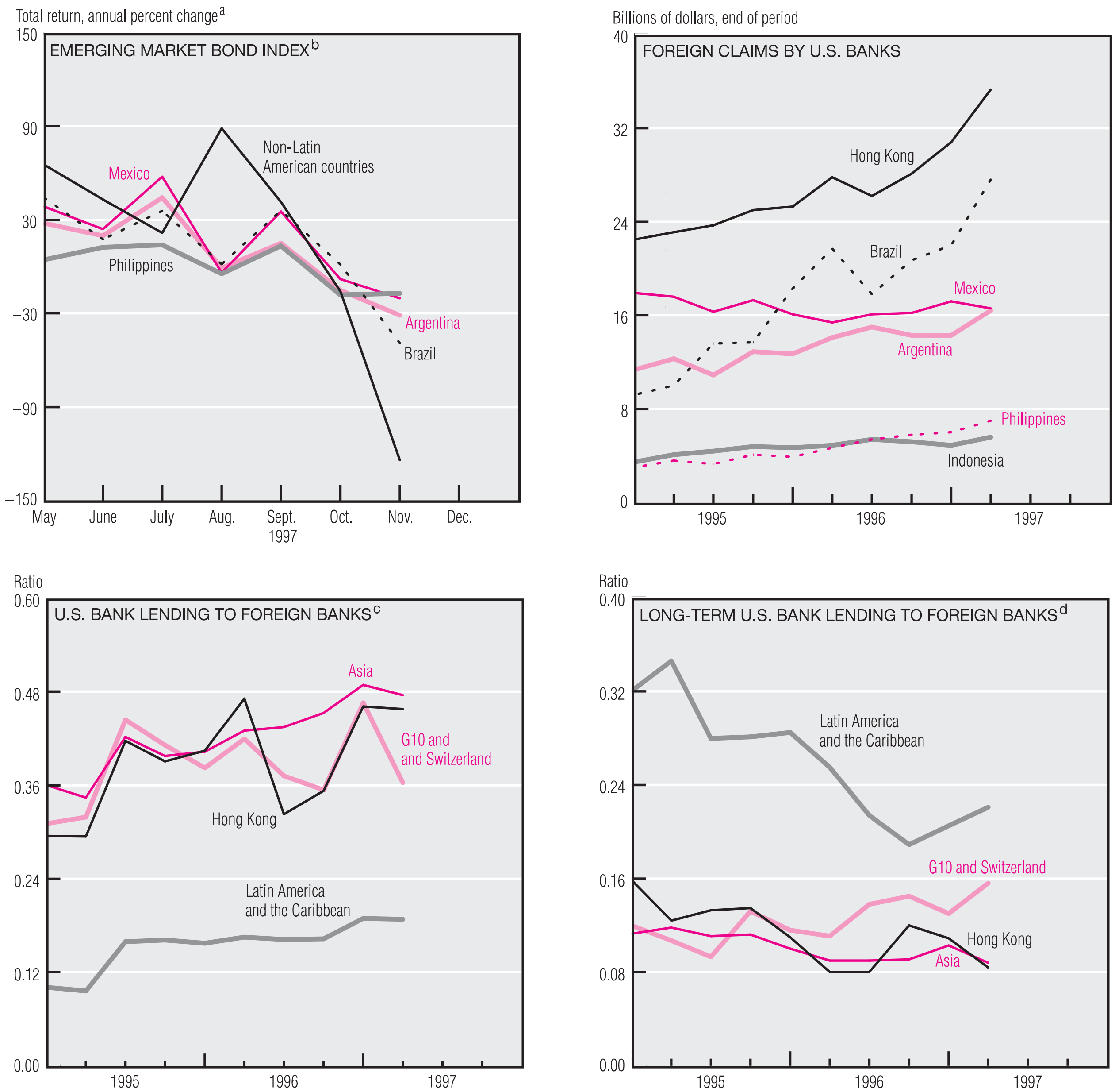
U.S. Bank Lending Abroad



a. Based on last weekly percent change in each month.
b. J.P. Morgan Emerging Bond Index Plus.
c. Dollar share of U.S. bank loans to foreigners that are held by foreign banks.
d. Dollar share of U.S. bank loans to foreigners that have a maturity of more than five years.
SOURCES: Board of Governors of the Federal Reserve System, *Federal Reserve Bulletin,* various issues; Federal Financial Institutions Examination Council, Country Exposure Lending Survey; and American Banker, Inc., *Emerging Markets Debt Report*, various issues.

Late October's financial crises in Southeast Asia have rocked U.S. equity markets and created fears of a possible decline in exports. U.S. banks are vulnerable to this chain of events because of their lending to U.S. exporters as well as their direct lending abroad.

Not surprisingly, loans from U.S. banks have increased as part of the influx of foreign capital that contributed to these countries' present fragility. It is still unclear how far the value of their bank claims have dropped. Emerging market bond prices, however, began a sharp decline for Southeast Asia in August, and for most other regions in September. The current position of U.S. banks is similarly indistinct, but plainly, their exposure in Hong Kong and Brazil broadened greatly earlier this year.

The share of U.S. bank lending to foreign banks has generally been growing since at least 1995. U.S. banks are said to be more involved than others in using interbank balances for such trading strategies as exploiting differentials between domestic and foreign interest rates.

The declining share of longer-term U.S. lending may reflect a shift toward off-balance-sheet business. Some analysts contend that long-term loans' relatively small share of total lending is an important factor in currency crises. Shorter-maturity claims lose less of their value when interest rates rise, and also might tend to be withdrawn more quickly. Heavier reliance by developing countries on longer-term lending would probably indicate a more sophisticated financial infrastructure.