The Recent Internationalisation of Japanese Banks

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Abstract

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Abstract

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1. Introduction

Globalisation and deregulation, and improvements in settlement and trading technology are factors that have contributed to the internationalisation of domestic banks, while enhanced linkages in international interbank markets as well as those existing in international stock, bond, foreign exchange and derivatives markets have added to the integration of financial markets. Nearly three decades ago, authors such as Teeter's (1983) and Rhoades (1983) noted a trend towards financial market integration, an increasing concentration of international bank assets and the beginnings of disintermediation. Today, these relationships are entrenched: international bank[1] assets increased 285% to US$35 trillion between 2000 and 2008, while international securities, both issued by banks for financing purposes and those held as investments, represent an important, and increasing, component of bank liabilities and assets. One important feature of these statistics is that while there has been significant growth in the levels of international banking there has also been significant variation in the respective contributions from specific countries.

The key objective of this paper is to highlight and analyse one extraordinary feature of the international banking market: the change in the net international positions of Japanese banks

[1] The international positions of banks refer to cross-border (or external) bank transactions with non-residents plus those local transactions with residents in foreign currency.

as reported by the Bank for International Settlements (BIS), which went from being net international borrowers of US$230 billion in 1995 to net lenders of US$235 billion in 2008, with the opposite occurring in banks in other developed countries (from net lenders in 1995 of US$345 billion to net borrowers of US$418 billion in 2008)[2]. The Asia-Pacific region, in addition to Japan, remains a net contributor to international bank lending, which is largely channelled to emerging Europe, despite a critical need to finance regional long term development. Interestingly, Rhoades (1983) investigation of the international role of US banks, in the period from 1956 to 1980, then highlighted a trend of increasing international importance for non-US banks, especially those from the U.K., Europe and Japan. This trend has continued to the present day.

From the Japanese perspective, further analysis reveals that the main driver of these developments has been an 85% reduction (1995-2008) in the level of international bank lending to Japan (US$534 billion in 2008), rather than significant changes in the level of Japanese lending, which has now returned to mid 1990 levels (US$769 trillion in 2008). The current situation therefore draws attention to the current role of Japan as a relatively low risk international investor and capital exporter, since the majority of these investments are in the form of deposits to European and US banks.

Disintermediation by Japanese corporations and the development of local bond markets does not entirely explain this trend, although issuance by Japanese issuers in international markets did increase 16% to US$398 billion (2000-2008), and domestic bond markets doubled (2000-2008) to US$11.1 trillion. However, issuance in domestic bond markets was largely driven by government issues, with the non-government share falling slightly from US$2.08 trillion (2000) to US$1.96 trillion (2008).

Our analysis of the international bank positions of Japanese banks also provides additional insights into a series of related questions and issues concerning the impacts and consequences of bank internationalisation. The first issue concerns the impact of the revised capital adequacy rules adopted in 1998, which coincided with the Asian Financial Crisis of the same year, on the international positions of Japanese banks. During periods of non-economic as well as economic uncertainty, international banks would be expected to simply reduce the

[2] Source: BIS (2009), Table 7A.

maturity of their international loans (Valev, 2006). However, Montgomery (2005) shows that the stricter capital adequacy requirements introduced under the Basel Accord caused those Japanese banks with an international presence to also shift their asset portfolios from loans and corporate bonds to unweighted assets such as government bonds. This is very clear from the later analysis: Japanese banks reduced their international deposits with other banks by 46% (from US$760 billion in 1995 to US$518 billion in 2000) to reduce the risk of their balance sheets[3].

The second issue concerns the impact of financial market integration on international bank positions. Freixas and Holthausen (2005) model international interbank market integration with unsecured lending under asymmetric information and show that an equilibrium with integrated markets need not always exist, or that it may coexist with one characterized by segmentation. Later, Freixas and Jorge (2008) show that interbank market imperfections also induce credit market rationing thereby affecting bank liquidity preferences, while Skeie (2008) notes the effect of maturity mismatches between short dated liabilities and long term assets. Thus integration will induce changes in the asset and liability and maturity preferences of international banks operating within a region, especially one which is becoming more integrated and remains segmented from others.

The emergence of Europe as an economic bloc and one now with a common currency following the introduction of the euro and the associated capital market deregulation, represents a market that is becoming both internally more integrated, while remaining segmented from others, due to the dominant position of the US dollar as the primary currency for international trade, financial market trading and portfolio transactions. The analysis by Blank and Buch (2007) of OECD banks' bilateral foreign asset and liability positions supports this view with a positive and significant impact of the euro on bilateral financial linkages, which is stronger and more robust for banks' foreign assets than for their foreign liabilities. This is consistent with Evans, Hasan and Lozano-Vivas (2008), who show that European integration over the past two decades has led to convergence, or greater similarity

[3] In a related paper, Gee and Mano (2006) show that in the period from 2002-2004, when many Japanese banks were recovering from international loan losses the use of deferred tax losses enabled these banks to maintain their international presence.

of European bank profitability and earnings, although differences remain with their asset-liability management practices and positions.

We show that in response to European integration, the relative importance of Japanese banks to European banks declined, especially so during the post-euro period. Specifically, Japanese bank on balance sheet assets (termed "claims" by the BIS, Table 9B) to European banks declined from 81% in 2000 of the US$366 billion claims to 65% of the US$737 billlion claims. The main beneficiary of this change was higher cross-border claims between Japan and the US, with Japanese bank claims increasing during the same period (from 16% in 2000 to 35% in 2008). However, this response by Japanese banks to the emergence of Europe as an integrated economic bloc is complicated by the long standing branch presence in the UK and the US, which has been the historic channel for their international lending (Terrell, Dohner, Lowrey, 1990).

Third, this study provides additional insights into the controversy that surrounds the motivation for bank internationalisation. Ramchander (1996) has shown that credit market linkages are important factors driving foreign banking in the US, although the size of the foreign countries' banking sector is only important for French and Japanese banks. Perhaps, Japanese banks follow their customers to international locations to achieve economies of scale in the application of their intangible assets (Lihong and Delios, 2008), or to facilitate trade (Buch, 2003b)? Nonetheless, our findings appear to be at odds with the concentration of international activity from Japanese bank branches based in London and New York (Terrell, Dohner and Lowrey, 1990) and their preference for holding international bank deposits instead of corporate loans in recent times.

There are clearly a number of offsetting factors that appear to influence Japanese bank international lending decisions, with overbanking and unprofitable domestic markets one key factor. For example, Koetter et al. (2006) has demonstrated that this was the main driver for German bank internationalisation. Other important factors that likely inhibit internationalisation include information costs (Buch, 2003), cultural factors (Moshirian and Bishop, 1997) and the ability to match foreign currency assets by borrowing in the domestic market (Moshirian, Sadeh and Zein, 2004). Buch (2005) show's that banks prefer to lend near their head offices (i.e. geographically nearby), which may account for the historical preference by the Japanese to lend to corporations on the west coast of the US (Huallachain,

1994) and their failure to lend extensively in distant emerging markets. High intermediation costs, potential moral hazard effects, exposure to foreign currency risks and ownership and control concerns with the foreign subsidiary or investment (Grosse, 2006; Minda 2007) will also have a negative impact on the international bank and prevent internationalisation.

Finally, we can add to the existing literature on the differences between domestic and international banking. Foreign banks have different financial characteristics and in the large money centres rarely have retail deposits (Kosmidou et al., 2006). However, relying on the asset-liability data provided by the BIS means that we are unable to disentangle the effects of off-balance sheet items that are known to affect portfolio decisions (Boot and Thakor, 1991). Given the aggregation of this data we are also unable to distinguish between variations in the size, or number of banks that hold international claims.

The remaining paper is structured as follows: Next, in section 2, a survey is provided of the international positions of all BIS reporting banks, with a focus provided on the relative positions of Japanese banks. Then, in Section 3, the international asset and liability positions of Japanese banks are examined in more detail. Section 4, provides a perspective on recent Japanese developments in firstly, international bond markets, secondly, syndicated loan markets, and thirdly domestic bond markets. Finally, Section 5 provides some concluding remarks.

[Insert Table 1 and 2 about here]

2. The International Asset and Liability Positions of BIS Reporting Banks

Summary tables of the international positions of banks that are reported to the BIS from December 1980 to March 2009 are provided in two main tables: Table 1 provides the international asset positions, while Table 2, provides the international liability positions. International assets comprise external (cross-border) and local assets. External assets may be in the form of either loans and deposits, or securities (this detail is provided from December 1995 only). Local assets are by definition denominated in foreign currency. The international liability positions also comprise external and local liabilities, with external liabilities also in the form of loans and deposits, or own bank securities issues. Country level detail on loans and deposits as either bank assets or liabilities, are provided in Tables, 2A (Assets), 2B (Liabilities) and 2C (Net positions).

