Last summer's Southeast Asian financial problems were reflected in 1997:IVQ as a declining exposure of U.S. banks to countries in that region. (Exposure had increased in 1997:IIIQ for Indonesia and China.) Analysts have voiced concern that Latin America could suffer a contagion effect, but results have been mixed: Exposure to Brazil rose for the third consecutive quarter, while exposure to Mexico declined.

Interpretation of exposure, however, is complicated. First, the risks from separate economies are not easily distinguished if the economies rise and fall together. Second, exposure estimates are book values of loans and guarantees. Unlike market values, book values do not quickly reflect the market's assessment of uncertainties such as those surrounding the policy mix in Southeast Asia and Japan.

U.S. banks are also exposed through third-party credits. Reliance on public agencies to provide guarantees for U.S. loans changed little in 1997:IVQ.

Exposure through contingent claims (such as interest rate swaps and futures contracts) fell steeply across Southeast Asia in 1997:IVQ, but similar declines are also occurring in large industrial countries outside the region.

Money Center banks, accounting for more than 60% of lending from U.S. banks to Southeast Asia, cut back sharply in 1997:IVQ. At the same time, loans from banks in other categories increased for some countries in the region.