

International Finance Discussion Papers

Number 255

July 1985

U.S. BANKS' LENDING TO DEVELOPING COUNTRIES:
A LONGER-TERM VIEW

by

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Abstract

There was very little net new lending by U.S. banks to developing countries in 1983-84, following the heavy lending of preceding years. When non-spontaneous lending to Brazil, Mexico and some other Latin American countries is deducted, there was an absolute decline in U.S. banks' claims on these countries. However, estimates of net new lending based on changes in outstanding claims understate the amount of net new lending to these countries in 1983-84 by an amount on the order of \$3-1/2 billion. This is because outstanding claims were reduced by a number of factors other than repayments; such factors included loan charge-offs, sales of claims to non-bank investors, the exercise of official guarantees, and the statistical effects of exchange rate changes. Other aspects of U.S. bank lending to developing countries in 1983-84 were an increased concentration of the outstanding claims at the largest banks, and an increased concentration of the claims towards the public sector of the borrowing countries.

June 12, 1985

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I. INTRODUCTION

The current debt servicing difficulties of the developing countries have led to considerable analysis of various short-term problems. This paper will take a longer-term look at changes in lending behavior of U.S. banks that took place in the two-year period from December 1982 through December 1984. A careful look at net lending behavior by U.S. banks during this period is important because many of the adjustment programs negotiated with the International Monetary Fund have been conditioned upon continued new lending by banks. As part of the review of lending by U.S. banks we suggest several reasons why conventional measurement methods have underestimated the extent of new lending by these banks in 1983 and 1984. To the extent that some banks may be reluctant to participate in new loan packages because they believe that other banks are not lending their "fair share," it is important that estimates of new lending not be biased by the factors noted below.

II. LENDING OVERALL AND BY SIZE OF BANK

Table 1 examines the activities of all U.S. banks in lending to several groups of countries, as well as such lending by different size-categories of banks, in 1983 and 1984. The general conclusion is that during

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Table 1
U.S. Bank Claims on Selected Countries
(billions of \$)

Area/Country	Nine money center banks		Fifteen other large banks		All other U.S. banks		All U.S. banks		
	Dec. 1982	Dec. 1984 Percentage change	Dec. 1982	Dec. 1984 Percentage change	Dec. 1982	Dec. 1984 Percentage change	Dec. 1982	Dec. 1984 Percentage change	
<u>Non-OPEC Developing</u>	64.1	66.4	20.2	21.7	18.9	17.6	103.2	105.8	2.6
<u>Latin America</u>	41.0	45.4	14.0	15.1	14.3	13.7	69.3	74.2	7.1
Argentina	5.1	5.1	1.8	1.8	1.3	1.0	8.2	8.0	-3.1
Brazil	13.3	15.8	3.9	4.7	3.3	3.4	20.4	23.9	16.8
Chile	3.3	3.8	1.3	1.4	1.5	1.4	6.1	6.7	10.1
Colombia	2.2	2.2	0.4	0.4	0.5	0.4	3.2	3.0	-7.2
Mexico	12.9	14.7	5.1	5.3	6.4	6.5	24.4	26.5	8.8
Peru	1.4	1.3	0.7	0.7	0.4	0.4	2.5	2.4	-7.2
Others	2.8	2.5	0.7	0.7	0.9	0.6	4.4	3.7	-15.6
<u>Asia</u>	19.5	17.7	5.7	6.0	4.2	3.5	29.4	27.2	-7.2
Philippines	3.9	3.8	1.2	1.2	0.6	0.5	5.7	5.5	-3.5
South Korea	7.1	5.6	2.3	2.7	1.6	1.6	11.0	10.0	-9.8
Taiwan	3.0	1.8	1.1	0.6	0.6	0.4	4.8	2.8	-40.3
Others	5.4	6.5	1.2	1.5	1.2	1.0	7.8	8.9	13.8
<u>Africa</u>	3.7	3.3	0.5	0.6	0.4	0.4	4.5	4.4	-4.1
<u>OPEC</u>	17.8	17.4	4.3	4.2	3.0	2.5	25.2	24.1	-4.4
Nigeria	1.4	1.1	0.2	0.2	0.2	0.1	1.9	1.5	-17.0
Venezuela	7.8	7.4	2.1	2.0	1.7	1.4	11.6	10.8	-6.6
Others	8.6	8.8	1.9	1.9	1.2	1.0	11.7	11.7	-0.1
<u>Eastern Europe</u>	4.0	3.2	1.1	0.8	1.2	0.8	6.3	4.8	-23.4

