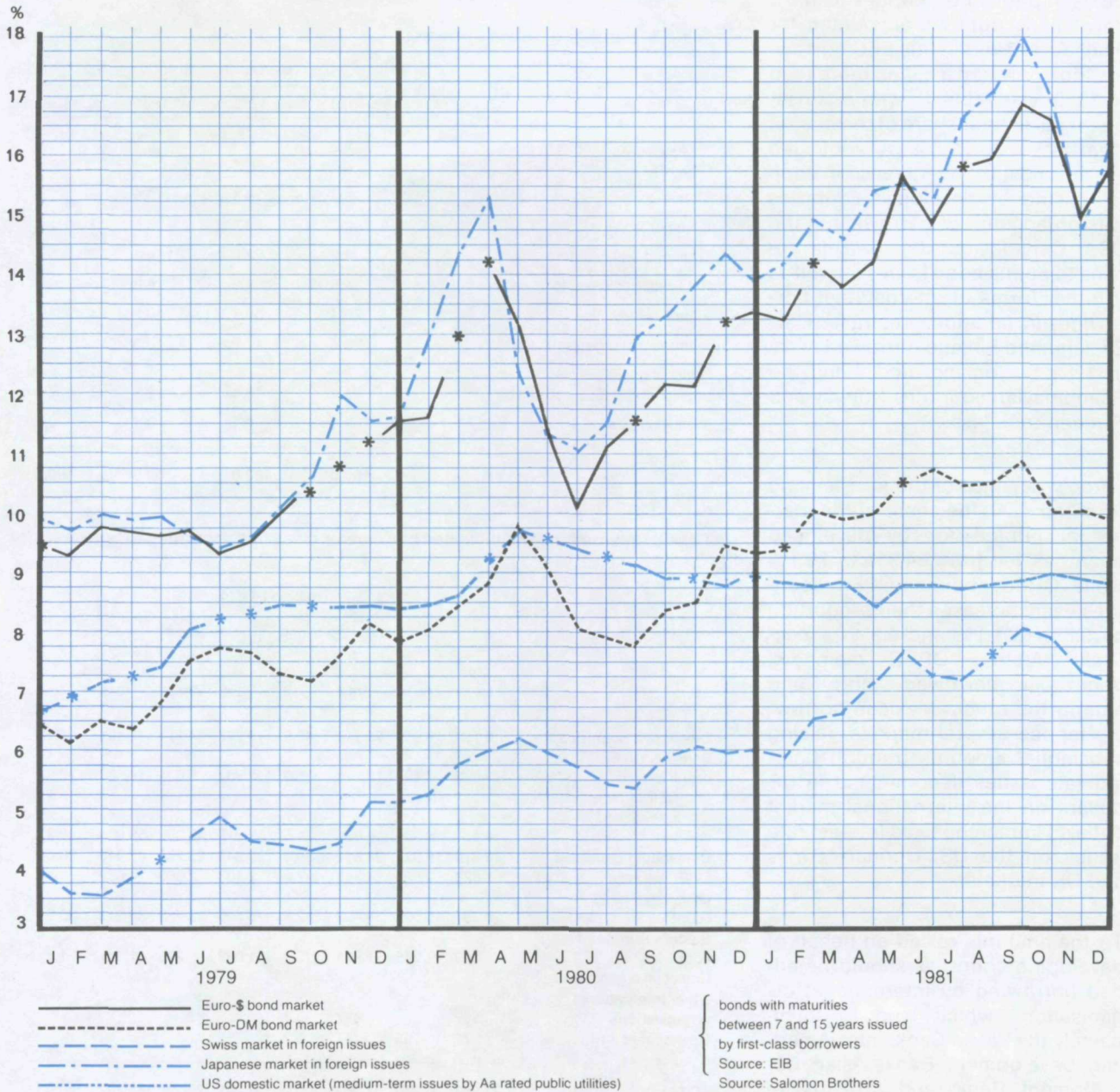
Financial institutions and international organisations still absorbed a substantial part of the resources coming on to the market, if somewhat less, proportionately, than in

the last year or so. The decline in the share of new bond issues accounted for by national governments and provincial and local authorities continued in 1981 in spite of increased borrowing activity by Canadian provinces and cities. The closure of the Deutsche Mark sector to most borrowers during the first quarter of the year and for a while during the second appears to offer a partial explanation, as by the last quarter Deutsche Mark issues by national governments were resumed at much the same pace as during the previous year.

