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THE INTERNATIONAL FINANCIAL ROLE OF U.S. COMMERCIAL BANKS: Past and Future*

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The heyday of overseas banking already has passed for U.S. institutions and, according to this paper, the international financial role played by American banks is likely to be diminished still further in coming years. Recent trends in international lending to various groups of countries are examined as are the available data on the profitability and risk attached to overseas exposures. Looking towards the future, the paper reviews the outlook for profit opportunities, capital adequacy, and country risk concentration and it concludes that these factors probably will impose limits to banking growth that may well curtail, for instance, the recycling role formerly (and successfully) played by U.S.-chartered banks.

1. Introduction

Much has been written about the explosive growth of international lending by American banks ever since the early 1960's, and its principal causes are well known: the existence of legal restrictions on interstate banking, which prompted large banks to seek expansion through overseas activities; the rise of multinational corporations and the resulting demand for international banking services; the emergence of the Eurodollar market, with an appeal rooted in its relative freedom from government regulation and control; and, finally, the large-scale creation of petrodollar deposits on the part of the OPEC countries and the simultaneous demand for sizeable loans to oil-consuming nations, which suddenly plunged commercial banks into the recycling business.[1] What is not adequately documented or widely understood, however, is that for U.S. institutions the heyday of overseas banking has already passed, and that their international financial role is likely to be a diminished one in the years ahead. This paper summarizes the available evidence on the first point and attempts to build a case to support the latter contention.

2. Recent trends

The Eurocurrency market, which is the medium utilized by most international borrowers and lenders, has continued to expand very rapidly

*The opinions expressed here are the author's own.

[1]See, for instance, Angelini et al. (1979), Sterling (1979), and U.S. Congress (1979).

during the past several years. Its overall (or gross) size is estimated to have risen from $565 billion at the end of 1976 to $1,155 billion as of December 1979, or by an annual average rate of 27% — somewhat faster than the yearly average rate of 23% which characterized the 1973–1976 period. Its net size (namely, after removal of inter-bank transactions) has grown by a similarly high rate of 25% per year since end-1976, from about $310 billion to approximately $600 billion as of end-1979 — which is the same rate of expansion observed during 1973–1976.[2] While it is estimated that Eurodollars have continued to account for an unchanged share (i.e., three-quarters) of total deposits in this multi-currency pool, this statistic provides no evidence of the relative importance of U.S. banks (as represented by their branches in Europe, Asia, and various offshore banking centers) within the Eurocurrency market.

That information can be gathered, instead, from more comprehensive data sources that include the activities of both the home and foreign offices of U.S.-chartered banks as well as those of banks located in fourteen other countries. The Bank for International Settlements collects statistics on the external assets and liabilities of banks operating in Canada, Japan, the United States, and twelve Western European countries, as well as of U.S. bank branches in five offshore banking centers.[3] These data can then be compared with newly-published series by the Federal Reserve System on international lending by U.S.-chartered banks (which includes both their domestic offices and foreign branches).[4] After proper adjustment is made for several definitional and conceptual differences, the changing role played by U.S. commercial banks in the international arena can be quantified.[5] (See table 1.)

The figures show that international lending by all institutions reporting to the Bank for International Settlements has grown at virtually the same rate as the Eurocurrency market (namely, an average of 26% per annum during 1976–1979).[6] However, lending by U.S. banks has increased half as fast, and

[2]Morgan Guaranty Trust Company of New York (1980).

[3]The Western European countries covered are Belgium, France, Germany, Italy, Luxembourg, the Netherlands, Sweden, Switzerland, the United Kingdom and, since December of 1977, Austria, Denmark, and Ireland. The five offshore banking centers are the Bahamas, Cayman Islands, Panama, Hong Kong, and Singapore. The Bank for International Settlements data are made public on a quarterly basis.

[4]The U.S. bank data appear in Table 3.20 of each issue of the Federal Reserve Bulletin, beginning with the June 1979 issue.

