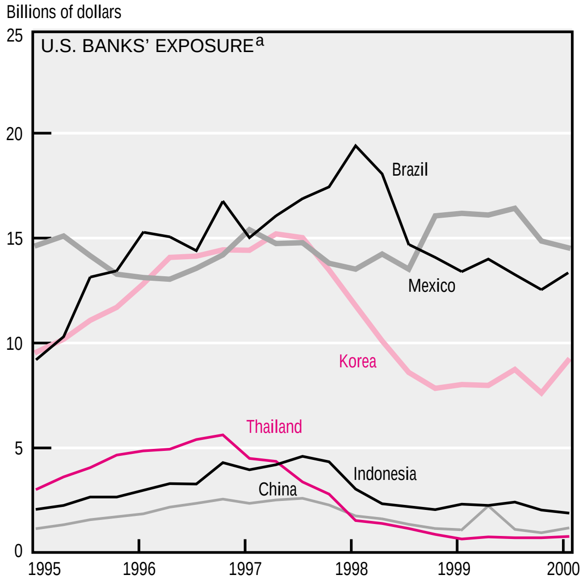
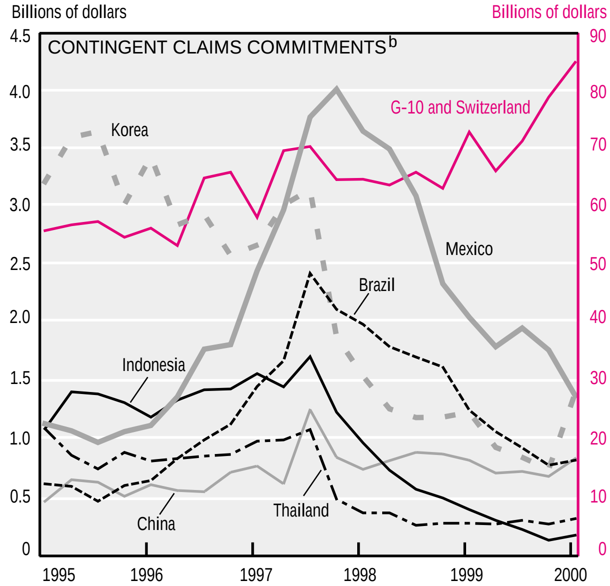
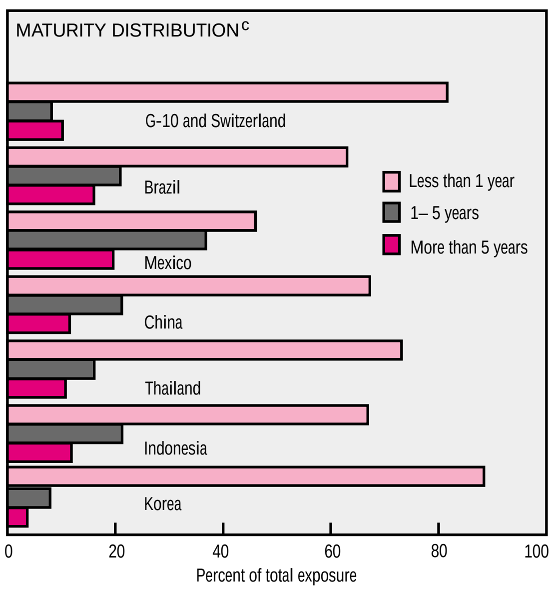
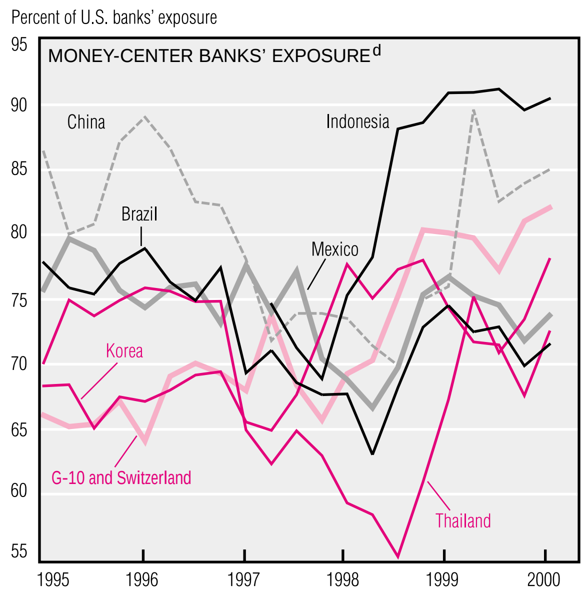
Foreign Lending Exposure









a. Total owed by borrowers in a country after adjustment for guarantees and external borrowing (except derivative products).
b. Commitments of cross-borrower and nonlocal-currency contingent claims after adjustment for guarantees.
c. Maturity distribution of total owed to U.S. banks after adjustment for guarantees and external borrowing (except derivative products).
d. Money-center banks' share of the total 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.*

U.S. banks' loans to developing countries have not yet returned to their early-1997 levels, probably because of these countries' economic weakness as well as more favorable prospects for economic growth elsewhere. Many analysts view developing countries' financial fragility as the main cause of the 1997–98 crises, but several studies have suggested that interest rate changes in developed countries also played a role.

U.S. banks' use of contingent claims commitments in developing countries has declined roughly in tandem with their exposure there. Banks use contingent claims (contracts whose value varies with an uncertain outcome) to help manage risk. An example is a futures contract on an exchange rate; a bank could buy or sell such a contract to reduce the risk associated with its foreign-currency position. The simultaneous decline of U.S. banks' exposure and their use of contingent claims commitments in developing countries is consistent with a correlation of contingent claims commitments to the volume—and not to the average risk—of exposure.

Reliance on short-term lending has been implicated in the Mexican and East Asian crises. However, short-term credits continue to dominate those of longer maturity, even for the G-10 and Switzerland. Lending to Mexico shows the highest share of longer-term loans (20% at five years or more).

Money-center banks' share of U.S. banks' exposure to developing countries has increased since late 1997 or early 1998. This might reflect a general trend, given these banks' increased share of total exposure, including that to the G-10 countries and Switzerland.