Source: Country Exposure Lending Survey. Percentage changes computed from unrounded data.

these two years there was very little net new lending by U.S. banks to non-OPEC developing countries, OPEC, or Eastern Europe. A small reported increase in U.S. bank claims on non-OPEC developing countries of \$2.6 billion in these two years was offset by a decline in claims on OPEC countries of \$1.1 billion and a decline of \$1.5 billion in claims on Eastern Europe. When non-spontaneous lending to Brazil, Mexico and some other Latin American countries is deducted from the totals, there was an absolute decline in U.S. banks claims on non-OPEC developing countries.

The figures typically used to obtain estimates of net new lending are derived from changes in outstanding bank claims. For reasons described below in more detail, this procedure may have understated the flow of new lending by U.S. banks to non-OPEC developing countries on the order of \$3-1/2 billion over that two-year period. After adjustments for such understatement, U.S. bank claims on non-OPEC developing countries appear to have risen about 5-6 percent in the two years 1983-84 instead of the 2-1/2 percent indicated by changes in the stock of bank claims. However, while these adjustments are relatively large compared with the estimates of bank flows from stock data, they do not significantly modify the broad conclusion of a major slowdown in lending by U.S. banks.

As shown in Table 1, the pattern of new lending activity differs considerably by size-category of banks. In the case of Latin America, the two larger groups of U.S. banks increased their reported claims (before adjustments) over these two years by 8-11 percent while in the same period the smaller banks reduced their reported total claims on that region. Again, despite the presence of large non-spontaneous lending packages to Brazil and Mexico, the gross claims of the smaller U.S. banks on these two countries increased very little over the two-year period. During these two years, U.S.

banks as a whole reduced their claims on countries in Asia, OPEC, and Eastern Europe, but the smaller banks did so by proportionately more, i.e., by one-sixth to one-third.

The conclusions from Table 1 are quite clear: (1) very little net international lending by U.S. banks to these groups of countries is taking place, especially outside of Latin America; this is so even after the aforementioned adjustments for statistical issues are considered; and (2) there appears to be a trend towards a reduction in outstanding claims at smaller U.S. banks which, if not reversed in the future, will result in increasing the burden of new financing on the large banks.

Table 2 takes an even longer-run look at the relationship of U.S. bank claims on developing countries relative to bank capital. That ratio tended to rise steadily for all size-categories of banks from year-end 1977 through late 1982. Since late 1982, however, limited lending by U.S. banks to these countries combined with continued strengthening of banks' capital, has resulted in a sharp decline in the ratio of their claims relative to their total capital. In 1983 and 1984, the largest U.S. banks reversed about two-thirds of the increase in the ratio of exposure to capital that took place between year-end 1977 and year-end 1982.

III. SECTORAL COMPOSITION OF LENDING

Data on the sectoral composition of the foreign claims of U.S. banks, presented in Table 3, indicate a sharp decline in claims on private nonbank borrowers, a smaller decline in claims on banks (with the exception of Mexico, where the major banks were nationalized), and an offsetting increase in claims on the public sector.^{1/} In view of the generally sluggish

^{1/} Publicly-owned banks performing a commercial banking business are considered banks for reporting on the Country Exposure Lending Survey.

