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U.S. BANKS: THE SLOWDOWN IN INTERNATIONAL LENDING

by

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# U.S. Banks: The Slowdown in International Lending

by

Rodney H. Mills, Jr.

A recent article in Euromoney<sup>1/</sup> focused attention on the share of U.S. banks in international lending, defining "U.S. banks" as banking offices located in the United States. The use of location as the criterion of nationality for a group of banks is appropriate in the context of the balance of payments, which measures flows of funds across national borders. In a comparison of the international lending activity of different nationalities of banks, however, it is meaningful to examine banks on the basis of where they are headquartered, i.e., where they receive their charter, or where financial control lies. And to use the location basis as a substitute for the charter or financial control basis will lead to inaccurate conclusions.

This article looks at the recent international lending activities of U.S. and non-U.S. banks defined on a charter basis (which for U.S. banks is quite close to a financial control basis), using data newly-published by the Federal Reserve System. What the data show is that, since the end of 1977, U.S. banks have become significantly less aggressive in seeking new international business and have reduced very sharply their net international lending (gross lending less repayments). By contrast, non-U.S. banks as a whole have considerably stepped up their lending. These findings are consistent with the reports of generally greater resistance by U.S. banks than by non-U.S. banks to declines in spreads in international lending, through greater concern over capital/asset ratios, relatively more buoyant domestic loan demand, relatively greater monetary restraint, or other reasons. As a consequence of the divergent behavior of U.S. and non-U.S. banks, the share of

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<sup>1/</sup> Bruce F. Devine, "U.S. banks continue to dominate the market, "Euro-money, June 1979.

U.S. banks in total international lending has contracted markedly since 1977 as the U.S. banks' share in the total outstanding claims fell in 1978 and then dropped again in the first half of 1979. These changes have been particularly important with regard to lending to oil-exporting countries and non-oil LDCs.

The charter basis used to identify these results takes account of the lending not only by the domestic offices of U.S. banks but also the foreign branches, which in mid-1979 held \$215 billion of international (cross-border) claims, equal to over 75 per cent of all unconsolidated international claims of U.S.-chartered banks, excluding claims on the United States. On the other hand, the charter basis properly excludes the U.S. agencies and branches of foreign (i.e., non-U.S.) banks, which banking offices in mid-1979 held \$51 billion of international claims equal to almost 45 per cent of the international claims of all banking offices inside the borders of the United States. The location basis wrongly leaves out the foreign branches of U.S. banks while including the agencies and branches of foreign banks. The charter basis differs in two ways from the financial control basis: 1) it includes U.S. subsidiaries of foreign banks; 2) it excludes foreign subsidiaries of U.S. banks. The first of these groups of institutions is of minor importance in differentiating these two bases, because they hold only 1-1/2 per cent of total international claims of U.S.-chartered banks. The majority-owned foreign subsidiaries of U.S. banks hold international claims amounting to about an additional 15 per cent of the amount held by the U.S.-chartered banks alone. The financial control basis, which would include the claims of these foreign subsidiaries, thus covers a somewhat larger volume of international claims than does the charter basis. However, the lack of data on the geographical breakdown of the assets of the subsidiaries is a drawback to analysis employing the financial control basis.

Contrasting changes for U.S. and non-U.S. banks

Comprehensive data on international bank lending are gathered and published by the Bank for International Settlements (BIS), which collects data on the international (external, or cross-border) claims of banks in 11 Western European countries, Canada and Japan (including U.S. bank branches in those countries), banks in the United States, and U.S. bank branches in five offshore banking centers. Totals for these banks are referred to here as total international banking claims because anything not picked up by these figures is relatively small and of no importance in judging the comparative activities of U.S. and non-U.S. banks. The Federal Reserve has recently begun to publish comprehensive international lending data for U.S.-chartered banks, combining both the domestic offices and the foreign branches.<sup>2/</sup> Comparison of the BIS series and the Federal Reserve series allows us to observe the role of the U.S.-chartered banks in the total after some modification of the Federal Reserve numbers. (See the technical notes to Table 1 for a description of these modifications.)