[5]To allow full comparability between the Bank for International Settlements and the Federal Reserve data, one must (1) shift Yugoslavia, New Zealand, and Liberia to new categories, (2) restore intrabank claims for U.S. banks, (3) remove claims held by the foreign branches of U.S. banks on local customers, since such claims are not covered by the B.I.S. data, and (4) exclude claims held by U.S. bank branches outside the B.I.S. reporting area. A first analysis along these lines appears in Mills (1980).

[6]The growth rate in total international lending probably was marginally lower (i.e., around 24% per annum) if proper allowance is made for the post-1976 inclusion of banks in Austria, Denmark, and Ireland into the Bank for International Settlements reporting system.

Table 1
Outstanding international claims of commercial banks reporting to the Bank for International Settlements (in billions of dollars).[a, b]

Claims on	Dec. 1975	Dec. 1976	Dec. 1977	Dec. 1978	Dec. 1979
(1) *G-10 countries and Switzerland*[c]	*204*	*236*	*291*	*387*	*472*
Non-U.S. banks	150	171	217	302	380
U.S. banks	55	65	73	84	92
U.S. share	27%	28%	25%	22%	20%
(2) *Offshore banking centres*	*58*	*79*	*93*	*117*	*149*
Non-U.S. banks	24	28	35	51	73
U.S. banks	34	51	59	66	776
U.S. share	59%	65%	63%	57%	51%
(3) *Smaller developed countries*[d]	*38*	*51*	*71*	*84*	*98*
Non-U.S. banks	28	37	55	67	79
U.S. banks	10	14	16	18	19
U.S. share	27%	27%	22%	21%	20%
(4) *Oil-exporting countries*	*14*	*24*	*39*	*56*	*64*
Non-U.S. banks	7	11	19	35	44
U.S. banks	7	13	20	22	20
U.S. share	52%	53%	51%	39%	32%
(5) *Non-oil developing countries*	*63*	*81*	*99*	*122*	*159*
Non-U.S. banks	29	39	52	72	100
U.S. banks	34	42	47	50	59
U.S. share	54%	52%	48%	41%	37%
(6) *Eastern European countries*[e]	*23*	*32*	*42*	*53*	*63*
Non-U.S. banks	20	27	36	47	56
U.S. banks	3	5	6	6	7
U.S. share	14%	15%	14%	11%	11%
(7) *Miscellaneous and unallocated*[f]	*9*	*11*	*15*	*19*	*24*
Non-U.S. banks	4	6	10	11	12
U.S. banks	5	5	5	8	12
U.S. share	54%	50%	35%	43%	49%
(8) *World total*[c]	*411*	*514*	*650*	*839*	*1,029*
Non-U.S. banks	263	319	424	584	744
U.S. banks	148	195	226	255	285
U.S. share	36%	38%	35%	30%	28%

[a]*Source*: Board of Governors of the Federal Reserve System.
[b]Figures may not add up to totals because of rounding. Shares were computed from unrounded numbers. Data for 1977–1979 are not strictly comparable with data for 1975–1976.
[c]Excludes claims on the U.S.
[d]Other Western European countries plus Australia, South Africa, and Turkey.
[e]Includes Yugoslavia.
[f]Includes Liberia and New Zealand.

thus their share has fallen from a peak of 38% of the international market in 1976 to a low of 28% as of end-1979. As was true at the height of their international involvement, the bulk of U.S. bank lending continues to be directed towards Canada, Japan, and the principal European countries, while

the least significant overseas exposure (in absolute as well as in relative terms) is that to Eastern European nations. U.S. bank claims on the traditional oil-exporting countries (i.e., OPEC members plus Bahrain and Oman) have grown the fastest but, still, lending by banks chartered elsewhere has risen so rapidly since 1976 that market share has been lost even in this set of countries. In non-oil developing countries — a category which includes several oil-producing countries and even some new oil exporters such as Mexico and Peru — American banks presently account for less than 40% of total claims, as opposed to nearly 55% in 1975.