Internationally syndicated loans

An abundant supply of liquidity in 1981, albeit at high rates of interest, ensured that internationally syndicated loans resumed their growth in the first half of the year (see Table 6) after stagnating during 1980. In the circumstances, potential borrowers sought to negotiate lower average interest rate spreads and/or to base the interest charge on a reference rate which they expected to remain in their favour.

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.

As an example of spreads improving in favour of the borrower, Denmark was reported at the beginning of the year to have negotiated an eight-year loan with a spread of 0.375% above the London inter-bank offered rate (LIBOR) for the first four years and of 0.5% for the remaining four. A few months later Denmark negotiated a second loan with the same maturity but with a spread of 0.375% for five years and of 0.5% for three years. It was not until July, however, that loans were arranged by US oil companies to finance take-overs or to resist them carrying no spread at all over US prime rate. Some of these loan contracts offered the borrower the option of spreads above LIBOR of 0.375% for three years, of 0.5% for the next five years and then of 0.625% for the remainder whatever it might be or of spreads above the US prime rate of zero for the first three years, of 0.25% for the next five years and of 0.5% for the remaining life of the loan. The option based on the US prime rate obtained by one of the oil companies carried spreads of zero for the first five years, of 0.125% for the next two years and of 0.25% for the last three. These deals were admittedly exceptional in view of the borrowers and the very large amounts involved but during the last quarter of the year a more typical customer, the Republic of Austria, obtained a loan with a spread above LIBOR of 0.375% for its entire life of ten years.

Internationally syndicated credits during 1981 saw not only resort to a wider range of reference rates in loan contracts – such as the US six-months' certificate of deposit rate, the Canadian banks' prime rate, the base lending rate of French banks, Madrid inter-bank rate, Singapore inter-bank rate – but also the lending of a greater number of currencies, including Swiss francs, sterling and Deutsche Mark as well as Canadian dollars, French francs and Pesetas. It is possible that the apparent widening of activity may have been largely the result of publicising existing techniques but this in itself would seem to indicate a growth of confidence among market participants.

Borrowers in developing countries were among the recipients of loans denominated in currencies other than dollars. The Caisse Autonome

d'Amortissement in the Ivory Coast, for example, borrowed Ffrs 600 million for ten years on spreads rising from 1.0% to 1.375%. The terms were better than on an \$ 80 million loan for eight years obtained by the Ivory Coast itself on a spread of 1.5%. Similarly in Nigeria the Imo State obtained better terms on its Sfrs 120 million loan carrying a spread of 0.75% throughout its seven and a half years than the Plateau State which paid 0.875% on an eight-year \$ 111 million borrowing.

In dealing with developing countries international banking syndicates have as a matter of prudence orientated their lending operations generally towards borrowers in the more prosperous of these countries. The large increase in 1981 of over 50% in syndicated loans granted to developing countries thus had little direct bearing, even if OPEC did not share in the increase, on the financing problems of lower income countries which remain more the concern of official aid and official financial intermediaries. In this last respect the African Development Bank appears not to have concluded any new loan agreements in 1981 but was negotiating towards the end of the year an eight-year 200 SDR million loan carrying spreads above the offered rate for SDRs of 0.5% for the first three years and 0.625% for the remainder.

Irrespective of the developing countries to which the funds went, the increase of over 50% in loans granted by banking syndicates represented a considerable expansion

in view of the unsettled market conditions which prevailed for most of the year, of the probable reduction in the available surpluses of OPEC and of very much larger demands by borrowers in developed countries. It would seem that Japanese banks, which were allowed as from 1 April 1981 to increase their participation in syndicated loans in currencies other than Yen, probably played a leading role in the growth of the market. Banks in the Middle East were also an important source of funds but towards the end of the year became reluctant to participate in deals in which they considered the terms to be too tight. American banks generally showed a preference for participating in loans in which spreads were related to the US prime lending rate; these included, naturally, the very large loans at mid-year to US oil companies. Banks in Europe tended from time to time to be more preoccupied with problems on their domestic markets than with international lending but clearly took a leading part in syndicated loans denominated in European currencies.