Table 2
CLAIMS OF U.S. BANKS ON NON-OPEC DEVELOPING COUNTRIES

ACTUAL	AMOUNT (billions of dollars)				AS PERCENT OF CAPITAL			
	U.S. Banks		Other Banks		Top Nine		Other Banks	
	All	Next 15	All	Next 15	Top Nine	Next 15	Top Nine	Other Banks
Dec. 1977	46.9	30.0	8.1	8.8	163	106	163	57
June 1978	48.7	31.0	8.4	9.3	163	107	163	57
Dec. 1978	52.2	33.4	8.9	9.9	167	110	167	54
June 1979	54.4	35.0	9.1	10.3	166	108	166	54
Dec. 1979	61.8	39.9	10.6	11.3	182	112	182	60
June 1980	66.2	41.9	11.8	12.5	183	114	183	60
Dec. 1980	75.4	47.9	13.4	14.2	200	125	200	62
June 1981	82.3	51.6	15.3	15.4	206	134	206	66
Dec. 1981	92.8	57.6	17.8	17.4	221	143	221	73
June 1982	98.6	60.3	19.3	19.0	223	150	223	73
Dec. 1982	103.2	64.2	18.9	20.2	221	150	221	67
June 1983	103.7	64.1	19.1	20.5	212	147	212	63
Dec. 1983	106.8	65.8	19.4	21.6	209	145	209	59
June 1984	107.8	67.3	18.8	21.7	197	139	197	54
Dec. 1984	105.8	66.4	17.6	21.7	181	120	181	47

Table 3
Sectoral Composition of Foreign Claims of U.S. Banks
(billions of \$)

Area/Country	December 1982			December 1984			Percentage Change: December 1982-84		
	Banks	Public borrowers	Private nonbanks	Banks	Public borrowers	Private nonbanks	Banks	Public borrowers	Private nonbanks
<u>Non-OPEC</u>									
<u>Developing</u>	35.8	36.0	31.4	31.3	48.0	26.4	-12.4	33.3	-15.8
<u>Latin America</u>	21.5	25.5	22.2	19.2	37.7	17.3	-10.8	47.8	-22.2
Argentina	2.2	3.1	2.9	1.8	4.0	2.1	-18.5	31.7	-27.8
Brazil	8.7	7.3	4.5	8.1	11.9	3.9	-6.6	63.4	-13.8
Chile	3.3	1.1	1.7	2.9	2.6	1.1	-10.3	144.2	-34.6
Mexico	4.0	9.7	10.7	4.4	13.5	8.6	10.7	39.3	-19.5
<u>Asia</u>	13.1	8.1	8.2	10.4	8.6	8.2	-20.1	5.9	0.2
Taiwan	1.4	1.9	1.5	0.9	0.8	1.1	-32.9	-56.3	-27.3
S. Korea	6.6	1.7	2.7	4.8	2.4	2.8	-27.3	38.3	2.9
Philippines	1.6	2.4	1.7	1.2	2.4	1.8	-25.4	0	6.2
<u>Africa</u>	1.2	2.4	1.0	1.7	1.7	.9	42.6	-28.2	-3.3
<u>OPEC</u>	7.1	9.1	9.0	6.1	10.3	7.7	-14.5	14.0	-14.9
Venezuela	2.9	4.8	3.9	2.3	5.4	3.2	-21.2	11.0	-17.8

Source: Country Exposure Lending Survey. Percentage changes computed from unrounded data.

lending by U.S. banks in this period, the shift in the sectoral composition of claims probably reflects the redirection of existing claims toward the public sector through public-sector guarantees and rescheduling agreements rather than a shift in the emphasis of new lending by banks.^{2/} It is not possible with existing data to determine for certain whether private borrowers are using resources held outside the borrowing country to reduce their reported indebtedness, although there is some market commentary that this is indeed happening.^{3/}

IV. NON-SPONTANEOUS LENDING AND DECLINES IN REPORTED CLAIMS

In 1983-84, U.S. banks (and also non-U.S. banks) engaged in large amounts of non-spontaneous lending to five non-OPEC Latin American countries. Such lending, which for U.S. banks came to over \$9 billion over the two years combined, represented the new-money component of financial packages arranged in connection with IMF programs; such packages also typically included debt reschedulings and pledges by the banks to maintain the level of outstanding trade credits and of interbank credits to foreign offices of banks headquartered in these countries. Brazil and Mexico received the largest amounts of non-spontaneous lending, followed by Chile, Argentina and Peru.

