

United States General Accounting Office

GAO

Fact Sheet for the Chairman,
Committee on Banking, Finance and
Urban Affairs, House of
Representatives

October 1989

INTERNATIONAL BANKING

Exposure to Less Developed Countries





United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-207990

October 16, 1989

The Honorable Henry B. Gonzalez
Chairman, Committee on Banking,
Finance and Urban Affairs
House of Representatives

Dear Mr. Chairman:

This fact sheet responds to part of your March 1, 1989 request that we present historical data on debt owed banks and governments in individual G-7 countries by the less developed countries (LDCs). The G-7 countries are the United States, Canada, United Kingdom, West Germany, France, Italy, and Japan.

The scope of this fact sheet is limited to presentation of available debt data, also called exposure, between June 1981 and December 1988. As agreed to with your office, we did not evaluate changes in the riskiness of banks over this time period, nor the relative riskiness of banks in one country compared to those in another. Evaluation of these issues would need to consider banks' capital levels, the riskiness of banks' domestic and foreign assets, and the effects of exchange rate changes on measuring exposure.¹

The Bank for International Settlements (BIS) which pioneered the collection of data on foreign lending of banks in much of the developed world, publishes two aggregate bank exposure series for groups of developed countries, the BIS quarterly series and the BIS semiannual series. Each country decides whether to publish all, part or none of its submissions to the BIS. Much of the data on the bank exposure of member G-7 countries that is publicly available conforms with either the BIS quarterly series or the BIS semiannual series. Some G-7 countries publish exposure data which does not conform with either series.

The BIS semiannual and quarterly series cannot be meaningfully compared to each other principally because they are based on different definitions of banks. Accordingly, we group bank exposure data published by each country based upon whether the data was prepared for inclusion in the BIS quarterly series or the BIS semiannual series or neither

¹For example, when foreign currency depreciates relative to the dollar, declines in dollar measures of non-dollar debt result. Thus banking systems which made LDC loans in currencies that depreciated the most relative to the dollar will tend to have the largest resulting declines in dollar measures of their exposure.

series. We also present exposure to the Baker 15 countries² because these countries comprise most of the heavily indebted LDCs. Data on bank exposure appears in appendix 1; data on government exposure appears in appendix 2. All exposure data is measured in (nominal) dollars.

BIS Quarterly Series

The BIS quarterly series is based on territorial considerations. The data cover foreign assets (and liabilities) of banking offices currently operating in a group of 24 reporting countries irrespective of the nationality of bank ownership.³ For example the submission of the United States, covers all bank operations in the United States whose foreign claims are over a certain threshold, including U.S. branches, agencies, and subsidiaries of foreign banks. The foreign bank components of the national submissions tend to be quite large.

LDC exposure of banks in the United States and in the United Kingdom (U.K.) for the June 1981 to December 1988 period based on submissions to the BIS quarterly series are depicted in figure 1.1; LDC exposure for banks in the entire BIS reporting region for this period are illustrated in figure 1.2. The United States and U.K. are the only G-7 countries which publicly disclose their submissions to this BIS series.

²The Baker 15 countries are Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Ivory Coast, Mexico, Morocco, Nigeria, Peru, Philippines, Uruguay, Venezuela, and Yugoslavia.

³The current reporting area for the BIS quarterly series, the BIS "reporting region," consists of 18 countries—the G-7 countries, Belgium, the Netherlands, Sweden, Switzerland, Luxembourg, Austria, Denmark, Ireland, Finland, Norway, and Spain—plus six offshore banking centers, the Bahamas, Bahrain, Cayman Islands, Hong Kong, the Netherlands Antilles, and Singapore.

Figure 1.1: U.S. and U.K. Bank Exposure to LDCs (Quarterly Submission)