The issuing of foreign bonds on national capital markets was a well-established practice long before the international capital market began to develop in the late 1950s and extended into bond finance in the 1960s but since then the two techniques of issuing bonds outside a borrower's domestic market have been tending to overlap and distinguishing features to disappear. This process is not altogether surprising as

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

| | million ECUs | | | |
|---------------------------------|--------------------|-------|--------------------|-------|
| | 1980 | | 1981 | |
| | Public bond issues | Other | Public bond issues | Other |
| World Bank | 1 153 | 2 304 | 2 949 | 2 841 |
| Inter-American Development Bank | 222 | 108 | 519 | n.a. |
| Asian Development Bank | 145 | 149 | 351 | n.a. |
| African Development Bank | | 354* | | n.a. |
| European Investment Bank | 1 509 | 958 | 1 268 | 1 042 |

* Including undrawn amounts of stand-by credits.

the market intermediaries, while handling funds from different sources, would in many instances be the same. It has perhaps encouraged the markets to become more flexible and resourceful and hence more resilient when confronted with difficulties such as those experienced in 1981.

The greater resilience which the international market has developed enabled it not only to continue to absorb bond issues while yields climbed to much higher levels than in recent years, including 1974, the year of the first oil crisis, but also to supply a larger amount of new finance. The question of recycling the surplus revenues of oil exporters remains a preoccupation of financial intermediaries but with the development of contacts with the holders of the surpluses and of understanding their aims the problem seems less difficult to overcome.

Internationally syndicated bank loans still remain somewhat apart from issues on bond markets, though they share a number of characteristics in that, for example, loan participations may be sold in a similar way to bond holdings and *interest rates are usually based on the same reference rates as used in issues of floating rate notes.* It also seems that the banking syndicates granting medium and long-term international loans, having used their dollar resources almost exclusively

from the beginning of such operations, are beginning to diversify into other currencies. If this process were to continue, the currency composition of the market could gradually approach that of the international bond market, with the US dollar remaining in first place but with other currencies and currency units forming a significant part.

The risks incurred in international loans are spread between the members of the banking syndicates but they nevertheless remain heavier than those generally borne by banks lending on their own domestic markets. The very substantial growth in international lending has been concentrated, as a matter of prudence, in loans to borrowers in developed countries or in the more advanced developing countries. As the scope for channelling a larger part of the expansion in bank lending to lower-income developing countries is limited, the supply of development finance to the Third World seems likely to continue to be mainly the concern of the governments of donor countries and official long-term credit institutions. Insofar as these latter institutions depend upon bond issues as a main source of their funds, the continuing growth of the international bond market would seem to offer a better opportunity for providing finance for a wider range of developing countries.

Personalia

There are several changes in the composition of the European Investment Bank's Board of Directors.

Jean-Yves HABERER, Director since 1973, has left the Board following his appointment as Administrateur Général of the Compagnie Financière de Paris et des Pays-Bas (PARIBAS). The French Government has nominated Michel CAMDESSUS as successor, subject to approval by the EIB's Board of Governors. Mr Camdessus, who has served the EIB as an Alternate Director since 1971, has taken over Mr Haberer's former position as Directeur du Trésor, Ministry of Economic and Financial Affairs.

David HANCOCK, Director since the beginning of 1980, has left the Board following his appointment as a Deputy Secretary in the United Kingdom Government Cabinet Office. His successor is J. Geoffrey LITTLER, who has replaced Mr Hancock as Deputy Secretary, Overseas Finance, H.M. Treasury; Mr Littler served as an Alternate Director from 1973 to 1977.

Sotiris G. MOUSOURIS, Vice-Governor of the Hellenic Bank for Industrial Development, has joined the Board as successor to John N. SPENTZAS; Mr Spentzas was the first Director nominated by Greece, when the country joined the European Community and became a Member of the EIB at the beginning of 1981.

The public bond issues of the World Bank and the regional development banks included in the foregoing statistics of the international market are shown in Table 7 which also covers, as far as information is available, the private placements and assignments of participations in their loans that these institutions have been able to effect. For the sake of comparison, the table includes borrowing by the EIB whose loans in developing countries in the Mediterranean area, Africa, the Caribbean and the Pacific account for about 15% of its annual lending activities.

New telephone numbers

- o The EIB's Department for Operations in Italy, in Rome, has changed number to 49 79 41.
- o From 15 April next, the number of the Representative Office in Brussels will be 230 98 90 (remains 735 21 38 up to that date).

EIB-INFORMATION is published periodically by the European Investment Bank in seven different languages (Danish, Dutch, English, French, German, Greek and Italian).

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Printed in Luxembourg by éditpress
luxembourg, 44, r. du canal, Esch/Alzette