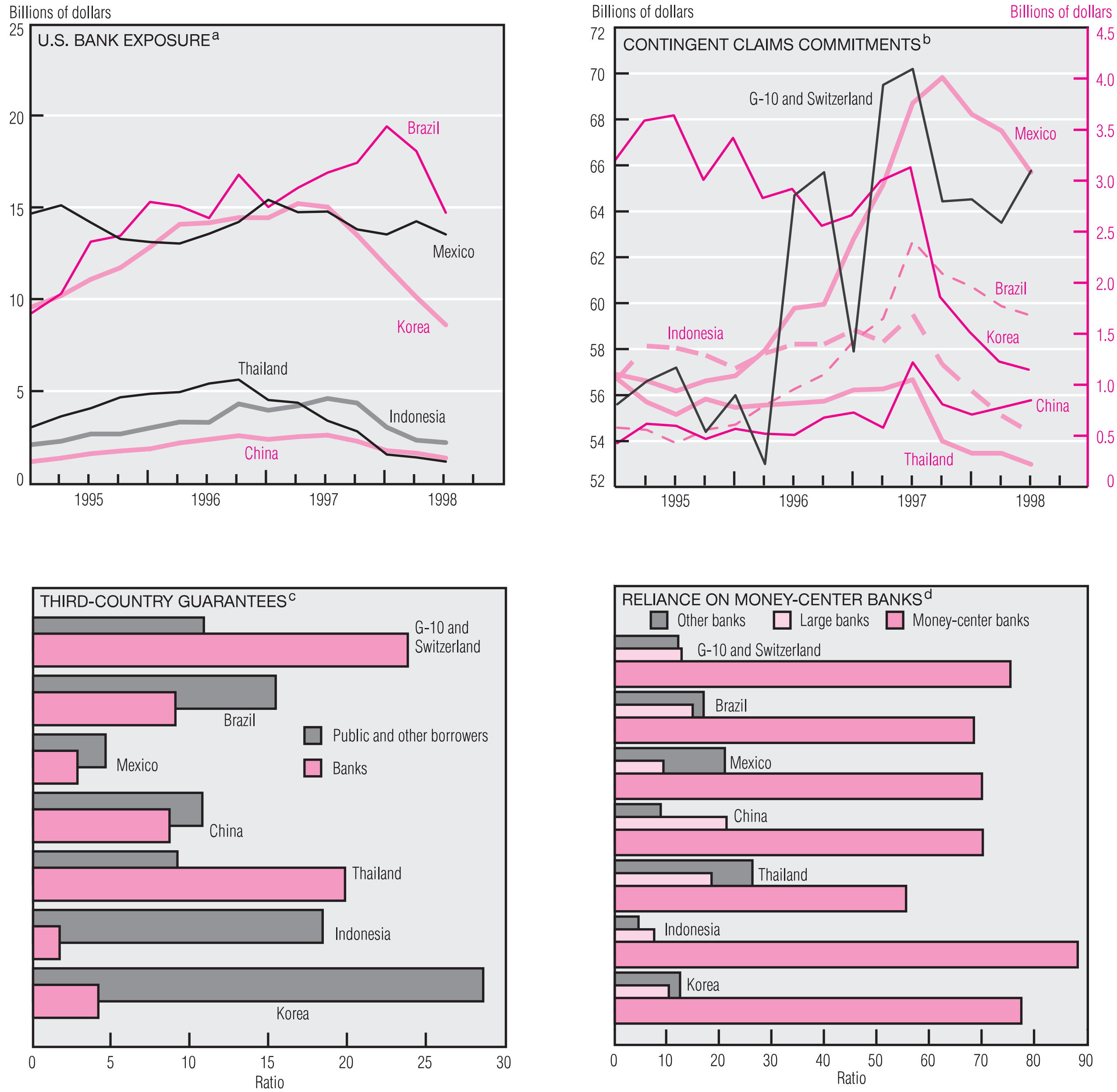
International Developments



a. Total amount owed by borrower country after adjustment for guarantees and external borrowing (except derivative products).
b. Commitments of cross-border and nonlocal-currency contingent claims after adjustment for guarantees.
c. Ratio of guarantees for third-country borrowing from U.S. banks to the total amount owed to U.S. banks.
d. Share of the total amount owed to U.S. banks after adjustment for guarantees and external borrowing (except derivative products).
SOURCE: Federal Financial Institutions Examination Council, *Country Exposure Lending Survey,* various issues.

Data for 1998:IIIQ reveal a continuing decline in U.S. banks' exposure to countries that have recently experienced significant economic and financial turmoil. Pullbacks from Thailand and South Korea began in 1997, before the worst of the Asian crises. The pullback from Mexico is surprising, given that country's strong economic growth, but is consistent with the depreciation of the peso. These declines are troublesome in light of prescriptions for recovery that emphasize the need for increased foreign-bank involvement to enhance overseas banks' risk management.

Use of contingent claims commitments (derivatives) also declined for all but the industrial countries and China. Derivatives, which include swaps, options, and futures contracts, are usually viewed as tools for managing risk associated with both currency and interest-rate volatility. With less exposure to manage, lenders might suppose that such tools would become less useful, but alterations in exchange-rate regimes could have complex effects on the need for derivatives: Abandoning an exchange-rate peg, for example, could increase currency risk while removing the central bank's obligation to increase interest rates in order to defend the peg.

Indirect exposure through third-country credits continues to be dominated by nonbank guarantees for all countries except Thailand and the industrial nations.

Global reliance on money-center banks has increased over the past few years. This may reflect either the heavy losses suffered by other large banks or economies of scale in the provision of international banking services.