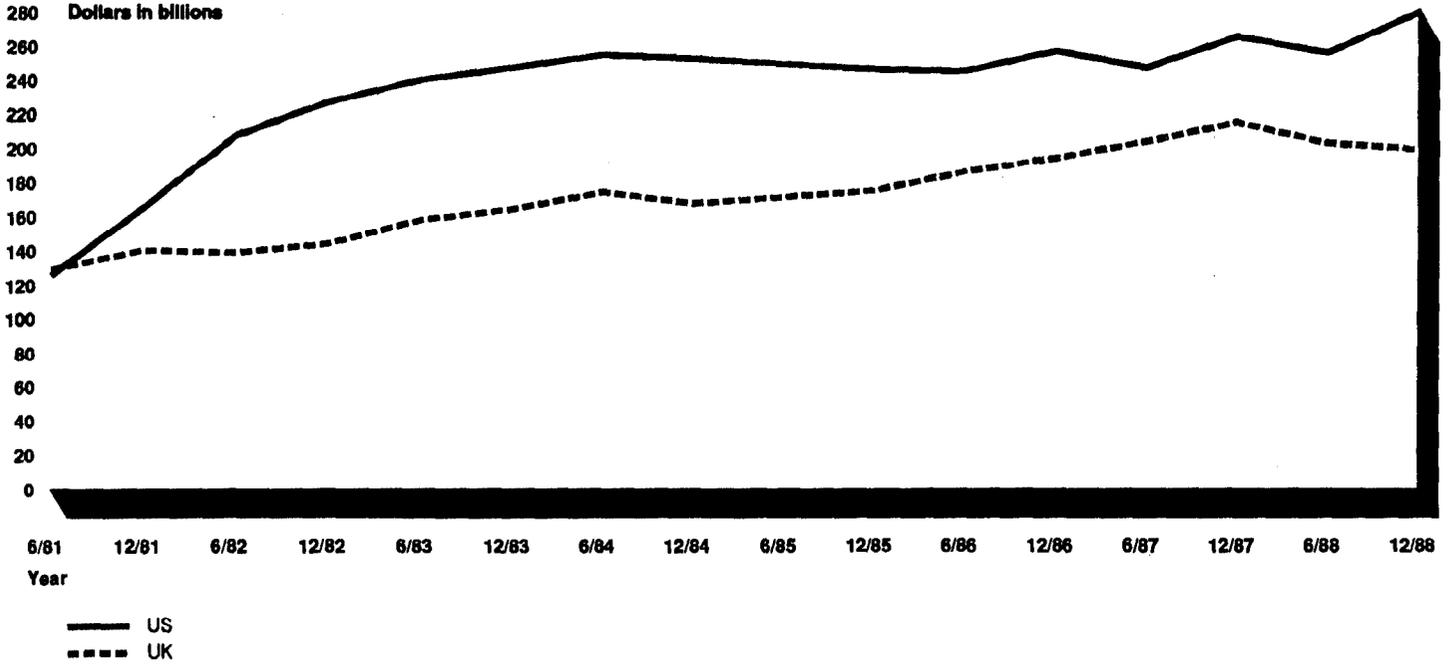
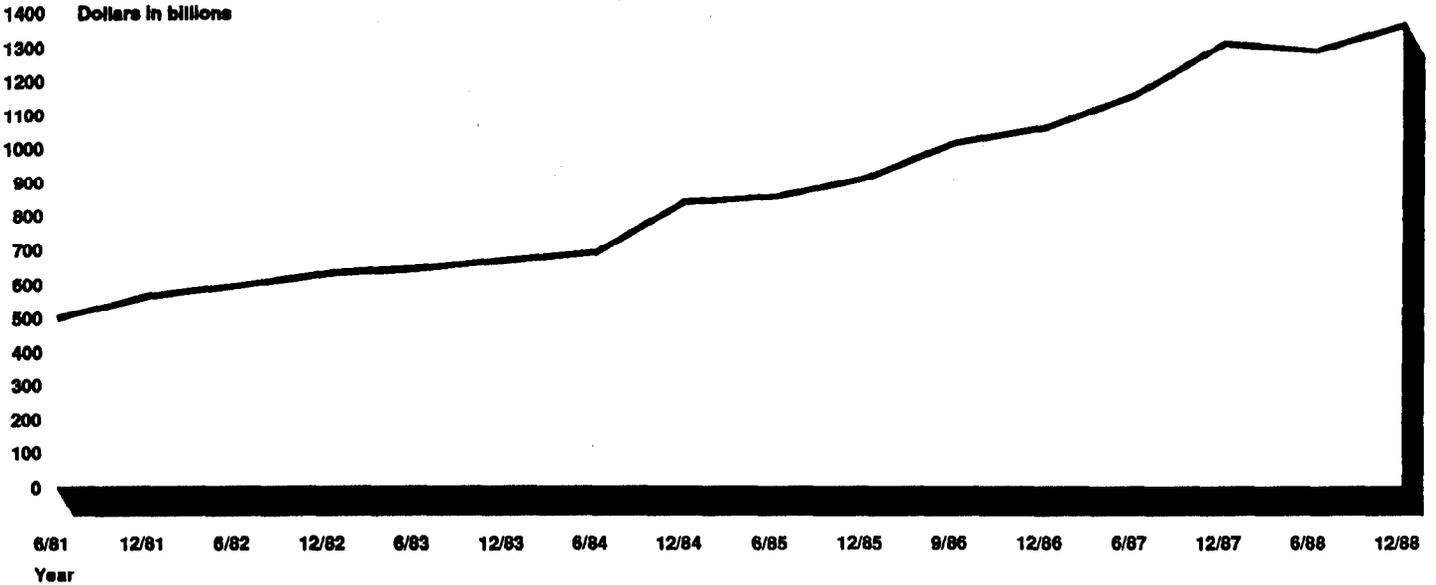