U.S. and non-U.S. banks increased their international claims at about the same rate in the two years from end-1975 to end-1977, the first of these dates being the earliest for which either the BIS or Federal Reserve series is available. The average annual rate of increase in those two years was 23 per cent for the U.S. banks and 22 per cent for the non-U.S. banks, excluding the latter group's claims on the United States itself (since the U.S. banks' claims on the United States are obviously not part of the story). Subsequently, the annual rate of increase for the U.S. banks dropped to 13 per cent in 1978 and to only 7 per cent in the period from December 1977 to June 1979. There was,

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<sup>2/</sup> See the Federal Reserve Bulletin, Table 3.20, issues beginning with June 1979.

of course, some seasonal element as regards this latter period, reflecting the normally slower expansion in the first half of the year than in the second. By contrast, and despite approximately the same seasonal factors, the non-U.S. banks speeded up their lending so sharply that their international assets grew at a 30 per cent annual rate in those same 18 months to June 1979, after having increased them 38 per cent in 1978 alone.

These developments are traced by the data reproduced in Table 1, which also shows the U.S. banks' percentage shares of the total claims on various groups of borrowers. There was little change in the U.S. banks' share in total worldwide claims between December 1975 (36 per cent) and December 1977 (37 per cent, as indicated by the 1977 "old series" appropriate for comparison with earlier data). In the next 18 months the U.S. share of total worldwide claims fell sharply. It dropped from 35 per cent at the end of 1977, using the "new series" data appropriate for comparison with later data, to the level of 29 per cent by June 1979. Of this drop of 6 percentage points, 0.8 percentage point can be ascribed to a change in BIS procedures in December 1978 for measuring claims of banks in the United States, and 5.2 percentage point was a "real" decline caused by other factors.

A more startling contrast in the behavior of the U.S. and the non-U.S. banks is afforded by looking at what has happened to net lending, i.e., to the changes in claims, shown in Table 2. The changes reflect gross increases in outstanding claims less extinctions due to repayments. On a worldwide basis, the non-U.S. banks increased their net lending from \$129 billion in the two years 1976 and 1977 combined to the larger figure of \$160 billion in only the single year 1978, and to \$200 billion in the 18 months to June 1979.<sup>3/</sup> In contrast, lending

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<sup>3/</sup> The net lending data are corrected for the aforementioned change in BIS procedures at end-1978.

Table 1. Outstanding International Claims of Banks Reporting to the BIS<sup>1/</sup>  
(billions of dollars)

<u>Claims on:</u>	<u>Dec.</u> <u>1975</u>	<u>Dec. 1977</u>		<u>Dec.</u> <u>1978</u>	<u>June</u> <u>1979</u>
		<u>Old</u> <u>Series</u>	<u>New</u> <u>Series<sup>2/</sup></u>		
<u>I. G-10 Countries and Switzerland<sup>3/</sup></u>	<u>204</u>	<u>281</u>	<u>291</u>	<u>387</u>	<u>391</u>
Non-U.S. banks	150	207	217	302	310
U.S. banks	55	73	73	84	81
(U.S. share)	(27%)	(26%)	(25%)	(22%)	(21%)
<u>II. Offshore Banking Centers</u>	<u>58</u>	<u>93</u>	<u>94</u>	<u>117</u>	<u>127</u>
Non-U.S. banks	24	34	35	51	62
U.S. banks	34	59	59	66	64
(U.S. share)	(59%)	(63%)	(63%)	(57%)	(51%)
<u>III. Smaller Developed Countries<sup>4/</sup></u>	<u>38</u>	<u>66</u>	<u>71</u>	<u>84</u>	<u>87</u>
Non-U.S. banks	28	51	55	67	68
U.S. banks	10	16	16	18	19
(U.S. share)	(27%)	(24%)	(22%)	(21%)	(22%)
<u>IV. Oil-Exporting Countries</u>	<u>14</u>	<u>35</u>	<u>39</u>	<u>56</u>	<u>58</u>
Non-U.S. banks	7	16	19	35	38
U.S. banks	7	20	20	22	20
(U.S. share)	(52%)	(56%)	(51%)	(39%)	(35%)
<u>V. Non-Oil LDCs</u>	<u>63</u>	<u>92</u>	<u>99</u>	<u>122</u>	<u>137</u>
Non-U.S. banks	29	45	52	72	84
U.S. banks	34	47	47	50	52
(U.S. share)	(54%)	(51%)	(48%)	(41%)	(38%)
<u>VI. Eastern Europe<sup>5/</sup></u>	<u>23</u>	<u>36</u>	<u>42</u>	<u>53</u>	<u>56</u>
Non-U.S. banks	20	30	36	47	50
U.S. banks	3	6	6	6	6
(U.S. share)	(14%)	(16%)	(14%)	(11%)	(11%)
<u>VII. Miscellaneous &amp; Unclassified</u>	<u>9</u>	<u>15</u>	<u>15</u>	<u>19</u>	<u>21</u>
Non-U.S. banks	4	9	10	11	12
U.S. banks	5	5	5	8 <sup>6/</sup>	9
(U.S. share)	(54%)	(36%)	(35%)	(43%)	(43%)
<u>VIII. World Total<sup>3/</sup></u>	<u>411</u>	<u>618</u>	<u>650</u>	<u>839</u>	<u>876</u>
Non-U.S. banks	263	392	424	584	624
U.S. banks	148	226	226	255	252
(U.S. share)	(36%)	(37%)	(35%)	(30%)	(29%)