^{2/} For example, the government of Chile has assumed some of the debts of private Chilean banks. In Argentina, the government has issued dollar-denominated bonds (transferable outside Argentina) that have been used as guarantee or as payment of principal owed by private Argentine debtors to foreign creditors on exchange-guaranteed contracts. U.S. banks have probably acquired some amount of such bonds in exchange for claims on private Argentine debtors.

^{3/} On a related point, a survey by Robert Morris Associates estimated that in 1983 about \$0.3 billion in U.S. bank claims on private Mexican borrowers were written off, which accounts for about one-seventh of the decline in U.S. bank claims on private Mexican entities in that two-year period.

Table 4
Changes in Bank Claims on Selected Countries, 1983-84
(billions of dollars)

	<u>Total Claims</u>	<u>Non-Spontaneous Lending</u>	<u>Other Claims</u>
<u>U.S. Banks^{1/}</u>			
Five Latin American countries ^{2/}	4.8	9.2	-4.4
Other non-OPEC developing countries	-1.2	—	-1.2
All non-OPEC developing countries	3.6	9.2	-5.6
<u>Non-U.S. Banks^{3/}</u>			
Five Latin American countries ^{2/}	7.9	13.5	-5.6
Other non-OPEC developing countries	9.3	—	9.3
All non-OPEC developing countries	17.2	13.5	3.7
<u>All BIS Banks^{4/}</u>			
Five Latin American countries ^{2/}	12.7	22.8	-10.1
Other non-OPEC developing countries	8.1	—	8.1
All non-OPEC developing countries	20.8	22.8	-2.0

^{1/} U.S. bank data are from the series published in the Federal Reserve Bulletin, to allow comparability with the data for all BIS banks. Such comparability is obtained by adjusting the published U.S. data to restore intrabank claims and to exclude claims held by foreign branches outside the BIS reporting area.

^{2/} Argentina, Brazil, Chile, Mexico and Peru.

^{3/} All non-U.S. banks in countries that are part of the BIS reporting area. Data are adjusted for exchange rate changes. All of the adjustment for the impact of exchange rate changes in the BIS data for all banks has been allocated here to non-U.S. banks.

^{4/} Based on the BIS quarterly series adjusted for exchange rate changes.

One of the most salient aspects of U.S. banks' claims on these countries in 1983-84 is that their non-spontaneous lending to each country exceeded the increase in their total claims on that country--in other words, the non-spontaneous lending was partly offset by reductions in the dollar value of claims already existing at the beginning of 1983. As shown in Table 4, the reductions in these other claims totalled about \$4-1/2 billion over the two years, or nearly one-half of the non-spontaneous lending.

Part of the \$4-1/2 billion decline in the U.S. banks' pre-existing claims on the five Latin American recipients of non-spontaneous lending can be explained by the fact that proceeds of these loans were slated inter alia to repay certain other debts to the banks, including interest arrears that have been added to the stock of claims. It is not possible to be precise in all cases with regard to the amount of such payments or the shares that went to the U.S. banks alone. Our best estimates are that U.S. banks' claims were reduced by about \$1.1 billion of repayments of short-term bridge loans by Brazil, by \$0.1 billion of repayments of short-term bridge loans by Argentina, and by payments of pre-1983 interest arrears by Mexico probably in the range of \$0.4 to \$0.8 billion, for a total of close to \$2 billion, leaving an estimated \$2-1/2 billion in declines in U.S. banks' pre-existing claims to be explained by other factors.

V. REASONS WHY EXISTING DATA MAY UNDERESTIMATE NEW LENDING BY U.S. BANKS

A. Loan Charge-Offs.

When a bank charges off a loan, its outstanding stock of claims on a country will show a decline despite the fact that the bank has not received any net repayment. The decline in the stock of claims caused by charge-offs will result in a reduction in estimates of net flows.