The most striking feature of Tables 1 and 2 is the extraordinary increase in total international assets from US$1641 billion in 1980 to US$33091 billion in March 2009, and international liabilities from US$1594 billion to US$32043 billion over the same period. Doukas and Melhem (1987) note, with respect to Canadian banks, that the foreign asset component of bank portfolios has increased due to the important role banks now play in the financing of current account imbalances. While their comments were originally referencing the importance of financing for developing countries, it has also become important for a number of developed countries, such as Australia. Attention should also be drawn to the non bank share of these international assets, which has increased from 32% in 1980 to 37% in 2009, while non bank international liabilities have also increased but not to the same degree (from 19% in 1980 to 28% in 2009).

The difference between the quantity of international assets and liabilities means they are not perfectly matched (97% in both 1980 and 2009), with the residual component funded by equity. The external component of both international assets and liabilities has also increased (from 81% in 1980 to 89% in 2009 for assets and from 84% in 1980 to 87% in 2009 for liabilities). This likely reflects the effects of globalisation and would also be consistent with banks following their customers into overseas markets. The almost perfect matching of these international positions highlights the ability of international banks to tap foreign financial markets for funding. The other side of this effect is the reduction in the contribution of local positions from 19% of total assets in 1980 to 11% in 2009, and 16% of total liabilities on 1980 to 14% in 2009.

[Insert Table 2A, 2B, 2C about here]

Tables 2A, 2B and 2C provide detail on bank lending to specific countries (Table 2A), bank lending from specific countries (Table 2B) and the subsequent net positions (Table 2C). Table 2A records from 2000-2007 BIS lending to all countries increased some 194% to US$24.5 trillion (falling slightly in the 2007-2008 crisis period), while lending to all developing countries increased the slightly lesser amount of 158% to US$1.9 trillion. In the post Asian crisis period (1995 to 2000) international bank lending to Japan fell 51% to US$488 billion and has subsequently increased slightly to US$534 billion in 2008. Of the regions reported by the BIS, emerging Europe received the highest increase over this same period (376% to US$592 billion while Latin America and the Caribbean received the smallest increase (31.7% to US$282 billion). While lending to the Asia-Pacific region increased 153% to US$608 billion it is important to note that lending in the period 1995-2000 suffered the largest decrease (32%) due to the Asian Crisis of 1997. These results are consistent with banks maintaining their role as the primary, if not sole source of external financing, a phenomenon which began in the 1970s (Heller, 1987).

The extensive lending (bank deposits) now provided to the BIS reporting banks (Table 2B) by key developing countries and regions is perhaps not surprising given oil rich nations now present in the Africa and Middle-East region. These loans to BIS banks were US$867 billion in 2007 –a 170% increase from 2000, although the Asia-Pacific region is a close second (US$832 billion in 2007 – a 132% increase since 2000). While some of these deposits were withdrawn in the twelve months to 2008 these two regions relative positions remained the same. Interestingly, the current bank deposits from Japan (US$769 billion in 2008) are now equivalent to the combined amounts from the Middle-East and Africa (US$778 billion in 2008).

The substantial drop in Japanese deposits in the period from 1995 to 2000 (from US$760 to US$518 billion) was linked to the bad debt provisions associated with the 1998 Asian Crisis. Of the countries reported, only Japan experienced such a significant decline, which is the likely coinciding of the implementation of the new Basle II requirements with the Asian Crisis. Within the Asia-Pacific region China and Chinese Taipei provide nearly US$444 billion (2008) in deposits that when combined with the totals from Hong Kong and Singapore total US$1.36 trillion; an amount which is almost twice that of deposits from Japan (US$769 billion).

The net positions recorded in Table 2C are also of interest. The first key point is that deposits with BIS banks exceeded loans by about US$1.64 trillion in 2008. This was a 37% reduction on the previous year reflecting the effects of the recent financial crisis. The second is that with the exception of Japan and to a slightly lesser extent the US, developed countries have collectively moved from being net lenders in 1995 (US$345 billion) to net borrowers (US$418 billion in 2008). In effect, developing countries in the Asia-Pacific region and Africa and the Middle-East are making low risk loans to banks in the developed countries. What is therefore critical for long term economic development in the developing world is whether these international banks then reinvest these funds back in developing markets, or instead use them to finance corporate infrastructure in their own countries.

Of the countries and region's listed, Australia is one of the most important net recipients of bank lending - US$50.1 billion in 2008 - (i.e. lending to the bank via deposits exceeds loans made from the banks), as was India (US$78.8 billion), South Korea (US$74.3 billion) and Indonesia (US$39.4 billion). The region that received the largest net amount was emerging Europe with US$377.8 billion in 2008. While some countries in the Asia-Pacific experienced positive inflows at a regional level the overall amount was a deficit of US$68.7 billion in 2008 and a staggering US$223.2 billion in 2007, with the deficit greatest for China and Chinese Taipei. Attention should also be drawn to the changing role of Japan, which has changed from a net receiver of funds in 1995(US$229.7 billion) to that of a net lender of funds in 2008 (US$234.9 billion). Hong Kong's role as an asset management centre is clear given the US$282.3 billion in excess deposits placed with BIS banks. This sum exceeds Singapore's US$51.1 billion by more than fourfold.

Overall international bank lending to developing Asia remains below the levels of lending to other regions, especially developing Europe, while regional deposits with these same banks continue to exceed loans and have done so for all years since 2000. Thus, Asia-Pacific savings continue to subsidise international bank lending, especially to developing Europe, despite the efforts of regional policy-makers to direct these funds for regional economic and infrastructure development.

It is important to recognise that promotion of regional bond markets and the development of country specific corporate and foreign bond markets is not inconsistent with improving access to international debt markets in the form of either syndicated bank loans or as international bond issues (such as Eurobonds). Chakraborty and Ray (2006) amongst others have recommended a two-tiered approach to financial market development with complementary bank and bond market reform as the best strategy to long term economic development. The IMF (2005) Burger and Warnock (2006b) both mention that necessary financial market reform would provide improved services, more efficient financial and legal institutions, better protection for investors and sound fiscal and monetary policy management by government that would benefit both bond market development and improve access to international investment or lending.

3. The International Positions of Japanese Banks

The international asset and liability positions of Japanese banks are reported in two groups of tables. The first group (Tables 3-6): Table 3 provides details on the total external asset and liability positions; Table 4 provides details on the component of these positions that are external loans and deposits; Table 5 provides details on the component of these positions made locally (to residents in foreign currency); while Table 6 provides details on the locations and allocation by sector. The second group (Tables 7-9) provides information on the cross-border claims between different countries: Table 7 provides a summary of Japanese bank claims to other banks by country and region; Table 8 reports the country of claims to Japan; while Table 9 reports additional cross-border claims between other countries for comparison purposes.

[Insert Table 3 about here]

From 1980 to the present day, Japanese bank external assets and liabilities have increased significantly. Table 3 shows that assets have increased from US$65 billion in 1980 to US$2348 in 2009, while liabilities increased from US$80 billion to US$906 billion over the same period. These numbers disguise the significant change in Japan's relative contribution, or share, of total international assets and liabilities. These ratios show a significant increase and peak in the period from 1980 to 1990 (from 5% to 15% of all international assets and from 6% to 15% of international liabilities). Since then these ratios have declined to 8% of all international assets and 3% of all international liabilities in 2009. Nonetheless, over the entire period the non-bank share of Japanese external assets increased from 27% in 1980 (of US$18 billion) to 62% in 2009 (of US$1488 billion). The non-bank share of external liabilities also increased but not to the same extent (27% in 2009 of US$241 billion). One of interesting results presented in this table is the reduction in recent years of the proportion of both external assets and liabilities that are denominated in foreign currency: currently 64% of external assets and 75% of liabilities are in foreign currency, from 68% and 80% in 2006. Since 2005, foreign currency loans to the non-bank sector have mostly been in foreign currency (70%).

[Insert Table 4 about here]

The component of external asset and liability positions that comprise external loans and deposits are reported in Table 4. This data is only available from 1995. Recall that external assets can loans and securities bought, while external liabilities can comprise deposits and own bank securities issued. Thus, vis-à-vis all sectors, external deposits comprise the major form of external liability, whereas external loans represent a declining component (from 73% in 1995 of US$895 billion to 41% in 2009 of US$955 billion) of external assets. This suggests securities now represent the major component of external assets. By contrast the ratios of external non bank loans (deposits) to all external loans (deposits) are 44% and 27% in 2009.

[Insert Table 5 about here]

The local positions (resident assets and liabilities in foreign currency) are reported in Table 5. It is interesting to note that nominal asset values peaked in 1990 for all sectors and the non-bank sectors. For example, non-bank local asset positions (foreign currency loans to non-banks) were US$227 billion and all sectors were US$498 billion in 1990 and are now US$58 and US$170 billion respectively (2009). However, local liability positions (e.g. foreign currency deposits) have increased significantly for all sectors (US$446 billion in 2009) and the non-bank sector (US$210 billion in 2009).