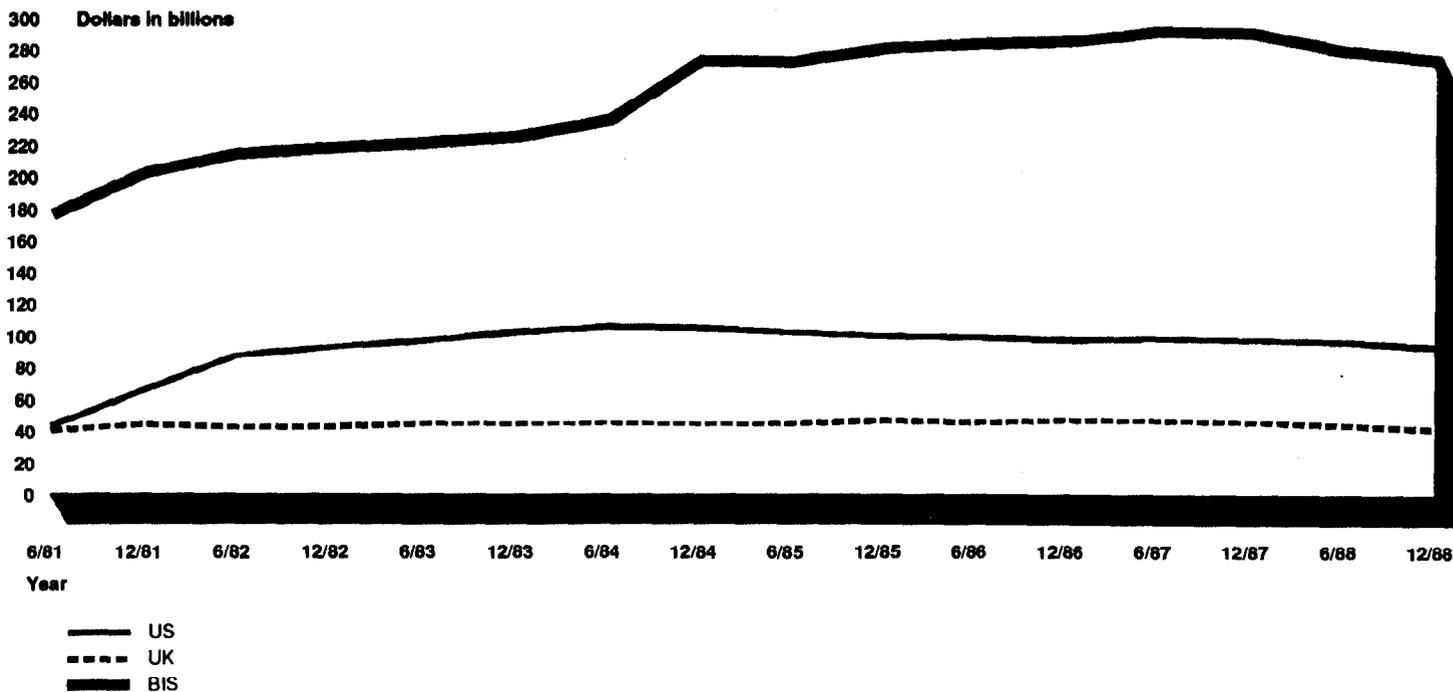
Figure 1.2: BIS Bank Exposure to LDCs (Quarterly Series)



During this June 1981 to December 1988 period, U.S. bank exposure to LDCs increased approximately 123 percent. This compares to a 173-percent increase for all reporting banks in the BIS quarterly series and a 55-percent increase for U.K. banks. Most of the increase for U.S. banks occurred during the June 1981 to June 1984 period, while the increase for banks in the U.K. and the entire BIS region were more evenly spread out throughout the June 1981 to December 1988 period. In December 1988, exposure to LDCs was \$1361.4 billion for BIS reporting banks, \$279.2 billion for U.S. banks and \$198.7 billion for U.K. banks.

Figure 1.3 shows the exposure to Baker 15 countries of banks in (1) the BIS reporting region, (2) United States, and (3) U.K. based on submissions to the BIS quarterly series for the June 1981 to December 1988 period. In the United States, bank exposure for 12 of the Baker 15 countries increased 142 percent until June 1984 then gradually declined. In the U.K., bank exposure to 14 of the Baker 15 countries fluctuated, but exhibited no trend over the period. In the entire BIS region, bank exposure increased 65 percent for the June 1981 to June 1987 period, after which it slowly declined. As of December 1988, exposure to the Baker 15 was \$274.1 billion for BIS reporting banks, \$93.4 billion for U.S. banks and \$41.6 billion for U.K. banks.

Figure 1.3: U.S., U.K., and BIS Bank Exposure to Baker 15 Countries (Quarterly Submission)



BIS Semiannual Series

Unlike the quarterly series, the BIS semiannual series is based on nationality considerations and consolidates banks on a worldwide basis. Data thus cannot be directly compared with the BIS quarterly series. For example, the U.S. submission, the Country Exposure Lending Survey, reports data on banks chartered in the United States including their branches and majority owned subsidiaries, no matter where they are located in the world. Claims between offices of the same U.S. bank are, however netted out. In addition to these consolidated claims, it includes unconsolidated claims of offices of banks headquartered outside the reporting area; i.e., the U.S. series includes U.S. offices of Mexican banks. The current reporting area for the BIS semiannual series is similar to the BIS quarterly series except the semiannual series excludes the six offshore banking centers that are currently included in the BIS quarterly series.

LDC exposure of U.S. and U.K. banks for the June 1981 to December 1988 period, French banks for the June 1986 to December 1987 period, and Italian banks for the December 1985 to June 1988 period, based on

submissions to the BIS semiannual series, are depicted in figure 1.4; Japanese, Canadian, and West German submissions to BIS series are not publicly available. The corresponding LDC exposure of banks in the entire BIS region for the June 1981 to June 1988 period is depicted in figure 1.5.