General notes: a) figures may not add to totals because of rounding; b) percentage shares were computed from unrounded numbers.

1/ Banks in Belgium-Luxembourg, France, Germany, Italy, Netherlands, Sweden, Switzerland, United Kingdom, Canada, Japan, United States, and U.S. bank branches in five offshore banking centers (Bahamas, Cayman Islands, Panama, Hong Kong, and Singapore); also banks in Austria, Denmark, and Ireland beginning December 1977, "new series."

2/ Including banks in Austria, Denmark, and Ireland as reporters.

3/ Excluding claims on the United States.

4/ Western Europe other than G-10 countries and Switzerland, plus Turkey, South Africa and Australia.

5/ Including Yugoslavia.

6/ The increase over December 1977 largely reflects a change in reporting instructions for U.S. bank foreign branches.

Technical notes:

a) To allow full comparability with U.S. data, the original BIS data have been adjusted to shift Yugoslavia from III to VI, New Zealand from III to VII, and Liberia from II to VII.

b) To allow full comparability with the BIS data, the U.S. data as published by the Federal Reserve have been adjusted to 1) restore intrabank claims, which are netted out in the Federal Reserve series; 2) remove claims held by foreign branches of U.S. banks on local customers, since these are not international claims from the BIS point of view; 3) remove claims held by U.S. bank branches outside the BIS reporting area, i.e., outside the countries indicated in note 1.

Sources: Bank for International Settlements, quarterly reports on international banking developments; Board of Governors of the Federal Reserve System, Federal Reserve Bulletin, Table 3.20, issues beginning June 1979; author's adjustments to Federal Reserve data.

Table 2. Net International Lending of Banks Reporting to the BIS<sup>1/</sup>  
(billions of dollars)

<u>Lending to:</u>	<u>1976-77</u>	<u>January 1978-June 1979<sup>2/</sup></u>		
		<u>1978</u>	<u>Jan.-June 1979</u>	<u>Total</u>
I. <u>G-10 Countries and Switzerland<sup>3/</sup></u>	<u>76</u>	<u>104</u>	<u>4</u>	<u>108</u>
Non-U.S. banks	57	85	8	93
U.S. banks	19	26	-3	23
(U.S. share)	(24%)	(25%)	negative	(21%)
II. <u>Offshore Banking Centers</u>	<u>35</u>	<u>24</u>	<u>9</u>	<u>33</u>
Non-U.S. banks	10	16	11	27
U.S. banks	25	8	-3	5
(U.S. share)	(72%)	(32%)	negative	(16%)
III. <u>Smaller Developed Countries<sup>4/</sup></u>	<u>28</u>	<u>15</u>	<u>-3</u>	<u>12</u>
Non-U.S. banks	23	12	-4	13
U.S. banks	5	3	1	4
(U.S. share)	(23%)	(17%)	--	(32%)
IV. <u>Oil-Exporting Countries</u>	<u>21</u>	<u>18</u>	<u>1</u>	<u>19</u>
Non-U.S. banks	9	16	3	19
U.S. banks	12	3	-2	1
(U.S. share)	(58%)	(16%)	negative	(5%)
V. <u>Non-Oil LDCs</u>	<u>29</u>	<u>25</u>	<u>15</u>	<u>40</u>
Non-U.S. banks	16	20	12	32
U.S. banks	13	4	2	6
(U.S. share)	(46%)	(15%)	(15%)	(15%)
VI. <u>Eastern Europe<sup>5/</sup></u>	<u>13</u>	<u>11</u>	<u>3</u>	<u>14</u>
Non-U.S. banks	10	11	3	14
U.S. banks	2	2	-1	1
(U.S. share)	(18%)	(18%)	negative	(9%)
VII. <u>Miscellaneous &amp; Unallocated</u>	<u>5</u>	<u>4</u>	<u>2</u>	<u>8</u>
Non-U.S. banks	5	1	1	2
U.S. banks	..	3 <sup>6/</sup>	1	4
(U.S. share)	(4%)	(71%)	(50%)	(51%)
VIII. <u>World Total<sup>3/</sup></u>	<u>207</u>	<u>200</u>	<u>37</u>	<u>237</u>
Non-U.S. banks	129	160	40	200
U.S. banks	78	39	-4	36
(U.S. share)	(38%)	(20%)	negative	(15%)