[Insert Table 6 about here]

Table 6 provides information on the ratio of external assets and liabilities that are denominated in yen. Yen denominated external assets have increased from US$3.8 billion in 1980 to US$235.7 billion in 2009. The share of these assets denominated in yen has also increased significantly from 5% in 1980 to 39% in 2009. This ratio is lower than the 50% of external assets that were denominated in yen in 2007. It is likely that the variation in this ratio is due to borrowers or speculators swapping low coupon yen liabilities for high yielding foreign currency assets (the so called yen carry trade). Yen denominated liabilities have also increased over the same period from 1.3% in 1980 (of US$27 billion) to 35% in 2009 (of US$221 billion).

[Insert Table 7 about here]

The next group of Tables (7-9) report the cross-border positions or “claims” of BIS banks in one country against another. Claims (of banks) are financial assets (on-balance sheet items only) that include deposits and balances with other banks, loans and advances to non-banks as well as banks, and holdings of debt securities (BIS, 2008). These Tables though related to the others are intended to measure the ultimate risk exposure in the event of loss.

The first panel of Table 7 provides a summary of international and Japanese bank claims against all countries from 2000 to 2009. As expected from the internationalisation of banking discussed above, bank claims increased until December 2007. As banks confronted the effects of the Global Financial Crisis of 2007, international and domestic banks attempted to reduce their cross-border and domestic exposures. For example, European bank claims to the rest of the world decreased from US$23.7 trillion to US$20.5 trillion (16%). Another important detail of this panel is the relatively low amount of US bank claims to other countries given its economic size.

The bottom panel of Table 7 records changes in the ratios of different groups of countries to others. The developed country share of claims remains consistently around 75%, while the European share of developed country claims is also consistently around 43% (2009) with most of the balance reflecting claims on the US (51% in 2009). Developing countries share of claims have increased slightly to just fewer than 9% of claims (2009), while the Asia-Pacific regions share of these claims has declined from 72% (2000) to 63% (2009). This is likely driven by European banks increased lending to emerging Europe.

[Insert Table 8 about here]

Table 8 reports BIS reporting banks claims (by country) on Japanese banks. The first row of this table records the nominal value of claims. This shows that BIS bank claims against Japanese banks have almost doubled from US$366 billion in 2000 to US$737 billion in 2009. The remaining rows represent the ratio of specific country exposures to Japan of the total claims each year. For example, the claims of French banks represent 15.9% of total claims against Japanese banks in 2000. One important feature of these claims is their concentration: banks from the US (35%), UK (12%), France (29%), Switzerland (11%) and Germany (7%) comprise 94% of claims against Japan in 2009. Importantly, while European banks have been reducing their exposures to Japan (and increasing exposures to one another –see Table 7), US banks have been increasing their exposures.

[Insert Table 9 about here]

Table 9 provides further evidence on the dynamics of the cross-border claims against major European and US banks against one another and against Japan. The first panel records the nominal values of claims for France, Germany, Switzerland, UK and the US. These values may be compared with the top panel of Table 7, which records these same countries claims against all countries. The second panel records the contribution of Japanese claims to these countries total claims. With the exception of Japanese claims as a ratio of US bank claims, which increased from 8% in 2000 to 11% in 2009, all of the other countries recorded reduced claims. This was also the case when measured as a ratio of developed country claims, not all country claims (third panel). The final panel records the claims against Germany for comparison purposes. Generally European countries and the US increased their claims against Germany. This was not the case for Japan. Collectively these results suggest that the current Japanese bank strategy of investing internationally through bank deposits and securities purchases is reducing the relative presence of Japanese banks in the international marketplace.

(Insert Appendices 1 to 4 about here)

4. The Japanese presence in other markets.

Section 4, provides a perspective on recent Japanese developments in international and domestic markets. The first of these tables report recent BIS statistics on international debt securities issued (Appendix 1) and international syndicated loans signed (Appendix 2) by the nationality of the issuer. These outstandings are measured in US dollars. The final Table records developments in domestic bond markets.

Appendix 1 records that issues in international bond markets by all countries increased 250% between 2000 and 2008 to US$23.9 trillion. This sum exceeded international bank lending of US$22.5 trillion (by US$1.4 trillion) for the first time in 2008, suggesting a global trend towards disintermediation that may have been accelerated by the current financial crisis. Apart from the US and the UK which issued 37% of the total international debt securities in 2008, Australia with US$468 billion, Japan with US$398 billion and South Korea with US$109 billion are all important issuers in the Asia-Pacific region. By comparison the sums reported for syndicated loans in Appendix 2 are much less, although the 55% reduction for all countries between 2007 and 2008 to US$297 billion is certainly noteworthy and highlights the difficulties experienced in financial markets in 2008, and especially for syndicated lending markets which tend to be LIBOR based.

The remaining two Appendices (3 and 4) provide recent information on respectively the growth and composition of 20 domestic bond markets. The top panel in these Tables reports 10 key developed countries while the bottom panel provides data on 10 countries in the Asia-Pacific region (excluding Japan) where reports are made to the BIS. The Japanese domestic bond markets with outstandings of US$11.1 trillion in 2008 are second only to the US (US$24.6 trillion) in terms of size. The major European markets collectively are comparable to those bond markets present in Japan.

The last row of Appendix 3 shows that the fraction of outstanding bonds in the Asia Pacific region to all bonds in domestic markets was 2.7% in 1995 and 7.2% in 2008. This period saw outstandings in Asia-Pacific domestic bonds markets increase from US$656.6 billion in 1995 to US$4,296.1 billion in 2008. These numbers largely reflect the effect of the development of the bond markets in China over this period resulting in a 51.4% share of the regions outstandings by 2008. China's domestic bond market is now comparable in terms of scale to these markets in France and almost twice those in Canada and the UK. Of the countries reported in the Table, China's growth is higher than any other irrespective of the period.

Appendix 4 reports the average annual compound growth (in percent) along with the share that was Government issues and the share that was short term. This Table is based on data from the BIS where short term refers to lending for less than one year. The bottom row reports the averages for all markets. There is considerable diversity in these statistics at a national level although with the exception of Japan, the larger bond markets tend to have government issues comprising less than 50% (e.g. the US has around 30%) and have significant long-term as well as short-term bond markets.

5. Conclusions

The objective of this study was to investigate the changing role and direction of Japanese bank financing from 1995 to 2008. This includes the effects of two financial crises: the 1997-1998 Asian Financial and the Global Financial Crisis of 2007-2008. The key feature of this period is that Japan has changed from being a net receiver of international bank lending of US$230 billion (1995) to a net lender to international banks of US$235 billion (2008).

The Asia-Pacific region, like Japan, also remains a net contributor to international bank lending, which is largely channelled to emerging Europe. In effect Japan and many of the regions' capital surplus economies are investing in relating low risk international assets, which in the case of Japanese banks are either straight deposits or securities. While international and especially European banks appear to be reducing their relative exposures to Japan (there has been an 85% reduction (1995-2008) in the level of international bank lending to Japan), there has not been significant changes in the level of Japanese lending, which has now returned to mid 1990 levels (US$769 trillion in 2008).

Disintermediation and the development of local bond markets does not explain this trend: (a) issuance by Japanese issuers in international markets has increased only 16% to US$398 billion (2000-2008), and (b) while domestic bond markets have doubled (2000-2008) to US$11.1 trillion, the non-government share has in fact fallen from US$2.08 trillion (2000) to US$1.96 trillion (2008).

The analysis of the international positions of Japanese banks also provides insights into a number of issues that have been raised in the literature. The first issue concerns the impact of the revised capital adequacy rules adopted in 1998, which coincided with the Asian Financial Crisis of the same year, on the international positions of Japanese banks. The evidence presented here suggests that the Japanese banks significantly reduced their international exposures to mitigate the effects of their failed loans in the Asia-Pacific region.

The second issue concerns the impact of financial market integration on international bank positions. Integration is expected to induce changes in the asset and liability and maturity preferences of international banks operating within a region, especially one which is becoming more integrated and remains segmented from others. Analysis of international cross-border claims demonstrates that European integration has been associated with enhanced claims, while during the same period Japanese claims were reduced.

Third, this study provides additional insights into the controversy that surrounds the motivation for bank internationalisation. Various theories highlight customer-related, socio-cultural, geographic as well as financial reasons for bank internationalisation. While Japanese banks have expanded their international balance sheets, this has mostly been undertaken via the placement of deposits with European, or US banks, or the purchase of their securities. This strategy appears to be at odds with customer-related motivations, although such a low risk strategy would be consistent with socio-cultural or geographic influences, the effects of asymmetries in information and risk aversion.