Figure 1.4: Bank Exposure to LDCs (Semiannual Submission)

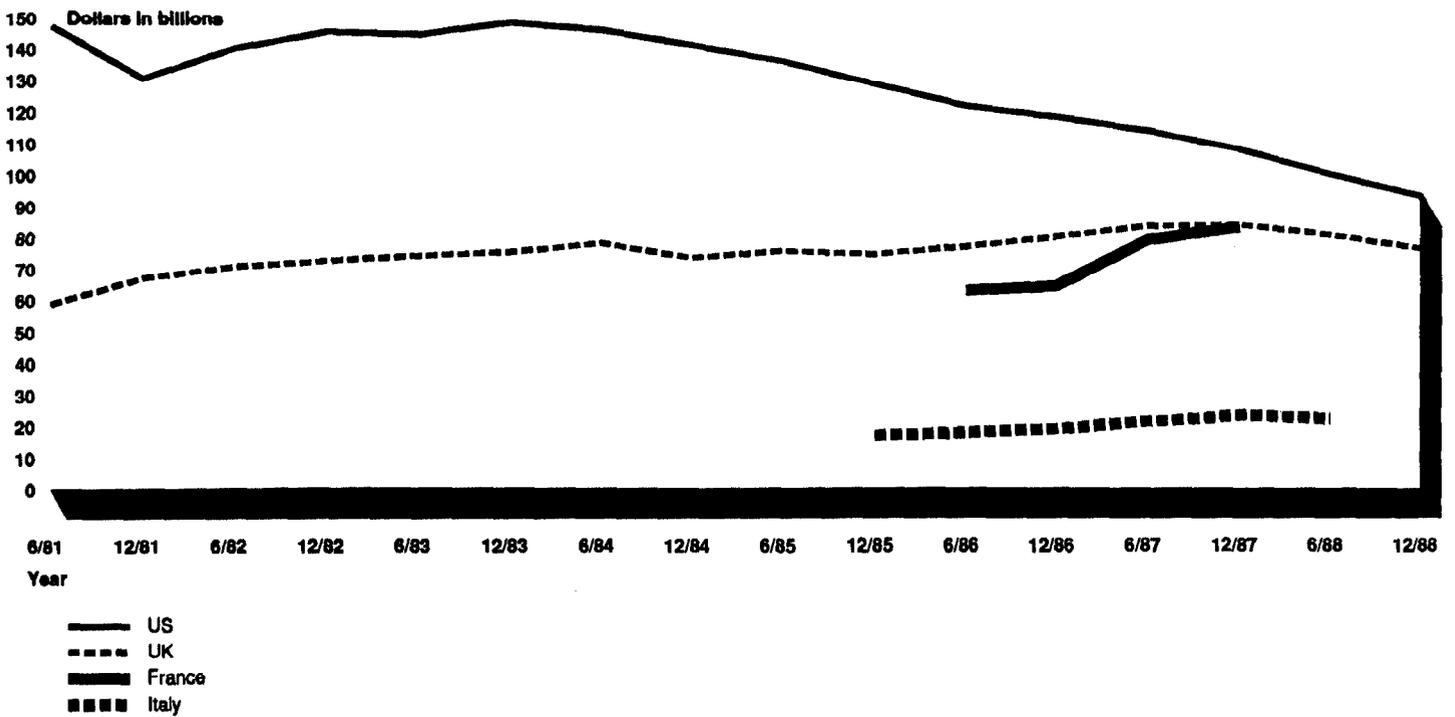
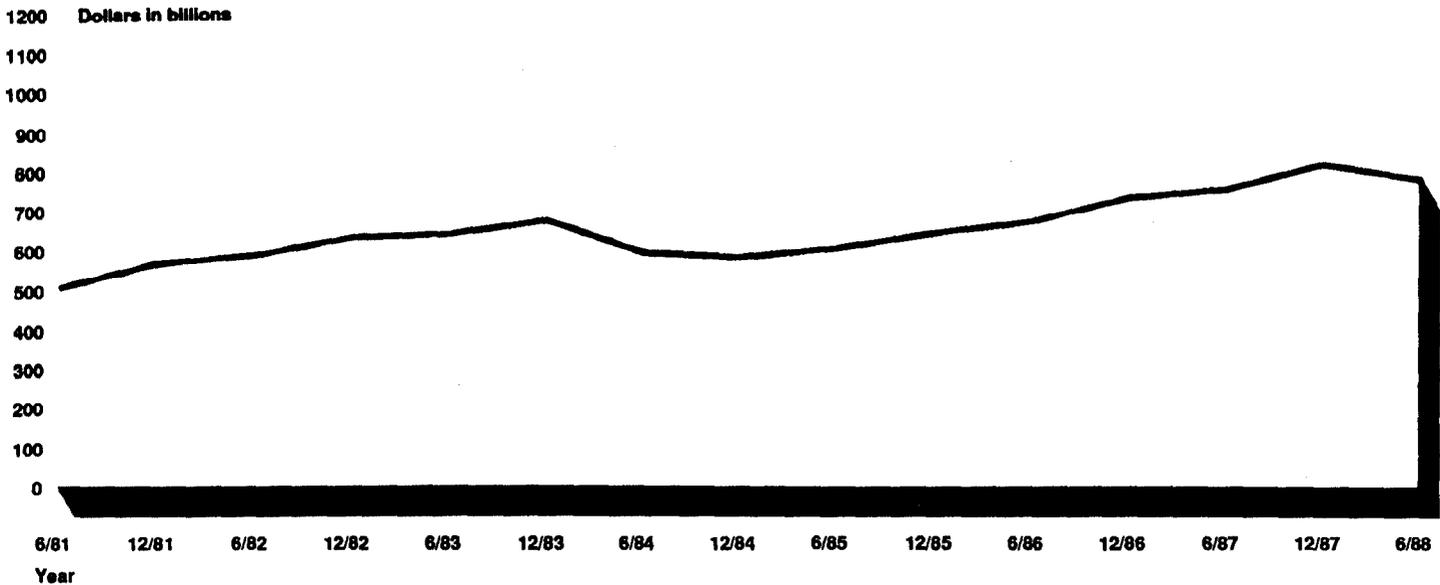


Figure 1.5: BIS Bank Exposure to LDCs (Semiannual Series)



U.S. bank exposure to LDCs initially declined, then increased during the June 1981 to June 1984 period; from June 1984 until December 1988, exposure to LDCs steadily declined; U.K. bank exposure to LDCs trended upwards until June 1987, then declined; BIS bank exposure increased 63 percent for the June 1981 to December 1987 period, then declined. Exposure of Italian banks increased 30 percent during the December 1985 to June 1988 period, while French bank exposure increased 32 percent during the June 1986 to December 1987 period. In December 1988, exposure to LDCs was \$92.9 billion for U.S. banks and \$76.3 billion for U.K. banks. Exposure was \$784.0 billion for all BIS reporting banks in June 1988, \$22.1 billion for Italian banks in June 1988, and \$82.9 billion for French banks in December 1987.