General notes: 1) figures may not add to totals because of rounding; b) percentage shares were computed from unrounded numbers.

Notes 1 through 6: see comparable notes to Table 1.

Technical notes to Table 1 likewise apply to Table 2.

Sources: See Table 1.

by the U.S. banks in 1978 of \$39 billion was no higher, at an annual rate, than in 1976-77, and then turned slightly negative in the first half of 1979 as outstanding claims were reduced. As a share of total lending the U.S. bank lending decreased from 38 per cent in 1976-77 to 15 per cent in the interval from end-1977 to mid-1979.

#### Geographical variations in lending activities

The worldwide lending data in Tables 1 and 2 break down the borrowers by country of residence and combine the data into several categories of countries that are now standard at the BIS and the Federal Reserve. It can be seen that the decline in the U.S. banks' share has been geographically very widespread, and that the U.S. net lending shares as computed in Table 2 decreased in 1978-79, compared with 1976-77, in the case of every country grouping except the smaller developed countries and the relatively unimportant "miscellaneous and unallocated" category (for which latter the increase in the U.S. share was in fact a statistical fluke; see note 6 to Table 1). On the other hand, the drop in the U.S. banks' share was much more severe vis-a-vis some country groups than others; furthermore, declines in share had more serious implications for bank earnings in the case of lending to some country groups than in the case of others.

The U.S. banks' shares underwent the greatest erosion as regards lending to the oil-exporting countries and the non-oil LDCs, important groups accounting in 1976-77 for almost one-third of the U.S. banks' total international lending. As Table 2 brings out, U.S. bank lending to the oil-exporting countries was almost nil after 1977 while non-U.S. banks increased their rate of lending; in the case of the non-oil LDCs, U.S. bank lending slowed greatly after 1977

while that of non-U.S. banks more than doubled in the post-1977 period. Comparing 1976-77 with the period covering 1978 and the first half of 1979, the U.S. banks' share in total lending fell from 46 per cent to 5 per cent as concerns lending to oil-exporting countries and from 46 per cent to 15 per cent with respect to lending to non-oil LDCs.

The declines in the U.S. share of lending to other areas of the world have been less significant from the standpoint of size, the volume of business involved, or their implications for earnings. The decline in share was relatively modest in the case of lending to the G-10 countries and Switzerland. The decline was appreciable as regards lending to Eastern Europe, but lending to these countries plays a rather minor role in U.S. banks' international activity. The decline in the U.S. share of lending to offshore centers was precipitous, but this activity is almost 100 per cent interbank, at interbank spreads. Moreover, for U.S. banks a very large fraction of the total claims are claims of head offices, or other branches, on "sister" branches in offshore centers -- which on-lend to other parts of the globe -- with no direct significance for earnings.

Since the decline in the U.S. share was the most meaningful as regards lending to the oil-exporting countries and the non-oil LDCs, the figures on international lending to the principal individual borrowers in those two groups are presented in Table 3 in order to identify more closely how the U.S. shares have evolved. Of the 20 individual countries and two groups of countries in Table 3, the U.S. share of net lending was lower in the period January 1978-June 1979 than in 1976-77 in lending to 19 of those countries or groups. As regards the outstanding claims, the U.S. shares were lower in June 1979 than in December 1977 in the cases of 20 of the 22 countries or groups -- all but

Table 3. Lending to Oil-Exporting Countries and Non-Oil LDCs  
(billions of dollars)