Table 2
Outstanding international claims of commercial banks reporting to the Bank for International Settlements on non-oil developing countries (in billions of dollars).[a,b]

	December of 1976			December of 1979		
Claims on	Total	U.S. Banks	U.S. Share	Total	U.S. Banks	U.S. Share
Non-oil developing countries	*80.9*	*41.9*	*52%*	*158.8*	*59.2*	*37%*
Argentina	3.4	1.9	57%	13.1	5.1	39%
Brazil	21.2	10.9	52%	36.9	14.2	39%
Chile	1.1	0.8	72%	4.5	2.5	56%
Colombia	1.6	1.3	77%	3.5	2.2	64%
Mexico	17.9	11.7	66%	30.7	12.2	40%
Peru	2.8	1.8	62%	3.6	1.5	41%
Malaysia	1.0	0.5	50%	1.9	0.7	38%
Philippines	2.6	2.0	76%	5.4	3.0	56%
South Korea	3.9	3.0	77%	10.3	5.3	51%
Taiwan	2.6	2.0	77%	4.2	3.1	74%
Thailand	1.4	0.6	41%	3.0	1.6	51%
Egypt	1.2	0.4	30%	2.1	0.6	27%
India	0.5	0.2	52%	0.9	0.2	28%
Israel	2.5	1.0	39%	4.6	1.3	29%
Morocco	0.5	0.2	34%	2.8	0.3	10%
Zaire	0.8	0.3	31%	1.2	0.2	18%
Others	15.8	3.7	23%	30.4	5.2	17%

[a]*Source*: Board of Governors of the Federal Reserve System.

[b]Figures may not add up to totals because of rounding. Shares were computed from unrounded numbers. Data for 1979 are not strictly comparable with data for 1976.

The much-debated involvement of commercial banks in developing countries merits some additional quantification. (See table 2.) The available data reveal that the presence of U.S. banks has been and remains heavily concentrated in six countries that account for over 70% of total American claims on non-oil developing nations: Brazil, Mexico, South Korea, Argentina, Taiwan, and the Philippines. In the case of non-U.S. banks, lending to LDCs has become increasingly centered on this same sub-group,

although as of December 1979 the six countries still represented less than 60% of the total exposure of non-U.S. institutions. American banks have lost considerable market share (twenty percentage points or more) in Mexico, Peru, and South Korea, but have managed to hold their relative position in Taiwan and to enhance it in Thailand. Overall, their involvement is quite minor versus that of, say, European banks, in lower-income African countries such as Zaire.

Table 3
Return on domestic and international assets at ten largest U.S. commercial banks.[a]

	1976 Return on assets		1979 Return on assets	
	Domestic	International	Domestic	International
Citicorp	0.4%	0.8%	0.5%	0.5%
BankAmerica	0.1%	0.4%	0.7%	0.6%
Chase Manhattan	0.4%	0.5%	0.5%	0.45%
Manufacturers Hanover	0.3%	0.6%	0.4%	0.5%
J.P. Morgan	0.7%	0.7%	0.7%	0.7%
Chemical New York	0.3%	0.4%	0.4%	0.3%
Bankers Trust New York	0.2%	0.4%	0.3%	0.4%
Continental Illinois	0.6%	0.2%	0.7%	0.3%
First Chicago	0.7%	0.45%	0.7%	0.03%
Security Pacific	0.6%	0.1%	0.7%	0.35%
Weighted average	0.40%	0.52%	0.57%	0.44%

[a]*Source*: Salomon Brothers.