Corresponding bank exposures to the Baker 15 countries are shown in figures 1.6 and 1.7. U.S. bank exposure increased 33 percent until June 1984 then gradually declined through December 1988. In the U.K., bank exposure to the Baker 15 countries increased at the beginning and declined toward the end of the June 1981 to December 1988 period. French and Italian bank exposures to the Baker 15 countries appear to have remained relatively constant during the limited periods for which data are publicly available. Exposure of reporting banks to the BIS

varied but showed no long-term trend. In December 1988, exposure to the Baker 15 was \$70.0 billion for U.S. banks and \$32.4 billion for U.K. banks. Exposure was \$257.3 billion for BIS reporting banks and \$5.6 billion for Italian banks in June 1988. Exposure to 9 of the Baker of 5 countries was \$22.2 billion for French banks in December 1987.

Figure 1.6: Bank Exposure to Baker 15 Countries (Semiannual Submission)

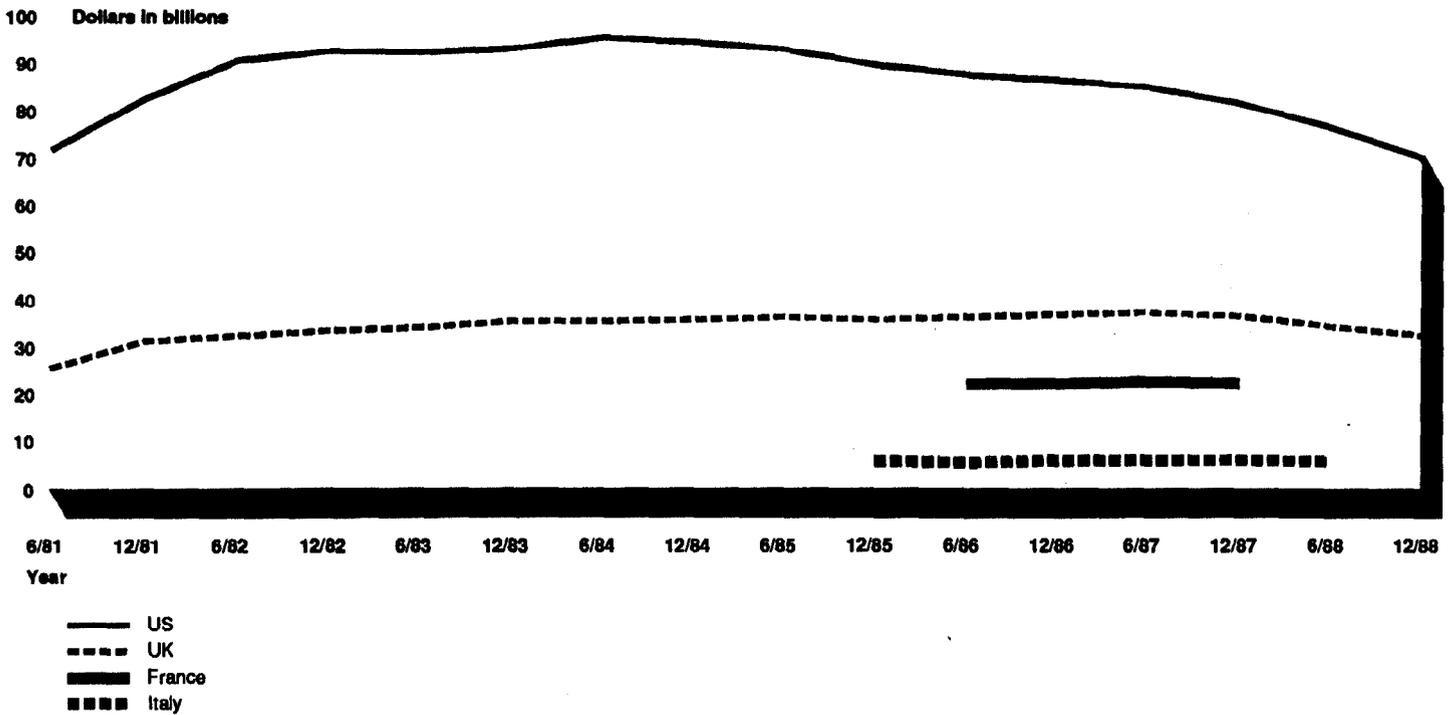
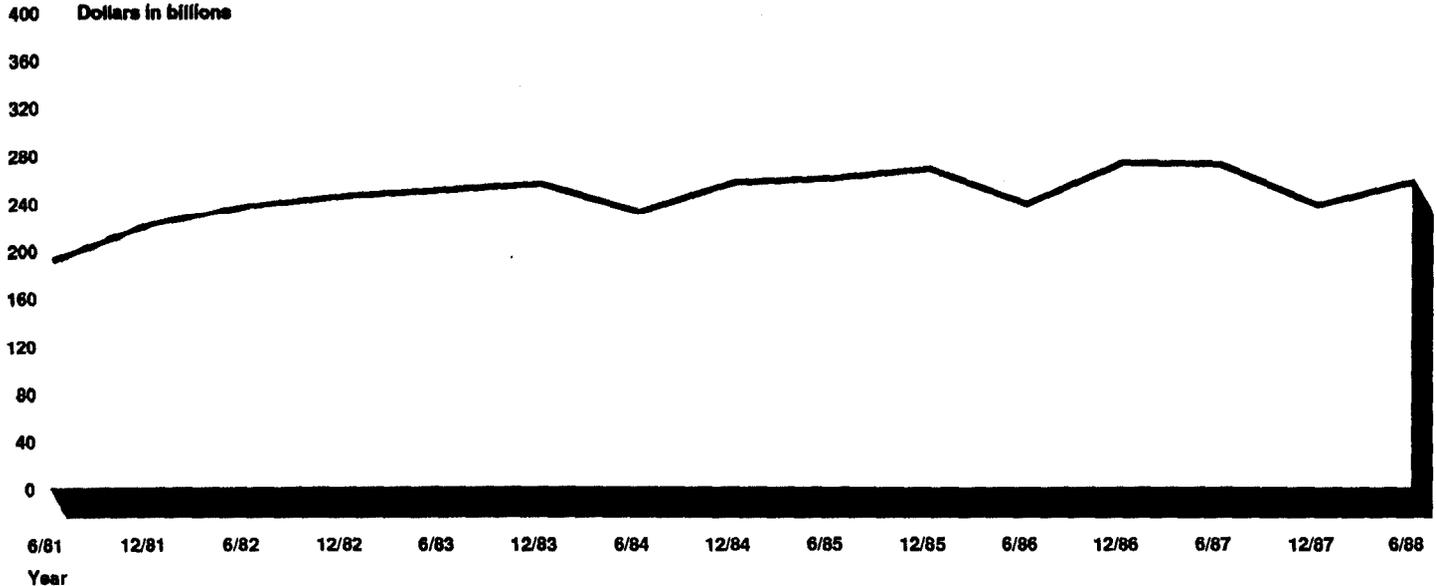