<u>Lending to or claims on:</u>	<u>Net Lending</u>		<u>Outstanding Claims</u>	
	<u>1976-77</u>	<u>Jan. '78 thru June '79</u>	<u>Dec. '77</u>	<u>June '79</u>
<u>Argentina</u>	<u>1.54</u>	<u>4.79</u>	<u>4.75</u>	<u>9.37</u>
Non-U.S. banks	.36	3.96	1.88	5.83
U.S. banks	1.18	.83	2.88	3.54
(U.S. share)	(77%)	(17%)	(61%)	(38%)
<u>Brazil</u>	<u>7.37</u>	<u>10.25</u>	<u>23.80</u>	<u>33.86</u>
Non-U.S. banks	3.0	8.16	11.66	19.97
U.S. banks	4.37	2.09	12.13	13.88
(U.S. share)	(59%)	(20%)	(51%)	(41%)
<u>Chile</u>	<u>.66</u>	<u>1.82</u>	<u>1.60</u>	<u>3.33</u>
Non-U.S. banks	.20	.89	.65	1.54
U.S. banks	.46	.93	.95	1.79
(U.S. share)	(70%)	(51%)	(59%)	(54%)
<u>Colombia</u>	<u>.08</u>	<u>.92</u>	<u>1.73</u>	<u>2.60</u>
Non-U.S. banks	.02	.63	.43	1.06
U.S. banks	.06	.29	1.30	1.55
(U.S. share)	(67%)	(31%)	(75%)	(59%)
<u>Ecuador</u>	<u>1.03</u>	<u>1.08</u>	<u>1.64</u>	<u>2.66</u>
Non-U.S. banks	.33	.61	.50	1.11
U.S. banks	.73	.47	1.14	1.55
(U.S. share)	(71%)	(44%)	(70%)	(58%)
<u>Mexico</u>	<u>5.83</u>	<u>6.31</u>	<u>19.90</u>	<u>26.00</u>
Non-U.S. banks	2.95	5.98	7.99	14.96
U.S. banks	2.88	.33	11.91	11.04
(U.S. share)	(49%)	(5%)	(60%)	(42%)
<u>Peru</u>	<u>1.00</u>	<u>.04</u>	<u>3.16</u>	<u>3.20</u>
Non-U.S. banks	.54	.94	1.29	1.75
U.S. banks	.46	-.90	1.88	1.44
(U.S. share)	(47%)	(neg.)	(59%)	(45%)
<u>Venezuela</u>	<u>4.80</u>	<u>7.13</u>	<u>7.97</u>	<u>14.84</u>
Non-U.S. banks	1.66	5.04	2.51	7.55
U.S. banks	3.14	2.09	5.46	7.29
(U.S. share)	(65%)	(29%)	(69%)	(49%)
<u>Indonesia</u>	<u>1.20</u>	<u>-.32</u>	<u>4.08</u>	<u>4.36</u>
Non-U.S. banks	.98	.11	2.06	2.55
U.S. banks	.22	-.43	2.03	1.81
(U.S. share)	(18%)	--	(50%)	(42%)

<u>Israel</u>	<u>.55</u>	<u>1.09</u>	<u>2.84</u>	<u>3.87</u>
Non-U.S. banks	.29	1.03	1.96	2.97
U.S. banks	.26	.06	.88	.90
(U.S. share)	(47%)	(5%)	(31%)	(23%)
<u>South Korea</u>	<u>1.95</u>	<u>2.80</u>	<u>6.00</u>	<u>8.62</u>
Non-U.S. banks	.66	1.48	2.35	3.84
U.S. banks	1.29	1.32	3.65	4.79
(U.S. share)	(66%)	(47%)	(61%)	(56%)
<u>Middle East oil exporters</u>	<u>12.73</u>	<u>8.97</u>	<u>20.70</u>	<u>29.24</u>
Non-U.S. banks	5.50	10.79	11.02	21.78
U.S. banks	7.23	-1.82	9.69	7.47
(U.S. share)	(57%)	(neg.)	(47%)	(26%)
<u>Malaysia</u>	<u>.55</u>	<u>.27</u>	<u>1.28</u>	<u>1.53</u>
Non-U.S. banks	.21	.36	.61	.97
U.S. banks	.34	-.09	.67	.56
(U.S. share)	(61%)	(neg.)	(53%)	(37%)
<u>Philippines</u>	<u>.75</u>	<u>1.61</u>	<u>3.06</u>	<u>4.65</u>
Non-U.S. banks	.18	.69	.98	1.89
U.S. banks	.57	.92	2.08	2.77
(U.S. share)	(75%)	(57%)	(68%)	(60%)
<u>Taiwan</u>	<u>1.35</u>	<u>.68</u>	<u>3.58</u>	<u>3.97</u>
Non-U.S. banks	.09	.22	.78	1.01
U.S. banks	1.26	.46	2.80	2.96
(U.S. share)	(94%)	(67%)	(78%)	(75%)
<u>Thailand</u>	<u>.78</u>	<u>.81</u>	<u>2.12</u>	<u>2.92</u>
Non-U.S. banks	.36	.35	1.15	1.51
U.S. banks	.42	.46	.97	1.41
(U.S. share)	(53%)	(56%)	(46%)	(48%)
<u>Algeria</u>	<u>.88</u>	<u>2.93</u>	<u>3.43</u>	<u>6.36</u>
Non-U.S. banks	.25	2.69	2.02	4.70
U.S. banks	.63	.24	1.41	1.66
(U.S. share)	(71%)	(8%)	(41%)	(26%)
<u>Egypt</u>	<u>.19</u>	<u>.87</u>	<u>1.27</u>	<u>2.13</u>
Non-U.S. banks	.23	.50	1.02	1.53
U.S. banks	-.07	.37	.24	.60
(U.S. share)	(neg.)	(42%)	(19%)	(28%)
<u>Morocco</u>	<u>.80</u>	<u>1.09</u>	<u>1.28</u>	<u>2.35</u>
Non-U.S. banks	.58	1.11	1.03	2.11
U.S. banks	.22	-.02	.25	.23
(U.S. share)	(28%)	(neg.)	(20%)	(10%)

