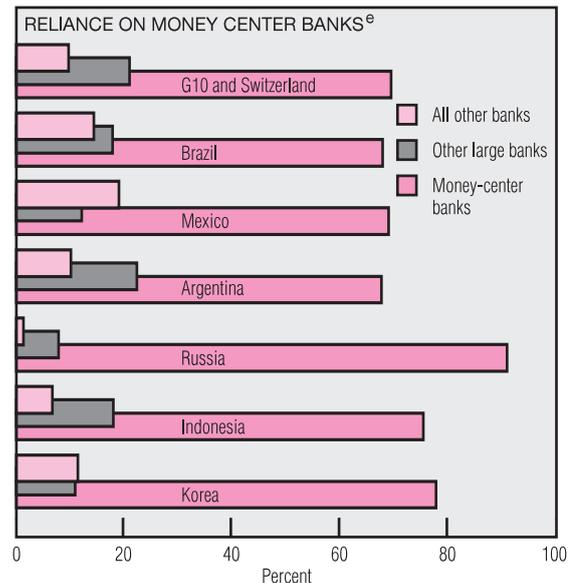
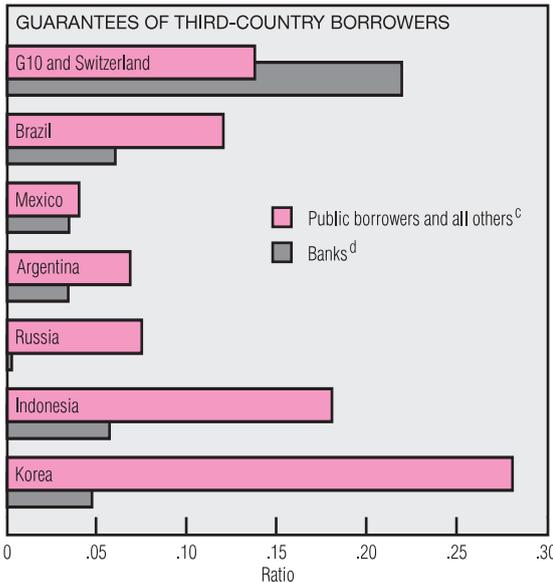
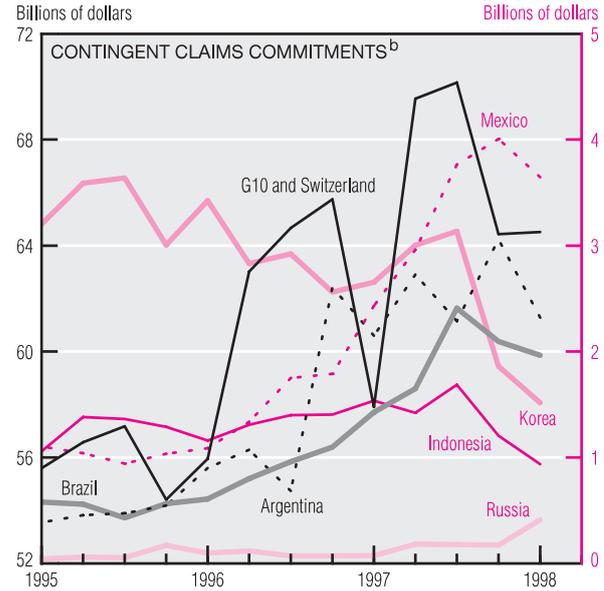
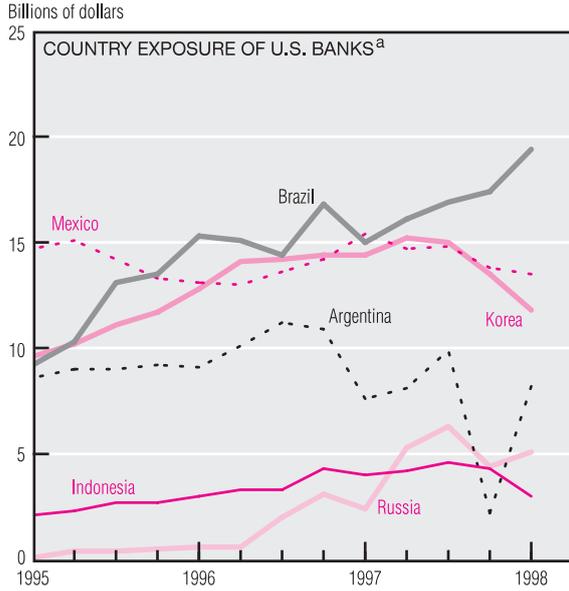


Foreign Lending Exposure



a. Total amount owed by borrower country after adjustments for guarantees and external borrowings (except derivative products).
 b. Commitments of cross-border and nonlocal-currency contingent claims after adjustment for guarantees.
 c. The ratio between a country's public and other nonbank borrowers' guarantees of third-country borrowing from U.S. banks and the total exposure of U.S. banks to that country's borrowers and guarantors.
 d. The ratio between a country's banks' guarantees of third-country borrowing from U.S. banks and the total exposure of U.S. banks to that country's borrowers and guarantors.
 e. Share of the total amounts owed U.S. banks after adjustments for guarantees and external borrowing (except derivative products).
 SOURCE: Federal Financial Institutions Examination Council, *Country Exposure Lending Survey*, various issues.

Economic and financial distress abroad raise questions about foreign exposure of U.S. banks. The most recent data, for March, show either an increase or no clear decline in exposure to Argentina, Brazil, and Russia. Exposure to Indonesia, Korea, and Mexico began declining around the time of last summer's financial crises. The extent to which U.S. banks reduce their exposure to South America and Russia may depend on the particulars of proposed reforms.

A key provision of economic reform packages is the degree of

reliance on private-sector rather than official initiatives. One aspect of private initiatives is the development and use of contingent claims, whose profitability might be stimulated by a riskier environment. Markets, however, must be large enough to provide sufficient liquidity. The use of such instruments has been trending upward, despite having fallen since mid-1997 as part of a general pullback in foreign lending.

Official initiatives include providing various guarantees, although private parties also offer guarantees

and insurance. March data show that guarantees of third-country borrowing amounted to about 36% of U.S. banks' exposure to the G10 countries and Switzerland. Such guarantees are less prominent in South American countries and Russia. Nonbank guarantees are more extensive in Indonesia and Korea, a difference consistent with the perception of greater government involvement in those economies.

Reliance on money-center banks is relatively uniform across the economies of established—as well as developing—countries.