Figure 1.7: BIS Bank Exposure to Baker 15 Countries (Semiannual Series)



West German, Japanese, and Canadian Banks

West Germany's published statistics on aggregate LDC and Baker 15 countries' exposures, in addition to loans made by West German private banks, also include German public loans made through special reconstruction banks and other special financial institutions. LDC exposure steadily increased from \$20.5 billion in December 1981 to \$54.0 billion in December 1986, then declined to \$48.7 billion by September 1988. Exposure to Baker 15 countries increased from \$6.8 billion in December 1981 to \$15.3 billion in December 1987, then declined to \$13.7 billion in September 1988.

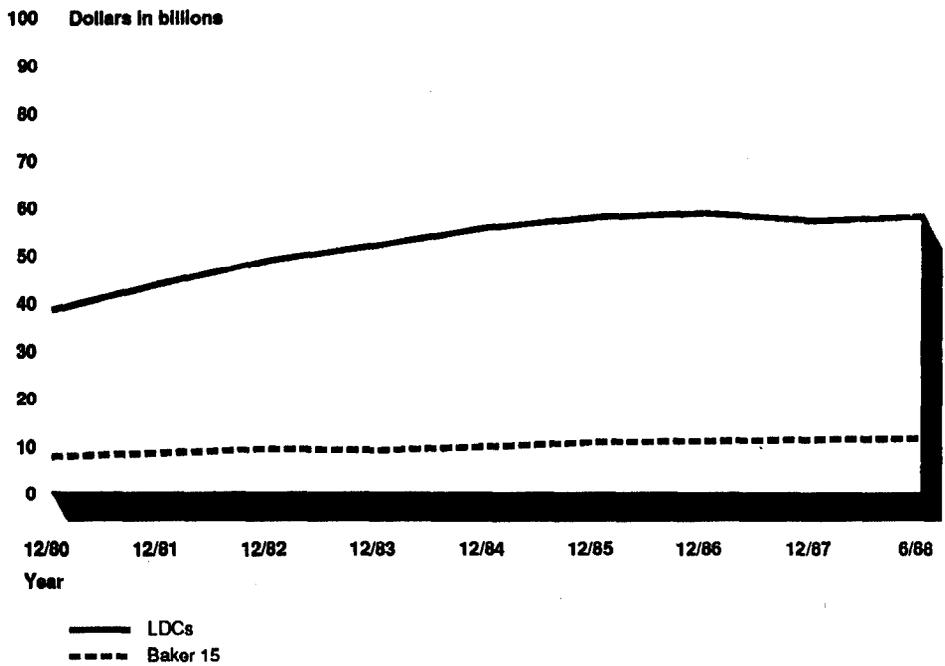
Available Japanese statistics measure the outstanding medium and long-term loans owed by LDCs to Japanese banks and insurance companies annually from December 1983 to September 1988. Consequently, they exclude exposure resulting from short-term loans and include exposure of insurance companies. LDC exposure steadily increased from \$38.0 billion in December 1983 to \$89.5 billion in September 1988.