<u>Nigeria</u>	<u>.23</u>	<u>1.40</u>	<u>.68</u>	<u>2.08</u>
Non-U.S. banks	.11	1.04	.47	1.51
U.S. banks	.12	.36	.21	.57
(U.S. share)	(54%)	(26%)	(31%)	(27%)
 <u>Zaire</u>	 <u>.05</u>	 <u>.15</u>	 <u>1.09</u>	 <u>1.23</u>
Non-U.S. banks	.08	.20	.81	1.02
U.S. banks	-.03	-.05	.29	.21
(U.S. share)	(neg.)	(neg.)	(26%)	(17%)
 <u>Others</u>	 <u>5.98</u>	 <u>4.61</u>	 <u>21.94</u>	 <u>25.13</u>
Non-U.S. banks	6.05	5.46	17.90	20.92
U.S. banks	-.07	-.85	4.34	4.21
(U.S. share)	(neg.)	(neg.)	(20%)	(17%)
 <u>All oil-exporters and non-oil LDCs</u>	 <u>50.30</u>	 <u>59.30</u>	 <u>137.90</u>	 <u>194.30</u>
Non-U.S. banks	24.63	52.24	71.07	122.08
U.S. banks	25.67	7.06	66.84	72.22
(U.S. share)	(51%)	(12%)	(48%)	(37%)

Technical notes to Table 1 likewise apply to Table 3.

Sources: See Table 1.

Thailand and Egypt. In the cases of five countries or groups, U.S. banks' net lending between December 1977 and June 1979 was negative because outstanding claims actually declined; one of those cases concerned the Middle East oil-exporting countries, an important group of borrowers.

Although the declines in U.S. shares were nearly all-pervasive in the lending to oil exporters and non-oil LDCs, the largest declines tended to be in Latin America. The net lending share for U.S. banks in the 1978-79 period was less than one-half as much as it had been in 1976-77 as regards lending to Argentina, Brazil, Colombia, Mexico, Peru, and Venezuela. These declines in the U.S. share sometimes stemmed from an exceptionally rapid acceleration in lending by non-U.S. banks, as was most notable in the lending to Argentina, Brazil and Venezuela. In other cases, U.S. bank lending greatly slowed down; this happened in the lending to Mexico most particularly, and to Brazil and Venezuela in lesser degree. U.S. bank net lending to Peru became negative, but that was of course a special case. Outside Latin America, the largest decline in the U.S. banks' lending role was in lending to the Middle East oil-exporting countries, where an increase in the U.S. banks claims of \$7.23 billion in 1976-77 gave way to a net liquidation of \$1.82 billion in the next 18 months.