Finally, we can add to existing facts concerning the differences between domestic and international banking. While foreign banks have different financial characteristics largely due to their lack of a retail branch network, the Japanese banks in the major money centres of London and New York were clearly able to compensate by accepting wholesale deposits. While these higher priced liabilities may have placed pressures on the interest margins of foreign banks it is likely that maturity mismatching or lending to less credit worthy financial institutions may have maintained profitability.

One important extension of this analysis is to consider the possible consequence of internationalisation on domestic lending. The conservative practice internationally appears likely to reflect conservative lending practice at home. Nonetheless it likely represents the failure by Japanese corporations to undertake new investment and a trend to improve debt equity levels. Ultimately, this situation must reverse if Japan wishes to regain its role as an industrial and financing powerhouse not just in the Asia-Pacific region but in the world economy.

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Table 1: Summary of BIS Reporting Banks International Asset Positions

(Amounts outstanding in billions of US$)	Dec.1980	Dec.1985	Dec.1990	Dec.1995	Dec.2000	Dec.2005	Dec.2006	Dec.2007	Dec.2008	Mar.2009
A. Total assets	1640.81	3205.86	7694.13	9495.31	12280.89	23910.63	29408.02	37405.99	35017.28	33090.98
• Non Bank Share of Total Assets (%)	31.77	30.85	28.51	31.58	34.53	37.72	38.10	37.54	36.73	37.14
B. External assets	1321.87	2583.29	6297.57	8072.67	10773.94	21125.12	26126.48	33459.64	30948.57	29418.53
• External Assets Share of Total Assets (%)	80.56	80.58	81.85	85.02	87.73	88.35	88.84	89.45	88.38	88.90
• Non Bank Share of External Assets (%)	30.89	29.75	24.18	29.83	32.78	36.61	36.76	35.76	34.82	35.23
1. Loans and deposits				7139.16	8317.61	15201.67	18941.77	24528.25	22530.90	21394.09
• Loans and Deposits share of Total Assets (%)				75.19	67.73	63.58	64.41	65.57	64.34	64.65
• Non Bank Loans and Deposits Share of Total Assets (%)				18.32	16.91	16.06	17.29	17.23	17.39	17.67
2. Holdings of securities and other assets				933.51	2456.32	5923.43	7184.71	8931.39	8417.65	8024.41
• Securities Share of Total Assets (%)				9.83	20.00	24.77	24.43	23.88	24.04	24.25
• Non bank Securities Share of Total Assets (%)				7.04	11.85	16.28	15.36	14.75	13.39	13.65
C. Local assets in foreign currency	318.94	622.57	1396.56	1422.64	1506.95	2785.51	3281.54	3946.35	4068.71	3672.46
• Local Assets share of Total Assets (%)	19.44	19.42	18.15	14.98	12.27	11.65	11.16	10.55	11.62	11.10
• Local Assets (B) ratio to External Assets (B) %	24.13	24.10	22.18	17.62	13.99	13.19	12.56	11.79	13.15	12.48

Source: Table 1 BIS Quarterly Review. The term "international" refers to "Banks' transactions in any currency with non-residents (i.e. their external or cross-border business) plus their transactions in foreign (non-local) currency with residents" and "external" positions or "cross-border" positions are asset and liability positions vis-à-vis banks and non-banks located in a country other than the country of residence of the reporting banking office positions (BIS 2008, "Guidelines to the International Locational Banking Statistics", Monetary and Economic Department, November 2006 and update December 2008).

Table 2: Summary of BIS Reporting Banks International Liability Positions

	Dec.1980	Dec.1985	Dec.1990	Dec.1995	Dec.2000	Dec.2005	Dec.2006	Dec.2007	Dec.2008	Mar.2009
D. Total liabilities	1593.50	3078.41	7633.31	9306.79	12014.65	23125.84	28336.61	35800.49	33466.51	32043.76
• Total Liabilities as Ratio of Total Assets (%)	97.12	96.02	99.21	98.01	97.83	96.72	96.36	95.71	95.57	96.84
• Equity Share of Total Assets (%)	2.88	3.98	0.79	1.99	2.17	3.28	3.64	4.29	4.43	3.16
• Non-Bank Liabilities Share of Total Liabilities (%)	18.76	21.34	22.68	23.82	25.98	27.87	28.86	28.83	28.26	27.65
E. External liabilities	1334.86	2536.40	6481.17	7831.33	10420.68	19884.44	24447.92	31176.69	28658.41	27730.35
• External Liabilities Share of Total Liabilities (%)	83.77	82.39	84.91	84.15	86.73	85.98	86.28	87.08	85.63	86.54
• Non Bank External Liabilities Share of Total External Liabilities (%)	18.52	21.33	21.00	21.80	24.11	25.86	26.81	26.59	26.24	25.42
1. Loans and deposits				7467.43	9454.57	17214.75	21293.60	27121.50	24087.08	23296.44
• Loans and Deposits Share of Total Liabilities (%)				80.24	78.69	74.44	75.15	75.76	71.97	72.70
• Non Bank Loans and Deposits Share of Total Loans and Deposits (%)				22.72	25.31	27.20	27.92	27.42	28.29	27.41
2. Own issues of securities and other liabilities				363.90	966.10	2669.66	3154.29	4055.13	4571.31	4433.86
• Own Securities share of Total liabilities (%)				3.91	8.04	11.54	11.13	11.33	13.66	13.84
• Non Bank Share of Own Issues of Securities (%)				2.86	12.40	17.24	19.26	21.04	15.45	14.97
F. Local liabilities in foreign currency	258.64	542.01	1152.14	1475.46	1593.97	3241.40	3888.70	4623.80	4808.09	4313.41
• Foreign Currency Liabilities Share of Total Liabilities (%)	16.23	17.61	15.09	15.85	13.27	14.02	13.72	12.92	14.37	13.46
• Non Bank Share of Local Liabilities in Foreign Currency (%)	20.02	21.38	32.12	34.56	38.17	40.21	41.79	43.98	40.30	41.98

Source: Table 1 BIS Quarterly Review. The term "international" refers to "Banks' transactions in any currency with non-residents (i.e. their external or cross-border business) plus their transactions in foreign (non-local) currency with residents", "external" positions or "cross-border" positions are asset and liability positions vis-à-vis banks and non-banks located in a country other than the country of residence of the reporting banking office positions, and debt securities are instruments other than equity shares, investment fund shares or units and financial derivatives. All financial assets that are bearer instruments, usually negotiable and traded on secondary markets, not granting the holder any ownership rights to the institutional unit issuing them (BIS 2008, "Guidelines to the International Locational Banking Statistics", Monetary and Economic Department, November 2006 and update December 2008).

Table 2A
BIS Reporting Bank Loans Outstanding to Individual Countries
(millions of US dollars)

Loans	Dec.1995	Dec.2000	Dec.2007	Dec.2008	% Change 2007-2008	% Change 2000-2007	% Change 1995-2000
All countries	7,139,157	8,317,608	24,528,053	22,480,281	-8.3	194.9	16.5
All Developed Countries	4,887,406	6,344,813	19,177,449	17,248,040	-10.1	202.3	29.8
Australia	40,891	58,544	173,808	170,991	-1.6	196.9	43.2
Japan	989,493	488,205	521,738	534,550	2.5	6.9	-50.7
New Zealand	14,661	13,062	25,112	24,709	-1.6	92.3	-10.9
United States	895,361	1,462,126	3,860,154	3,670,109	-4.9	164.0	63.3
Hong Kong SAR	506,295	177,821	239,357	267,195	11.6	34.6	-64.9
Singapore	280,383	210,227	385,382	417,494	8.3	83.3	-25.0
Developing countries	807,866	737,183	1,900,334	2,026,561	6.6	157.8	-8.7
Africa & Middle East	138,335	157,867	417,267	432,366	3.6	164.3	14.1
Europe	104,030	124,511	592,320	702,278	18.6	375.7	19.7
Latin America/Caribbean	212,064	214,250	282,087	305,146	8.2	31.7	1.0
Asia & Pacific	353,437	240,555	608,660	586,771	-3.6	153.0	-31.9
China	65,587	52,193	130,550	113,472	-13.1	150.1	-20.4
Chinese Taipei	21,752	12,376	53,674	44,887	-16.4	333.7	-43.1
India	16,376	18,292	90,928	113,714	25.1	397.1	11.7
Indonesia	47,408	38,192	40,745	52,612	29.1	6.7	-19.4
Malaysia	16,125	16,127	35,151	25,666	-27.0	118.0	0.0
Philippines	7,053	12,634	17,758	14,040	-20.9	40.6	79.1
South Korea	74,658	51,372	153,835	123,922	-19.4	199.5	-31.2
Thailand	90,404	23,608	20,654	16,716	-19.1	-12.5	-73.9
Vietnam	918	1,483	6,684	13,681	104.7	350.7	61.5
Others	7,346	7,246	51,491	60,628	-57	-1,569	-30

Source: BIS Quarterly Review: June 2009: Table 7A. Loans comprise those financial assets which are created through the lending of funds by a creditor (lender) to a debtor (borrower) and which are not represented by negotiable securities. Deposits comprise all claims reflecting evidence of deposit – including non-negotiable certificates of deposit (CDs) – which are not represented by negotiable securities. Thus, loans and deposits include interbank borrowings and loans and inter-office balances (BIS 2008, "Guidelines to the International Locational Banking Statistics", Monetary and Economic Department, November 2006 and update December 2008). These items are part of the principal balance sheet items reported by the BIS are claims are deposits and balances placed with banks, loans and advances to banks and non-banks and holdings of securities and participations. The first option is to report data on the following three major subcomponents of international assets and liabilities separately: (i) loans and deposits; (ii) holdings and own issues of debt securities; and (iii) other assets and liabilities. In this case, total international assets and liabilities are defined as the sum of the three subcomponents. The second option is to report, in addition to data on total international assets and liabilities, data on two subcomponents separately: (i) holdings and own issues of debt securities; and (ii) other assets and liabilities. In this case, data on loans and deposits are obtained by deducting the two separately reported subcomponents from total international assets and liabilities.