Publicly available data on Canadian bank exposure to LDCs is limited. As of October 31, 1988, Canada's 6 largest banks had \$15.6 billion (in U.S. dollars) of exposure to 38 LDCs that were having financial difficulties.

Government Exposure

Exposure of the U.S. government to the LDCs and to the Baker 15 countries from December 1980 to June 1988 is depicted in figure 1.8. LDC exposure increased from \$38.3 billion in December 1980 to \$58.4 billion in December 1986, then declined slightly. Baker 15 exposure increased from \$7.6 billion in December 1980 to \$11.3 billion in June 1988. Additionally, the U.S. government has guaranteed \$21.3 billion in others' claims on LDCs and \$8.4 billion of others' claims on Baker 15 countries as of September 30, 1988.

Figure 1.8: U.S. Government Exposure to LDCs and Baker 15 Countries



Italy is the only other G-7 country with publicly available data on government exposure to the LDCs. Although exposure increased dramatically for the Italian government during the December 1985 to December 1988 period—950 percent for the Baker 15 countries and 274 percent for the LDCs—exposure for June 1988 was 6 percent or less of the corresponding U.S. government figures.

As agreed with your office, we plan no further distribution of this report until 10 days after its issuance date unless you release its contents earlier. At that time, we will provide copies to executive agencies, congressional committees and other interested parties.

The principal contributors to this fact sheet are James McDermott, assistant director, Berel Spivack, international economist, and Jon Garfinkel, evaluator. If you have any questions, please contact me at 275-4812.

Sincerely yours,

A handwritten signature in black ink that reads "Allan I. Mendelowitz". The signature is written in a cursive style with a large, stylized 'M' and 'I'.

Allan I. Mendelowitz, Director
Trade, Energy, and Finance Issues

Contents

Letter	1
Appendix I Bank Exposure of G-7 Countries	14
Appendix II Exposure of G-7 Governments	17
Figures	
Figure 1.1: U.S. and U.K. Bank Exposure to LDCs (Quarterly Submission)	3
Figure 1.2: BIS Bank Exposure to LDCs (Quarterly Series)	4
Figure 1.3: U.S., U.K., and BIS Bank Exposure to Baker 15 Countries (Quarterly Submission)	5
Figure 1.4: Bank Exposure to LDCs (Semiannual Submission)	6
Figure 1.5: BIS Bank Exposure to LDCs (Semiannual Series)	7
Figure 1.6: Bank Exposure to Baker 15 Countries (Semiannual Submission)	8
Figure 1.7: BIS Bank Exposure to Baker 15 Countries (Semiannual Series)	9
Figure 1.8: U.S. Government Exposure to LDCs and Baker 15 Countries	10

Abbreviations

BIS	Bank for International Settlements
LDC	less developed country

Bank Exposure of G-7 Countries

Dollars in billions

U.S. Banks

Submission to BIS Quarterly Series

	6/81	9/81	12/81	3/82	6/82	9/82	12/82	3/83
12 of Baker 15	\$43.4	\$47.2	\$66.0	\$75.2	\$87.7	\$91.1	\$92.8	\$94.8
LDCs	125.3	135.3	165.1	181.6	206.9	220.7	226.2	237.4
	6/83	9/83	12/83	3/84	6/84	9/84	12/84	3/85
12 of Baker 15	\$97.0	\$100.3	\$102.3	\$103.4	\$105.4	\$105.2	\$104.8	\$103.0
LDCs	239.4	236.6	246.5	243.7	254.0	245.2	251.6	245.9
	6/85	9/85	12/85	3/86	6/86	9/86	12/86	3/87
12 of Baker 15	\$102.3	\$102.1	\$100.3	\$99.9	\$99.6	\$98.9	\$99.1	\$99.3
LDCs	248.6	242.8	245.6	240.5	244.5	252.3	256.1	246.5
	6/87	9/87	12/87	3/88	6/88	9/88	12/88	
12 of Baker 15	\$98.8	\$99.9	\$98.0	\$97.2	\$96.9	\$94.3	\$93.4	
LDCs	246.5	259.9	265.0	260.6	255.4	266.6	279.2	

Submission to BIS Semiannual Series

	6/81	12/81	6/82	12/82	6/83	12/83	3/84	6/84
Baker 15	\$71.6	\$82.3	\$90.3	\$92.2	\$92.0	\$92.8	\$94.2	\$95.2
LDCs	147.0	130.1	139.7	145.0	144.1	147.8	146.2	145.4
	9/84	12/84	3/85	6/85	9/85	12/85	3/86	6/86
Baker 15	\$94.7	\$94.2	\$93.7	\$92.6	\$90.0	\$89.3	\$88.0	\$87.3
LDCs	140.9	140.6	138.4	135.3	129.7	128.1	125.0	121.2
	9/86	12/86	3/87	6/87	9/87	12/87	3/88	6/88
Baker 15	\$85.9	\$86.2	\$85.5	\$84.8	\$83.4	\$81.4	\$79.0	\$76.3
LDCs	118.0	117.8	114.6	113.5	109.5	107.6	103.1	99.7
	9/88	12/88						
Baker 15	\$72.8	\$70.0						
LDC	95.4	92.9						

(continued)