A survey by Robert Morris Associates covering 73 of the 100 largest U.S. banks indicated that in 1983 U.S. banks charged off about \$0.9 billion of international debt, of which about \$0.5 billion was on Latin American countries and about \$0.7 billion was on all non-OPEC developing countries.^{4/} The Robert Morris survey data for 1984 are not yet available, but data compiled by Salomon Brothers indicate that total international charge-offs for a sample of 20 large banking organizations were \$1.0 billion in each of the years 1983 and 1984.^{5/} Applying the approximate country distributions of charge-offs in the Robert Morris Survey to the 1984 totals provided by Salomon Brothers, and adjusting upwards the numbers on charge-offs by 20 percent to account for incomplete sampling in both surveys, suggests that in the two-year period from December 1982 to December 1984 U.S. banks charged off about \$1-1/4 billion in claims on Latin America, and \$1-3/4 billion in claims on all non-OPEC developing countries. A small proportion of these charge-offs that occurred in 1984 resulted from bank responses to the requirement for an Allocated Transfer Risk Reserve required by regulators in response to the International Lending Supervision Act (ILSA). Some charge-offs may have also resulted from banks, particularly smaller banks, employing conservative accounting practices that used payments designated for interest to reduce their outstanding principal on some credits.

B. Sale of Claims by Banks to Nonbank Investors.

If, during a period of time, banks sell claims to nonbank investors, the end-period estimate of the stock of bank claims will be

^{4/} Robert Morris Associates, Report on Domestic and International Loan Charge-Offs, p. 45.

^{5/} Salomon Brothers, A Review of Bank Performance: 1985 Edition, p. 77.

reduced, as will the estimated flow of new credit over the period. In Brazil a facility was established whereby bank loans were converted to deposits at the central bank, and banks were permitted to sell these deposits. In 1984 banks sold about \$1 billion of these deposits to non-bank investors, mainly multinational corporations, who had need for funds in Brazil. The U.S. banks' share of this may have been about \$0.4 billion, i.e., proportional to their 40 percent share of total outstanding bank claims on Brazil.

C. The Exercise of Official Guarantees

When official guarantees of bank claims are exercised, reported bank claims decline, and thus estimates of flows of new bank credits will be correspondingly smaller. Conversations with CCC and Eximbank suggest that these two agencies may have paid off about \$1 billion in U.S. bank claims on non-OPEC developing countries in 1983 and 1984.

D. Exchange Rate Adjustments

When the dollar appreciates, the dollar value of non-dollar-denominated claims declines. Since the bulk of the claims of U.S. banks on developing countries are denominated in U.S. dollars, this factor is probably not substantial for U.S. banks. The Bank for International Settlements (BIS) estimates that in 1983 and 1984 exchange rate adjustments resulted in an \$8 billion decline in the value of the stock of non-dollar-denominated claims on non-OPEC developing countries held by all BIS-reporting banks. Conversations with U.S. banks suggest that only a very small share of their claims on these countries was denominated in European currencies or Japanese yen, usually associated with financing of exports from these countries with a guarantee of the home country export credit

agency. A median estimate based on these conversations with U.S. banks is that about 1.5 percent of total U.S. bank claims on non-developing countries was denominated in currencies other than the dollar. During the two-year period the weighted average value of the dollar exchange rate appreciated about 30 percent. Consequently, the reduction in the value of U.S. banks' non-dollar claims on non-OPEC developing countries would be on the order of \$0.5 billion, or about 6 percent of the \$8 billion total estimated by the BIS.

E. Summary of Adjustments

The sum of the four adjustments to the data for U.S. banks, i.e., for charge-offs, asset sales, the exercise of official guarantees, and exchange rate adjustments, suggests that U.S. banks may have lent \$3-4 billion more to non-OPEC developing countries 1983-84 than is indicated by conventional procedures. These data help explain the fact that reported total U.S. bank claims on major Latin American borrowers increased by less than estimates of new lending arranged through the "non-spontaneous" lending packages.

VI. CONCLUSIONS

Lending by U.S. banks to developing countries was indeed sluggish in 1983 and 1984, but appears to have expanded somewhat more rapidly than indicated by conventional procedures for measuring new lending. During these two years the stock of U.S. bank loans to these countries has become more heavily concentrated at the largest banks, also has become increasingly concentrated towards the public sector of the borrowing countries.