Table 2B:

BIS Reporting Bank Deposits Outstanding to Individual Countries (millions of US dollars)

Deposits	Dec.1995	Dec.2000	Dec.2007	Dec.2008	% Change 2007-2008	% Change 2000-2007	% Change 1995-2000
All Countries	7,467,431	9,454,574	27,121,504	24,124,940	-11.0	186.9	26.6
Developed Countries	5,232,545	6,342,454	18,901,714	16,829,650	-11.0	198.0	21.2
Australia	20,606	31,591	102,909	120,864	17.4	225.8	53.3
Japan	759,823	517,933	674,274	769,402	14.1	30.2	-31.8
New Zealand	2,552	4,896	16,544	13,312	-19.5	237.9	91.8
United States	793,500	1,506,843	3,887,575	3,731,446	-4.0	158.0	89.9
Hong Kong SAR	329,729	333,812	600,966	550,463	-8.4	80.0	1.2
Singapore	170,220	274,782	494,492	468,564	-5.2	80.0	61.4
Developing countries	771,485	1,008,873	2,532,702	2,126,709	-16.0	151.0	30.8
Africa & Middle East	261,873	321,583	867,104	778,051	-10.3	169.6	22.8
Europe	78,189	98,455	470,541	324,487	-31.0	377.9	25.9
Latin America/Caribbean	202,119	240,639	363,197	368,686	1.5	50.9	19.1
Asia & Pacific	229,304	348,196	831,860	655,485	-21.2	138.9	51.8
China	57,426	101,917	276,019	226,469	-18.0	170.8	77.5
Chinese Taipei	36,032	63,101	135,062	117,385	-13.1	114.0	75.1
India	12,607	22,271	42,263	34,944	-17.3	89.8	76.7
Indonesia	11,479	12,499	12,600	13,375	6.2	0.8	8.9
Malaysia	13,030	14,599	46,202	18,397	-60.2	216.5	12.0
Philippines	7,336	12,220	25,575	18,310	-28.4	109.3	66.6
South Korea	25,100	27,550	74,265	49,674	-33.1	169.6	9.8
Thailand	11,806	13,990	38,383	23,582	-38.6	174.4	18.5
Vietnam	1,249	2,161	6,237	3,315	-46.8	188.6	73.0
Others	47,542	70,837	156,655	138,514	318	-1,397	-395

Source: BIS Quarterly Review: June 2009: Table 7A. Source: BIS Quarterly Review: June 2009: Table 7A. Loans comprise those financial assets which are created through the lending of funds by a creditor (lender) to a debtor (borrower) and which are not represented by negotiable securities. Deposits comprise all claims reflecting evidence of deposit – including non-negotiable certificates of deposit (CDs) – which are not represented by negotiable securities. Thus, loans and deposits include interbank borrowings and loans and inter-office balances (BIS 2008, "Guidelines to the International Locational Banking Statistics", Monetary and Economic Department, November 2006 and update December 2008).

Table 2C:

BIS Reporting Bank Net Positions (Loans-Deposits) Outstanding to Individual Countries (millions of US dollars)

Net Positions (Loans-Deposits)	Dec.1995	Dec.2000	Dec.2007	Dec.2008	% Change 2007-2008	% Change 2000-2007	% Change 1995-2000
All countries	-328,274	-1,136,966	-2,593,451	-1,644,659	-36.6	128.1	246.3
All Developed Countries	-345,139	2,359	275,735	418,390	51.7	11588.6	-100.7
Australia	20,285	26,953	70,899	50,127	-29.3	163.0	32.9
Japan	229,670	-29,728	-152,536	-234,852	54.0	413.1	-112.9
New Zealand	12,109	8,166	8,568	11,397	33.0	4.9	-32.6
United States	101,861	-44,717	-27,421	-61,337	123.7	-38.7	-143.9
Hong Kong SAR	176,566	-155,991	-361,609	-283,268	-21.7	131.8	-188.3
Singapore	110,163	-64,555	-109,110	-51,070	-53.2	69.0	-158.6
Developing countries	36,381	-271,690	-632,368	-100,148	-84.2	132.8	-846.8
Africa & Middle East	-123,538	-163,716	-449,837	-345,685	-23.2	174.8	32.5
Europe	25,841	26,056	121,779	377,791	210.2	367.4	0.8
Latin America/Caribbean	9,945	-26,389	-81,110	-63,540	-21.7	207.4	-365.3
Asia & Pacific	124,133	-107,641	-223,200	-68,714	-69.2	107.4	-186.7
China	8,161	-49,724	-145,469	-112,997	-22.3	192.6	-709.3
Chinese Taipei	-14,280	-50,725	-81,388	-72,498	-10.9	60.4	255.2
India	3,769	-3,979	48,665	78,770	61.9	-1323.0	-205.6
Indonesia	35,929	25,693	28,145	39,237	39.4	9.5	-28.5
Malaysia	3,095	1,528	-11,051	7,269	-165.8	-823.2	-50.6
Philippines	-283	414	-7,817	-4,270	-45.4	-1988.2	-246.3
South Korea	49,558	23,822	79,570	74,248	-6.7	234.0	-51.9
Thailand	78,598	9,618	-17,729	-6,866	-61.3	-284.3	-87.8
Vietnam	-331	-678	447	10,366	2219.0	-165.9	104.8
Others	-40,196	-63,591	-105,164	-77,886	-1,316	9,727	920

Source: BIS Quarterly Review: June 2009: Table 7A. Source: BIS Quarterly Review: June 2009: Table 7A. Loans comprise those financial assets which are created through the lending of funds by a creditor (lender) to a debtor (borrower) and which are not represented by negotiable securities. Deposits comprise all claims reflecting evidence of deposit – including non-negotiable certificates of deposit (CDs) – which are not represented by negotiable securities. Thus, loans and deposits include interbank borrowings and loans and inter-office balances (BIS 2008, "Guidelines to the International Locational Banking Statistics", Monetary and Economic Department, November 2006 and update December 2008).

Table 3: Japanese Bank International Asset and Liability Positions: Sector and Currency

Description	Dec.1980	Dec.1985	Dec.1990	Dec.1995	Dec.2000	Dec.2005	Dec.2006	Dec.2007	Dec.2008	Mar.2009
(Table 2A) External Assets	65.39	194.62	950.58	1217.87	1198.22	1770.84	1902.59	2401.72	2575.76	2348.08
(Table 2A) External Liabilities	79.92	179.31	958.48	738.32	564.91	715.44	681.73	711.98	942.07	905.89
• Japan's Share of International Assets	0.05	0.08	0.15	0.15	0.11	0.08	0.07	0.07	0.08	0.08
• Japan's Share of International Liabilities	0.06	0.07	0.15	0.09	0.05	0.04	0.03	0.02	0.03	0.03
(Table 2B) External Assets to Non Bank Sector	17.86	58.53	181.14	339.50	567.49	1121.20	1281.93	1521.21	1487.76	1455.99
(Table 2B) External Liabilities to Non Bank Sector	2.07	6.20	13.34	20.62	34.34	113.93	146.56	171.44	260.40	241.60
• Ratio External Assets (Table 2B) of Non Bank Sector to Total External Assets (Table 2A)	0.27	0.30	0.19	0.28	0.47	0.63	0.67	0.63	0.58	0.62
• Ratio of External Liabilities (Table 2B) of Non Bank Sector to Total External Liabilities (Table 2A)	0.03	0.03	0.01	0.03	0.06	0.16	0.21	0.24	0.28	0.27
(Table 2C) External Assets in Foreign Currency	48.52	120.87	532.81	592.73	746.69	1369.00	1522.63	1782.67	1860.24	1757.01
(Table 2C) External Liabilities in Foreign Currency	67.60	129.76	645.31	455.55	333.55	471.80	462.45	459.34	560.78	583.72
• Ratio External Foreign Currency Liabilities (Table 2C) to Total External Liabilities (Table 2A)	0.74	0.62	0.56	0.49	0.62	0.77	0.80	0.74	0.72	0.75
• Ratio External Foreign Currency Assets (Table 2C) to Total External Assets (Table 2A)	0.85	0.72	0.67	0.62	0.59	0.66	0.68	0.65	0.60	0.64
(Table 2D) Foreign Currency External Assets to Non Banks	8.15	26.04	120.80	264.28	422.72	953.24	1112.64	1308.97	1231.62	1228.53
(Table 2D) Foreign Currency External Liabilities to Non Banks	1.01	2.09	5.61	10.36	14.80	69.42	104.30	123.25	177.37	168.37
• Ratio Foreign Currency Non Banks Assets (Table 2D) to Total Foreign Currency Assets (Table 2C)	0.17	0.22	0.23	0.45	0.57	0.70	0.73	0.73	0.66	0.70
• Ratio Foreign Currency Non Banks Liabilities (Table 2D) to Total Foreign Currency Liabilities (Table 2C)	0.01	0.02	0.01	0.02	0.04	0.15	0.23	0.27	0.32	0.29