The slower growth of overseas lending on the part of the U.S. banking community has been motivated primarily by a sharp drop in the profitability of foreign operations, and this becomes evident from an examination of the financial statements of the ten internationally most active American banks. (See table 3.) In 1976, for example, the profit margin on domestic assets averaged 0.40% while the return on international assets was 0.52%.[7] Since that time, however, falling spreads on loans to virtually all foreign borrowers have helped to reverse the banks' profit picture, with returns on international assets dropping gradually to 0.44% in 1979. Margins on domestic assets, for several reasons, have meanwhile risen to 0.57%. And yet, apparently it has been quite difficult for the ten large banks to switch their portfolio composition accordingly: during 1976–1979, it is estimated that the growth of international assets proceeded at an average annual rate of 18% — much faster than the 11% yearly average rate of domestic asset expansion.[8]

[7]Salomon Brothers (1980) estimates that in 1975, at the bottom of the U.S. recession and when spreads on international loans were very high, the profit margin on domestic assets averaged 0.39% and the return on international assets was 0.67%.

[8]The available data on loans to foreign versus domestic clients, however, show that during 1976–1979 the former increased at an annual average rate of 16% while the latter expanded at a yearly average rate of 15%. This suggests that the banks' response was much quicker than that revealed by changes in the distribution of their total assets.

Nevertheless, the negative impact on earnings of this deterioration in the absolute as well as the relative profitability of foreign operations has more than offset the positive effect of faster-growing international assets. Consequently, the contribution of international earnings to total bank earnings has tended to decline from a record high of 52% in 1975 to a low of 43% in 1979. (See table 4.) During 1976–1979, the overseas earnings of the ten largest banks have increased by about 11% per annum (versus 20% yearly during 1973-1976), which contrasts with domestic earnings growth of approximately 24% per year.

Table 4
International earnings of ten largest U.S. commercial banks (as a % of total earnings).[a]

	1975	1976	1977	1978	1979
Citicorp	71%	72%	82%	72%	65%
BankAmerica	55%	47%	42%	35%	38%
Chase Manhattan	64%	78%	65%	53%	47%
Manufacturers Hanover	47%	59%	60%	51%	49%
J.P. Morgan	60%	46%	48%	51%	52%
Chemical New York	41%	41%	39%	42%	35%
Bankers Trust New York	59%	61%	83%	68%	51%
Continental Illinois	14%	23%	17%	18%	18%
First Chicago	33%	15%	20%	16%	4%
Security Pacific	12%	7%	12%	15%	10%
Weighted average	52%	51%	51%	46%	43%

[a]*Source*: Salomon Brothers.

No analysis of international versus domestic profitability is complete, however, unless reference is made to the risks entailed by each type of asset concentration. A first measure of risk is provided by the banks' actual record of international and domestic loan losses net of recoveries. For the ten institutions in our sample, domestic net loan write-offs have been declining steadily during the past five years, from a high of $1.1 billion in 1975 to half as much in 1979. On the international front, losses peaked at about $300 million in 1977 and subsequently also declined to almost half that amount by 1979. As a percent of total, therefore, international net loan write-offs first rose to 29% in 1977 and then fell to 22% in 1979, averaging 23% for the five-year period as a whole. (See table 5.) These percentages are certainly very low when compared to either the share of international assets in the banks' total assets (an average of 45% during 1975–1979), or the proportion accounted by international earnings (an average of 48% of total earnings during the same five-year period). Assuming, for the moment, that these statistics provide some approximation of relative risks, their magnitude strongly suggests that the lower profitability derived from international operations is perhaps a proper reflection of their lower risk.

Table 5
Net international loan losses of ten largest U.S. commercial banks (as a % of total net loan losses).[a]

	1975	1976	1977	1978	1979
Citicorp	33%	46%	41%	46%	13%
BankAmerica	5%	18%	51%	25%	44%
Chase Manhattan	11%	35%	51%	39%	42%
Manufacturers Hanover	1%	[b]	1%	14%	23%
J.P. Morgan	7%	15%	17%	25%	[b]
Chemical New York	2%	3%	12%	7%	[b]
Bankers Trust New York	4%	9%	7%	[b]	9%
Continental Illinois	10%	6%	10%	20%	29%
First Chicago	5%	8%	13%	17%	[b]
Security Pacific	13%	26%	11%	9%	[b]
Weighted average	13%	23%	29%	26%	22%

[a]*Source*: Salomon Brothers.
[b]Not meaningful because of net international or total loan recoveries.