#### Minor role of dollar depreciation

Before considering other aspects of the recent relative performance of U.S. banks it seems well to dispose of any suspicion that the depreciation of the dollar against most other major currencies since 1977 played a major role in the decline of the U.S. banks' shares of outstanding claims. Such suspicion would rest on the assumption that claims denominated in non-dollar currencies

were relatively more important for the non-U.S. banks than for the U.S. banks, and on the possibility that, if the numbers involved were large, the depreciation of the dollar would raise the dollar value of the total claims of the non-U.S. banks by proportionately much more than those of the U.S. banks.

While the banking claims data that are the subject of this article are all reported in terms of U.S. dollars, some of the loans and other claims are denominated in other currencies, in which cases the reported dollar values are "dollar equivalents" determined by the current exchange rate between the dollar and the particular other currency. According to BIS data, in December 1977 banks in the European countries, Canada, and Japan that report to the BIS -- including U.S. banks' foreign branches in those countries -- had international claims denominated in currencies other than the dollar that came to 38 per cent of their total international claims. These currencies included non-dollar Eurocurrencies as well as "domestic currencies" (currencies of the same country as the lending bank); over one-half of the non-dollar claims were denominated in German marks and another one-fifth in Swiss francs. Between December 1977 and June 1979 these currencies rose in value against the dollar by 14.9 per cent on a weighted average basis, the weights being the shares of each currency in the non-dollar international claims in 1977 held by the banks in question. All of that appreciation occurred before the U.S. actions of November 1, 1978.

If it were possible to split up these non-dollar claims between those held by the European and Japanese branches of U.S. banks on the one hand and those held by the non-U.S. banks on the other, it would be easy to measure the impact of the exchange rate changes on the dollar value of the assets of the two groups of banks. This cannot be done; however, we can measure the impact that would have occurred if we made the unrealistic assumption that all the

non-dollar claims had been held exclusively by the non-U.S. banks and none by the U.S. branches. In this exaggerated example, the non-U.S. banks' international claims valued in dollars would have risen 8.8 per cent because of dollar depreciation, and by reference to the claims data in Table 1 it can be calculated that such a rise would have accounted for 1-1/2 of the 6 percentage point rise in the non-U.S. banks' share of total claims (or, conversely, of the drop in the U.S. banks' share) between December 1977 and June 1979. The true impact, however, was less -- perhaps much less -- than this, because some of the non-dollar claims were in fact held by the U.S. branches.

#### Accelerated lending by non-U.S. banks

We saw earlier that non-U.S. banks accelerated their international lending after 1977, their outstanding international claims rising at an annual rate of 22 per cent in 1976-77 and then speeding up to 38 per cent in 1978 and still reaching 30 per cent in the 18 months to June 1979 despite the seasonal slowing in the first half of the year. What national banking systems were responsible for this acceleration? Despite the difficulties encountered in trying to assess the activities of non-U.S. banking systems on a financial control or even charter basis it seems clear that the speed-up in international lending by non-U.S. banks was practically universal.

The rates at which banks in the main industrial countries outside the United States have increased their international claims in recent periods can be seen in Table 4. The data have been adjusted to eliminate claims of U.S. branches in those countries and, in the case of the United Kingdom, to break out the other non-British-owned banks as well. The activity of the U.S. agencies and branches of foreign banks are also shown. This is as close

Table 4. Cross-Border Claims of Non-U.S. Banks

<u>Location of banks</u>	<u>Percentage increase</u>			<u>Outstanding in June 1979 (\$ billions)</u>
	<u>Annual average 1976-77</u>	<u>1978</u>	<u>12 months to June 1979</u>	
Belgium-Luxembourg	33	37	40	100.5
France	26	38	40	92.5
Germany	26	27	26	57.8
Italy	0	51	44	17.2
Netherlands	25	40	34	46.9
Sweden	14	3	24	5.1
Switzerland	22	37	26	53.2
United Kingdom:				
British banks <sup>1/</sup>	18	33	30	47.0
Other non-U.S. banks <sup>1/</sup>	27	26	35	110.7
Canada	14	23	22	23.9
Japan	3	54	43	35.9
United States: agencies and branches of non-U.S. banks	17	105	58	51.0
Subtotal	22	38	45	641.7
Austria	n.a.	33	50	14.6
Denmark	n.a.	36	43	3.2
Ireland	n.a.	13	-52	.7
Total	n.a.	38	45	660.2 <sup>2/</sup>

<sup>1/</sup> Based on data for mid-month report dates.

<sup>2/</sup> This number exceeds the comparable figure of \$624 billion in Table 1 because the claims in Table 4 include claims on the United States.