Source: Tables 2A, 2B, 2C and 2D BIS Quarterly Review. The Table reports comparisons of statistics reported in specific tables from the BIS Quarterly Review (Table in brackets). Banks or deposit-taking corporations are defined as institutions whose business it is to receive deposits and/or close substitutes for deposits, and to grant credits or invest in securities on their own account. Within the scope of the BIS locational banking statistics only, official monetary authorities including the BIS and the ECB are also regarded as banks and can refer to banks' head offices or affiliates. Money market funds, investment funds and pension funds are excluded from this category. Non-banks are all other entities (including individuals but excluding official monetary authorities) other than those defined as "banks". General government and public corporations are part of the non-bank sector (BIS 2008, "Guidelines to the International Locational Banking Statistics", Monetary and Economic Department, November 2006 and update December 2008).

Table 4: Japanese Bank External Assets and Liabilities: Deposits and Loans

	Dec.1995	Dec.2000	Dec.2005	Dec.2006	Dec.2007	Dec.2008	Mar.2009
(Table 3A) External loans of banks in all currencies vis-à-vis all sectors	894.54	719.65	638.01	627.71	888.62	1134.04	954.91
(Table 3A) External deposits of banks in all currencies vis-à-vis all sectors	731.95	556.29	696.84	658.37	686.97	918.81	883.40
• Ratio of External Loans (Table 3A) to External Assets (Table 2A)	0.73	0.60	0.36	0.33	0.37	0.44	0.41
• Ratio of External Deposits (Table 3A) to External Liabilities (Table 2A)	0.99	0.98	0.97	0.97	0.96	0.98	0.98
(Table 3B): External loans of banks in all currencies vis-à-vis the non-bank sector	127.73	263.43	265.02	282.07	356.75	448.90	420.24
(Table 3B): External deposits of banks in all currencies vis-à-vis the non-bank sector	20.62	33.85	113.93	146.56	171.44	260.40	241.60
• Ratio of external non bank loans (Table 3B) to all external loans (Table 3A)	0.14	0.37	0.42	0.45	0.40	0.40	0.44
• Ratio of external non bank deposits (Table 3B) to all external deposits (Table 3A)	0.03	0.06	0.16	0.22	0.25	0.28	0.27

Source: Tables 3A and 3B BIS Quarterly Review**.** The Table reports comparisons of statistics reported in specific tables from the BIS Quarterly Review (Table in brackets). Banks or deposit-taking corporations are defined as institutions whose business it is to receive deposits and/or close substitutes for deposits, and to grant credits or invest in securities on their own account. Within the scope of the BIS locational banking statistics only, official monetary authorities including the BIS and the ECB are also regarded as banks and can refer to banks' head offices or affiliates. Money market funds, investment funds and pension funds are excluded from this category. Non-banks are all other entities (including individuals but excluding official monetary authorities) other than those defined as "banks". General government and public corporations are part of the non-bank sector (BIS 2008, "Guidelines to the International Locational Banking Statistics", Monetary and Economic Department, November 2006 and update December 2008)**.**

Table 5:
Japanese Bank International Asset and Liability Positions: Local Positions

	Dec.1980	Dec.1985	Dec.1990	Dec.1995	Dec.2000	Dec.2005	Dec.2006	Dec.2007	Dec.2008	Mar.2009
(Table 4A): Local positions (assets) in foreign currency of banks vis-à-vis all sectors	50.64	143.86	498.33	294.68	167.46	138.70	137.02	143.91	192.68	169.61
(Table 4A): Local positions (liabilities) in foreign currency of banks vis-à-vis all sectors	34.31	142.88	415.58	309.99	259.36	387.41	367.45	391.43	516.66	446.23
• Ratio of local foreign currency assets (Table 4A) to External Assets in foreign Currency (Table 2C)	1.04	1.19	0.94	0.50	0.22	0.10	0.09	0.08	0.10	0.10
• Ratio of local foreign currency liabilities (Table 4A) to external liabilities in foreign Currency (Table 2C)	0.51	1.10	0.64	0.68	0.78	0.82	0.79	0.85	0.92	0.76
(Table 4B): Local positions (Assets) in foreign currency of banks vis-à-vis the non-bank sector	29.10	61.00	226.81	128.20	67.05	43.85	44.21	40.59	61.65	58.43
(Table 4B): Local positions (Liabilities) in foreign currency of banks vis-à-vis the non-bank sector	12.93	35.53	83.80	73.97	93.38	195.40	182.76	188.82	199.79	209.60
• Ratio of local foreign currency non bank assets (Table 4B) to external assets in foreign currency (Table 2C)	0.60	0.50	0.43	0.22	0.09	0.03	0.03	0.02	0.03	0.03
• Ratio of local foreign currency non bank liabilities (Table 4B) to external liabilities in foreign currency (Table 2C)	0.19	0.27	0.13	0.16	0.28	0.41	0.40	0.41	0.36	0.36

Source: Tables 2C and 4B, BIS Quarterly Review. The Table reports comparisons of statistics reported in specific tables from the BIS Quarterly Review (Table in brackets). Local (domestic) currency transactions are defined as banking business carried out in the currency of the country in which the banking office is located. Local foreign currency business is banking business in non-local currency between a bank located in a particular country and other entities (both banks and non-banks) resident in the same country (BIS 2008, "Guidelines to the International Locational Banking Statistics", Monetary and Economic Department, November 2006 and update December 2008).

Table 6:
External Asset and Liability Positions of BIS Reporting Banks vis-à-vis all Sectors in Japan

	Dec.1980	Dec.1985	Dec.1990	Dec.1995	Dec.2000	Dec.2005	Dec.2006	Dec.2007	Dec.2008	Mar.2009
External Assets	69,107	167,528	1,054,692	1,021,581	575,894	670,961	645,562	662,963	665,644	608,626
External Assets (in JPY)	3,762	36,229	352,868	471,482	271,403	307,885	270,772	331,372	328,041	235,742
• Asset (of which in JPY)%	5.44	21.63	33.46	46.15	47.13	45.89	41.94	49.98	49.28	38.73
External Liabilities	26,988	93,904	665,179	759,965	522,838	447,110	479,112	760,801	866,853	632,253
External Liabilities (of which in JPY)	354	18,020	312,492	360,185	222,799	173,400	200,101	328,730	326,053	221,300
• Liability (of which in JPY) %	1.31	19.19	46.98	47.39	42.61	38.78	41.76	43.21	37.61	35.00
• Ratio Japanese Assets to all developed country assets	0.09	0.11	0.24	0.18	0.07	0.04	0.03	0.03	0.03	0.03
• Ratio Japanese liabilities to all developed country liabilities	0.03	0.06	0.15	0.15	0.08	0.04	0.03	0.04	0.05	0.03
• Ratio Japanese External Assets Positions to External Liability Positions	2.56	1.78	1.59	1.34	1.10	1.50	1.35	0.87	0.77	0.96
• Ratio Japanese External Yen Assets Positions to External Yen Liability Positions	10.63	2.01	1.13	1.31	1.22	1.78	1.35	1.01	1.01	1.07

Source: Table 6A BIS Quarterly Review. The term "external" positions or "cross-border" positions are asset and liability positions vis-à-vis banks and non-banks located in a country other than the country of residence of the reporting banking office positions, and debt securities are instruments other than equity shares, investment fund shares or units and financial derivatives. All financial assets that are bearer instruments, usually negotiable and traded on secondary markets, not granting the holder any ownership rights to the institutional unit issuing them (BIS 2008, "Guidelines to the International Locational Banking Statistics", Monetary and Economic Department, November 2006 and update December 2008).