**Appendix I
Bank Exposure of G-7 Countries**

U.K. Banks

Submission to BIS Quarterly Series

	6/81	9/81	12/81	3/82	6/82	9/82	12/82	3/83
13 of Baker 15	\$40.4	\$42.6	\$44.3	\$44.3	\$42.3	\$42.0	\$42.4	\$45.3
LDCs	128.6	134.7	139.7	142.6	138.3	146.4	143.6	152.9
	6/83	9/83	12/83	3/84	6/84	9/84	12/84	3/85
13 of Baker 15	\$44.9	\$44.1	\$44.6	\$45.1	\$45.1	\$44.7	\$44.7	\$44.8
LDCs	157.5	159.6	163.9	163.5	173.6	170.4	167.0	167.6
	6/85	9/85	12/85	3/86	6/86	9/86	12/86	3/87
13 of Baker 15	\$45.0	\$47.3	\$47.4	\$46.6	\$46.2	\$46.1	\$47.5	\$47.2
LDCs	170.8	171.4	174.7	175.9	185.6	194.0	193.5	200.3
	6/87	9/87	12/87	3/88	6/88	9/88	12/88	
13 of Baker 15	\$47.1	\$46.4	\$46.2	\$45.5	\$44.1	\$42.2	\$41.6	
LDCs	203.4	206.0	214.4	207.7	202.5	201.5	198.7	

Submission to BIS Semiannual Series

	6/81	12/81	6/82	12/82	6/83	12/83	6/84	12/84
Baker 15	\$25.5	\$31.1	\$32.2	\$33.2	\$33.9	\$35.2	\$35.2	\$35.5
LDCs	58.5	66.7	70.4	72.2	73.9	75.0	77.9	73.1
	6/85	12/85	6/86	12/86	6/87	12/87	6/88	12/88
Baker 15	\$36.0	\$35.5	\$36.1	\$36.7	\$37.1	\$36.4	\$34.3	\$32.4
LDCs	75.4	74.4	76.9	79.9	83.3	83.7	80.5	76.3

BIS Banks

BIS Quarterly Series

	6/81	9/81	12/81	3/82	6/82	9/82	12/82	
Baker 15	\$176.6	\$187.9	\$202.5	\$205.8	\$214.6	\$216.0	\$217.9	
LDCs	498.3	527.4	562.4	573.4	592.8	617.9	627.6	
	3/83	6/83	9/83	12/83	3/84	6/84	9/84	12/84
Baker 15	\$219.3	\$221.1	\$222.0	\$224.9	\$235.0	\$235.4	\$273.9	\$272.9
LDCs	632.7	641.2	647.5	665.3	676.2	687.7	826.3	837.9

(continued)

**Appendix I
Bank Exposure of G-7 Countries**

	3/85	6/85	9/85	12/85	3/86	6/86	9/86	12/86
Baker 15	\$272.5	\$272.2	\$277.8	\$280.7	\$280.3	\$282.6	\$283.9	\$285.4
LDCs	853.2	853.1	877.4	909.1	922.9	960.5	1013.7	1058.2

	3/87	6/87	9/87	12/87	3/88	6/88	9/88	12/88
Baker 15	\$288.9	\$291.8	\$286.3	\$290.9	\$284.5	\$279.4	\$274.2	\$274.1
LDCs	1117.4	1156.0	1212.4	1309.1	1307.9	1286.0	1337.5	1361.4

BIS Semiannual Series

	6/81	12/81	6/82	12/82	6/83	12/83	6/84	12/84
Baker 15	\$191.0	\$221.5	\$236.5	\$244.9	\$249.7	\$255.0	\$231.5	\$256.3
LDCs	505.6	567.4	587.8	631.6	641.4	674.4	594.4	581.9

	6/85	12/85	6/86	12/86	6/87	12/87	6/88
Baker 15	\$259.7	\$267.9	\$238.7	\$273.1	\$272.1	\$237.9	\$257.3
LDCs	604.8	643.7	674.0	736.4	757.6	822.2	784.0

Italian Banks

Submission to BIS Semiannual Series

	12/85	6/86	12/86	6/87	12/87	6/88
Baker 15	\$5.7	\$5.4	\$5.8	\$5.8	\$5.9	\$5.6
LDCs	17.0	17.7	19.0	21.2	23.1	22.1

French Banks

Submission to BIS Semiannual Series

	6/86	12/86	6/87	12/87
9 of Baker 15	\$22.0	\$22.1	\$22.5	\$22.2
LDCs	62.6	64.2	78.9	82.9

West German Banks^a

	12/81	12/82	12/83	12/84	12/85	12/86	12/87	9/88
Baker 15	\$6.8	\$7.5	\$7.6	\$7.0	\$10.1	\$12.9	\$15.3	\$13.7
LDCs	20.5	22.0	22.5	22.4	30.7	42.3	54.0	48.7

Japanese Banks and Insurance Companies^b

	12/83	12/84	12/85	12/86	12/87	9/88
LDCs	\$38.0	\$45.5	\$49.9	\$65.5	\$77.0	\$89.5

^aThis data is not submitted to BIS.

^bThis data is not submitted to BIS; resulted from medium and long-term loans.

Exposure of G-7 Governments

Dollars in billions

United States

	12/80	12/81	12/82	12/83	12/84	12/85	12/86	12/87	6/88
Baker 15	\$7.6	\$8.4	\$9.2	\$8.9	\$9.6	\$10.5	\$10.7	\$11.1	\$11.3
LDCs	38.3	43.8	48.6	51.9	55.5	57.7	58.4	56.9	57.8

Italy

	12/85	12/86	12/87	12/88
Baker 15	\$0.04	\$0.05	\$0.17	\$0.42
LDCs	0.93	1.00	2.91	3.48

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