Sources: Bank for International Settlements; Federal Reserve System; Bank of England.

as the available data allow us to get to a charter or financial control basis. However, except for Luxembourg (and hence Belgium-Luxembourg combined) the problem in Continental European countries and Japan of the presence of branches and subsidiaries of foreign banks that are not U.S. branches is generally far smaller than the analogous problem posed by foreign agencies and branches in the United States, and it cannot invalidate the general impressions given by the data.

What these figures show is that almost all the non-U.S. banking groups in Table 4 increased their international claims faster in 1978-79 than in 1976-77. A major exception was Germany, where the rate of increase was quite steady and, after 1977, below the average for these groups. The apparent inconsistency between these results and the alleged aggressiveness of German banks in seeking international business in recent years could reflect the fact that so much of the international business of the German banks is done by their Luxembourg subsidiaries. The sharpest acceleration in international lending was done by the banks in Italy and Japan, where very small or zero rates of increase in 1976-77 gave way to rates of about 40 to 50 per cent in 1978 or in the 12 months to June 1979. The acceleration of lending by banks in France, the Netherlands, Switzerland, and Canada, and by British banks in the United Kingdom, was also substantial. But the fastest increases after 1977 were recorded by the U.S. agencies and branches of foreign banks, which increased their international claims by over 100 per cent in 1978 and by over 50 per cent in the 12 months ending June 1979, following a relatively modest average rise of 17 per cent in 1976-77. The surge in foreign lending by these agencies and branches, which was reflected in rapidly increasing claims on virtually all countries of the world, helped give rise to the widespread misconception that U.S. banks were

among the leaders in increasing their international claims. By mid-1979 the U.S. agencies and branches of foreign banks held more international claims than all the non-U.S. banks in Italy, the Netherlands, Canada, and Japan, and than British banks in London, and nearly as much as banks in Switzerland, a development highlighting the need in the future for distinguishing carefully between U.S.-chartered banks and banks doing business in the United States.

Domestic demand and credit policies as explanatory factors

Differences in the degree of banks' concern over capital adequacy, at a time when increases in international lending have tended to reduce the ratio of capital to assets and deposits, is probably a major reason why U.S. banks have slowed their international lending while non-U.S. banks, in the aggregate, have accelerated theirs. At the same time, however, there is evidence to indicate that there have been other reasons as well, including the buoyancy of domestic loan demand and the speed with which monetary authorities have allowed banking systems to expand their assets.

In the United States, the rate of increase in commercial banks' claims on domestic borrowers picked up from an average of 8.3 per cent per year in 1976-77 to 11.2 per cent in 1978, and 11.7 per cent in the 12 months ending March 1979. By and large, there was no comparable acceleration in domestic lending by banks in the other major industrial countries. According to uniform data published by the International Monetary Fund, in 1978 the expansion of domestic assets actually slowed down in France, Italy, and for British banks in the United Kingdom, as compared with the average for 1976-77, and was little changed in Germany, the Netherlands, and Japan. Data for the 12 months ending June 1979 available for some countries show an acceleration of domestic lending

by banks in Germany and by British banks in the United Kingdom, but a slowing by banks in the Netherlands and Japan. Considering the whole 18 months up to mid-1979, only banks in Belgium and Canada appear to have speeded up their domestic lending on a scale comparable to that of the banks in the United States.

But while domestic lending in the industrial countries other than the United States was generally increasing less, or at least no more rapidly, in 1978-79 than before, monetary policies in most of these other countries allowed banks to speed up the expansion of their total assets, thereby permitting more rapid expansion of lending to borrowers abroad. The rate of increase in total assets was faster after 1977 than the 1976-77 average in France, Italy, Germany, the United Kingdom (as regards British banks), as well as Belgium and Canada where the acceleration was more pronounced than the aforementioned pick-up in domestic lending. Although the banking systems in the Netherlands and Japan did not accelerate the increase in their total assets, the pace thereof still allowed an acceleration of international claims. Of the above countries, Germany was the only one where the rate of rise of total assets did not speed up relative to the rate of rise of domestic assets alone. And it was in this same respect that the situation in the United States differed from that of most of the other countries. Banks in the United States did speed up the expansion of total assets quite considerably after 1977, but the acceleration tended to be no greater than, or slightly less than, for domestic assets. It was this contrast that would appear to be a factor in the recent contrasting behavior of U.S. and non-U.S. banks in international lending.