Table 7:
Summary of BIS Reporting Bank Claims:
Other Country and Japanese Claims Against One Another

Country to Country Claims (levels for comparison):	Dec.00	Dec.05	Dec.06	Dec.07	Dec.08	Mar.09
Japanese bank claims to all countries	1,165,110	1,652,897	1,865,013	2,294,213	2,309,375	2,217,342
French bank claims to all countries	789,887	1,778,652	2,618,694	3,693,831	3,659,125	3,424,083
German bank claims all countries	1,870,672	2,795,110	3,541,908	4,427,835	3,604,086	3,384,232
Swiss bank claims all countries	965,660	1,931,491	2,458,419	2,567,400	2,002,564	1,794,000
UK bank claims to all countries	1,064,776	2,461,696	3,096,419	3,840,261	3,633,066	3,541,728
US bank claims to all countries	742,468	1,028,845	1,333,707	1,711,582	1,463,191	2,435,548
European bank claims to all countries	6,669,502	14,468,845	18,572,615	23,711,198	20,460,585	19,327,107
Japanese Bank Claims to Other Countries (ratios)						
• Developed countries share of all claims	0.756	0.745	0.744	0.740	0.739	0.744
• Europe share of developed countries claims	0.424	0.431	0.456	0.492	0.448	0.425
• US share of developed countries claims	0.540	0.519	0.488	0.442	0.492	0.514
• Other developed countries share of all claims	0.435	0.424	0.405	0.376	0.407	0.428
• Offshore centres share of all claims	0.168	0.190	0.183	0.176	0.172	0.169
• Developing countries share of claims	0.076	0.066	0.072	0.084	0.089	0.087
• Asia & Pacific share of developing country claims	0.718	0.698	0.688	0.658	0.637	0.631

Source: Table 9B BIS Quarterly Review**.** Claims (of banks) are financial assets (on-balance sheet items only) including, as a minimum, deposits and balances with other banks, loans and advances to non-banks as well as banks, and holdings of debt securities. The on-balance sheet financial claims provide a measure of the risk exposures of lenders' national banking systems. The quarterly data cover contractual lending by the head office and all its branches and subsidiaries on a worldwide consolidated basis, ie net of inter-office accounts. Reporting on this contractual lending on an immediate borrower basis allows the allocation of claims to the bank entity that would bear the losses as a result of default by borrowers (BIS 2008, “Guidelines to the International Locational Banking Statistics”, Monetary and Economic Department, November 2006 and update December 2008).

Table 8:
BIS Reporting Bank Claims to Japanese Banks:
By Country as a Ratio of all Listed Claims

	Dec.00	Dec.05	Dec.06	Dec.07	Dec.08	Mar.09
Total of all listed claims to Japan	366,062	504,886	574,268	734,456	688,973	737,103
Australia	0.000	0.004	0.002	0.002	0.000	0.003
Austria	0.001	0.001	0.001	0.001	0.001	0.001
Belgium	0.008	0.025	0.006	0.006	0.005	0.003
Brazil	0.000	0.002	0.000	0.000	0.000	0.000
Canada	0.022	0.012	0.007	0.006	0.007	0.007
Chile	0.000	0.000	0.000	0.000	0.000	0.000
Chinese Taipei	0.010	0.011	0.010	0.006	0.005	0.004
Denmark	0.000	0.001	0.001	0.000	0.000	0.000
Finland	0.000	0.000	0.000	0.000	0.000	0.000
France	0.159	0.251	0.228	0.229	0.319	0.289
Germany	0.278	0.145	0.135	0.113	0.095	0.069
Greece	0.000	0.000	0.000	0.000	0.000	0.000
Ireland	0.000	0.000	0.016	0.017	0.025	0.021
Italy	0.019	0.010	0.005	0.007	0.000	0.000
Mexico	0.000	0.000	0.000	0.000	0.000	0.000
Netherlands	0.026	0.101	0.089	0.071	0.039	0.026
Norway	0.000	0.000	0.000	0.000	0.000	0.000
Panama	0.000	0.000	0.000	0.000	0.000	0.000
Portugal	0.000	0.000	0.002	0.000	0.000	0.000
Spain	0.001	0.003	0.002	0.001	0.001	0.001
Sweden	0.001	0.002	0.001	0.001	0.001	0.000
Switzerland	0.184	0.214	0.238	0.214	0.176	0.113
Turkey	0.000	0.000	0.000	0.000	0.000	0.000
UK	0.129	0.124	0.144	0.159	0.156	0.116
US	0.160	0.093	0.114	0.168	0.170	0.346
European Banks	0.810	0.892	0.867	0.819	0.821	0.647

Source: Table 9B BIS Quarterly Review**.** Claims (of banks) are financial assets (on-balance sheet items only) including, as a minimum, deposits and balances with other banks, loans and advances to non-banks as well as banks, and holdings of debt securities (BIS 2008, "Guidelines to the International Locational Banking Statistics", Monetary and Economic Department, November 2006 and update December 2008)**.**

Table 9:
Comparison of BIS Reporting Bank Claims on Japanese Banks with Claims on Banks from Other Countries

	Dec.00	Dec.05	Dec.06	Dec.07	Dec.08	Mar.09
Country to Country Claims (levels):						
French bank claims to Germany	69,591	110,752	141,262	257,078	273,343	268,409
German bank claims to France	109,650	149,594	201,625	228,913	193,246	187,273
Swiss bank claims to Germany	29,584	68,725	75,381	100,046	69,433	66,297
UK bank claims to Germany	51,633	107,917	116,428	129,956	133,013	153,657
US bank claims to Germany	59,850	91,197	97,930	98,809	86,041	212,316
European bank claims to Germany	333,509	846,438	895,723	1,461,795	1,313,781	1,224,197
Country to Country Claims (ratios):						
Japanese claims as a ratio of all French bank claims	0.074	0.071	0.050	0.045	0.060	0.062
Japanese claims as a ratio of all German bank claims	0.054	0.026	0.022	0.019	0.018	0.015
Japanese claims as a ratio of all Swiss bank claims	0.070	0.056	0.055	0.061	0.061	0.046
Japanese claims as a ratio of all UK bank claims	0.044	0.025	0.027	0.030	0.030	0.024
Japanese claims as a ratio of all US bank claims	0.079	0.046	0.049	0.072	0.080	0.105
Japanese claims as a ratio of all European bank claims	0.044	0.031	0.027	0.025	0.028	0.025
Japanese claims as a ratio of French developed country claims	0.092	0.085	0.059	0.054	0.071	0.074
Japanese claims as a ratio of German developed country claims	0.064	0.031	0.026	0.023	0.022	0.018
Japanese claims as a ratio of Swiss developed country claims	0.075	0.064	0.064	0.074	0.072	0.056
Japanese claims as a ratio of UK developed country claims	0.066	0.035	0.037	0.043	0.042	0.034
Japanese claims as a ratio of US developed country claims	0.126	0.077	0.080	0.115	0.126	0.158
Japanese claims as a ratio of European developed country claims	0.056	0.038	0.033	0.032	0.035	0.031
German claims as a ratio of French developed country claims	0.109	0.074	0.063	0.083	0.089	0.094
French claims as a ratio of European developed country claims	0.069	0.063	0.067	0.062	0.065	0.067
German claims as a ratio of Swiss developed country claims	0.033	0.041	0.036	0.047	0.041	0.045
German claims as a ratio of UK developed country claims	0.072	0.060	0.052	0.047	0.051	0.061
German claims as a ratio of US developed country claims	0.128	0.149	0.120	0.093	0.093	0.131
German claims as a ratio of European developed country claims	0.063	0.071	0.059	0.077	0.081	0.080

Source: Table 9B BIS Quarterly Review**.** Claims (of banks) are financial assets (on-balance sheet items only) including, as a minimum, deposits and balances with other banks, loans and advances to non-banks as well as banks, and holdings of debt securities (BIS 2008, "Guidelines to the International Locational Banking Statistics", Monetary and Economic Department, November 2006 and update December 2008)**.**

Appendix 1
International Debt Securities issued by Nationality of Issuer
(billions of US dollars)

	Dec.1995	Dec.2000	Dec.2007	Dec.2008	% Change 2007-2008	% Change 2000-2007	% Change 1995-2000
All countries	2846.5	6490.4	22714.7	23865.8	5.1	250.0	128.0
Developed countries	2205	5444	20638.8	21781.4	5.5	279.1	146.9
Australia	78.9	110.2	491.2	468.1	-4.7	345.7	39.7
Hong Kong SAR	12.7	31	69.4	69.3	-0.1	123.9	144.1
Indonesia	4.4	11.2	20	24.4	22.0	78.6	154.5
Japan	344	284.8	358	397.8	11.1	25.7	-17.2
Malaysia	6.9	15.9	32.7	32.9	0.6	105.7	130.4
Philippines	7.5	18.7	32.4	32	-1.2	73.3	149.3
Singapore	1	14.2	51.2	52.8	3.1	260.6	1320.0
South Korea	26.5	48.7	110.7	108.6	-1.9	127.3	83.8
Thailand	7.4	13.8	10.2	9.9	-2.9	-26.1	86.5
United Kingdom	202.3	546.7	2497.8	2773.4	11.0	356.9	170.2
United States	261.2	1727.7	5578	6033.6	8.2	222.9	561.4

Source: BIS Quarterly Review: June 2009: Table 12A. International debt securities are defined as all negotiable short- and long-term debt instruments in domestic and foreign currency issued by non-residents and debt instruments in foreign currency issued by residents. For banks' own issues the criteria are not currency and residence of the counterparty, but currency and the place (or technique?) of issuance. All issues in foreign currency are included but securities denominated in domestic currency are included only if they are issued abroad or at home using international issuing procedures (BIS 2008, "Guidelines to the International Locational Banking Statistics", Monetary and Economic Department, November 2006 and update December 2008).

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Appendix 2:
Signed International Syndicated Credit Facilities by Nationality of Borrower
(billions of US dollars)

	Dec.1995	Dec.2000	Dec.2007	Dec.2008	% Change 2007-2008	% Change 2000-2007	% Change 1995-2000
All Countries	235.0	346.0	662.7	297.3	-55.1	91.5	47.2
Developed Countries	205.5	300.1	541.0	255.8	-52.7	80.3	46.0
Developing Countries	25.2	36.2	105.5	35.8	-66.1	191.4	43.7
Australia	1.5	6.1	23.2	9.9	-57.3	280.3	306.7
Japan	0.2	4.1	11.1	4.2	-62.2	170.7	1950.0
New Zealand	0.3	0.8	1.8	0.7	-61.1	125.0	166.7
United Kingdom	15.1	41.3	33.8	14.7	-56.5	-18.2	173.5
United States	147.2	158.0	255.1	100.7	-60.5	61.5	7.3
Hong Kong SAR	2.8	3.7	5.0	1.3	-74.0	35.1	32.1
Singapore	0.7	3.7	6.0	2.3	-61.7	62.2	428.6
Asia & Pacific	15.7	11.1	39.6	13.7	-65.4	256.8	-29.3
China	4.9	1.3	3.6	0.9	-75.0	176.9	-73.5
Chinese Taipei	1.6	2.9	2.5	2.9	16.0	-13.8	81.3
India	0.2	0.2	14.0	3.8	-72.9	6900.0	0.0
Indonesia	3.1	0.4	1.2	1.1	-8.3	200.0	-87.1
Malaysia	1.1	0.6	2.6	0.8	-69.2	333.3	-45.5
South Korea	2.4	3.2	12.2	1.6	-86.9	281.3	33.3
Thailand	2.0	1.0	0.1	-		-90.0	-50.0
Vietnam	0.2	-	0.5	0.3	-40.0	n/a	n/a

Source: BIS Quarterly Review: June 2009 Table 10. A syndicated loan is one offered by a group of lenders (called a syndicate) to provide funds for a single borrower on a fixed and or floating rate basis. The latter rate is typically over the London Interbank Offered Rate (LIBOR). The lead bank or arranger of the loan may also be the underwriter of the loan.

Appendix 3
Domestic Bond Markets in Key Developed and Asia-Pacific Economies
(billions of US dollars)

	Dec.1995	Dec.2000	Dec.2005	Dec.2007	Dec.2008	% Change 2007-2008	% Change 2000-2007	% Change 1995-2000
Total Domestic Bonds	24598.7	29177.0	44692.8	56210.7	59666.0	6.1	104.5	18.6
Developed Countries								
Australia	221.5	217.3	443.3	806.9	637.4	-21.0	193.4	-1.9
Canada	580.6	662.2	978.4	1206.3	1034.5	-14.2	56.2	14.1
France	1338.1	1125.2	1887.4	2817.4	2921.1	3.7	159.6	-15.9
Italy	1523.7	1327.8	2149.9	3039.4	3261.8	7.3	145.6	-12.9
Germany	1922.5	1715.7	1938.9	2634.4	2592.8	-1.6	51.1	-10.8
Japan	4648.6	5701.9	8370.6	8855.7	11076.8	25.1	94.3	22.7
New Zealand	19.8	14.2	23.3	23.5	18.3	-22.3	28.6	-28.0
Switzerland	225.1	157.7	209.3	242.8	259.0	6.7	64.2	-29.9
United Kingdom	564.6	688.3	1002.7	1359.0	1223.2	-10.0	77.7	21.9
United States	10209.1	13738.2	19757.5	23303.6	24621.6	5.7	79.2	34.6
Asia & Pacific								
China	46.6	202.3	899.2	1687.3	2209.5	31.0	992.1	334.1
Chinese Taipei	85.7	123.1	192.5	199.4	205.7	3.2	67.1	43.6
Hong Kong SAR	23.8	44.1	49.8	51.4	50.2	-2.3	14.0	84.9
India	70.6	113.6	279.1	458.4	426.7	-6.9	275.8	60.9
Malaysia	69.2	78.9	128.0	184.6	199.1	7.9	152.3	14.0
Pakistan	22.6	26.7	34.0	42.6	41.4	-2.8	54.7	18.4
Philippines	25.9	20.9	41.1	54.2	52.0	-4.0	149.3	-19.5
Singapore	22.8	41.9	68.3	97.2	101.9	4.8	142.9	83.9
South Korea	274.2	377.7	816.1	1076.6	863.5	-19.8	128.6	37.7
Thailand	15.1	30.8	80.0	140.2	146.1	4.2	374.2	104.4
Total Asia & Pacific	656.6	1060.0	2588.1	3991.8	4296.1	7.6	244.2	161.4
Fraction AP/TDB	2.7	3.6	5.8	7.1	7.2			

Source: BIS Quarterly Review: June 2009 Table 17A. Domestic bonds or securities are those instruments other than equity shares, investment fund shares or units and financial derivatives and include all financial assets that are bearer instruments, usually negotiable and traded on secondary markets, not granting the holder any ownership rights to the institutional unit issuing them. (BIS 2008, "Guidelines to the International Locational Banking Statistics", Monetary and Economic Department, November 2006 and update December 2008).

Appendix 4:
Changes in the Composition of Domestic Bond Markets in Key Developed and Asia-Pacific Economies (percent)

	Growth p.a 1995-2008	Δ Gov Share 2000-2008	Δ ST Share 2000-2008	Gov Share 2008	Gov Share 2000	ST Share 2008	ST Share 2000
Developed Countries							
Australia	8.47	-15.86	6.80	16.13	31.99	65.11	58.31
Canada	4.54	-0.58	0.65	64.79	65.38	28.78	28.13
France	6.19	-3.74	3.60	49.18	52.92	37.44	33.84
Italy	6.03	-18.50	-8.74	54.56	73.07	14.04	22.78
Germany	2.33	17.90	21.17	52.62	34.72	46.83	25.66
Japan	6.91	18.82	2.33	82.27	63.45	28.49	26.16
New Zealand	-0.59	0.00	-13.81	100.00	100.00	17.42	31.23
Switzerland	1.08	12.48	3.24	46.25	33.77	13.75	10.51
United Kingdom	6.13	5.60	0.68	67.58	61.97	41.37	40.69
United States	7.01	2.15	-2.70	32.04	29.89	24.24	26.94
Asia & Pacific							
China	34.56	9.43	35.59	64.11	54.68	41.05	5.46
Chinese Taipei	6.97	19.71	-27.90	57.03	37.32	18.10	46.00
Hong Kong SAR	5.91	7.17	-17.34	41.78	34.61	55.24	72.58
India	14.85	-7.37	11.12	90.85	98.21	16.12	5.01
Malaysia	8.46	2.56	-6.12	38.50	35.94	12.75	18.87
Pakistan	4.77	0.00	13.24	100.00	100.00	58.50	45.26
Philippines	5.51	-1.96	-11.59	97.06	99.01	41.51	53.10
Singapore	12.20	11.81	2.69	71.35	59.55	46.50	43.81
South Korea	9.22	8.83	5.08	39.08	30.25	40.47	35.39
Thailand	19.09	12.32	21.56	66.62	54.31	37.65	16.09
Total Domestic Bonds	7.05	4.58	0.73	49.92	45.35	27.74	27.01

The Table reports the percent average annual compound growth rate of various domestic bond markets from 1995 to 2008 measured in terms of US dollars; the change (Δ) in the percent share of the government sector in the domestic market from 2000 to 2008; and the change (Δ) in the ratio of the short term (ST) bonds issued to all bonds issued in the domestic market from 2000 to 2008. The last four columns record the actual percentages for the various countries in 2000 and 2008. Source: BIS Quarterly Review: June 2009, Table 17A. Note that Tovar and Quisepe-Agnoli (2008) explain the Latin American situation in more detail.