Some may argue, however, that the banks' international loan loss experience, which is an aggregate for all foreign countries, is not sufficiently revealing because it lumps together losses sustained in very diverse countries. The available statistics released by individual banks do not permit any meaningful disaggregation, but there exists an alternative data base which does: an annual survey of over one-hundred U.S. banks carried out by Robert Morris Associates and which asks respondents to identify five countries in which the largest international loan charge-offs were incurred.[9] When the cumulative loss totals for 1975–1979 are compiled, it becomes evident that the almost $700 million in write-offs indeed are not distributed in an even manner. For example, the more industrial, Western European economies tend to have a proportionally higher loss record than do the less developed countries. While the exposure of U.S. banks to the six major industrial countries listed in table 6 has been about 40% greater than their exposure to the six most important borrowers among the non-oil developing countries (Brazil, Mexico, South Korea, Argentina, Taiwan, and the Philippines), the loss experience in the former group is 60% larger. A comparison of loan losses in the five smaller developed countries identified in the same table perhaps is distorted by charge-offs to shipping concerns located in Greece and Norway. Still, it is noteworthy that although U.S. bank claims on this group have been roughly one-quarter the size of claims on the six key non-oil developing countries, write-offs due to the former have surpassed losses in the latter by around 10%.

[9]This survey, of course, tends to undercount many developing countries where loan losses are of insufficient size to warrant inclusion among the top five countries.

Table 6
Principal international loan charge-offs of U.S. commercial banks (in millions of dollars).[a]

	Cumulative totals for 1975–1979
G-10 countries and Switzerland[b]	
United Kingdom	100.8
West Germany	25.2
Belgium	12.5
France	11.7
Switzerland	8.5
Italy	8.3
Smaller developed countries	
Greece	44.9
Australia	31.3
Spain	16.2
Norway	12.9
Austria	5.7
Oil-exporting countries	
Iran	11.4[c]
Venezuela	6.2
Indonesia	3.0
Nigeria	1.0
Non-oil developing countries	
Mexico	56.4
Brazil	27.6
Nicaragua	25.7[c]
Costa Rica	7.2
Taiwan	7.1
Argentina	5.4
Zaire	4.8[c]
Guatemala	4.5
Thailand	3.4
India	3.2

[a]*Source*: Robert Morris Associates.
[b]Excludes the United States.
[c]Includes charge-offs to governments, government agencies, and government-owned banks.

The problem is that statistics on international loan losses, in fact, cannot serve as adequate indicators of the risks entailed in lending to developing countries. Over two-thirds of that lending is directed at governments, state-owned corporations, official banks, and publicly-guaranteed private enterprises. When these borrowers encounter debt-servicing difficulties, the banks usually cannot resort to local courts and force a liquidation of their assets. Thus, it is not easy for the banks to determine how much exposure they should declare as lost. Also, adverse economic or political circumstances of a

temporary nature sometimes prevent private-sector borrowers from securing the foreign exchange they need to meet foreign-currency obligations. This too complicates charge-off decisions. Under both sets of circumstances, banks prefer to grant various forms of debt relief (e.g., through reschedulings, refinancings, or balance-of-payments support loans), as they did during 1975–1979 in the cases of Argentina, Peru, Turkey, or Zaire.[10] Such debt relief has an impact on the quality and earnings potential of banks' foreign portfolios, but this is not apparent from the trend in loan loss statistics.

3. The outlook

There can be little doubt that, in the years ahead, U.S. commercial banks will continue to play an active and visible role in the international financial scene. At the same time, however, it is highly improbable that they will regain the leadership position they held in the first half of the 1970's. In fact, it is unlikely that they will recuperate any of the market share they lost during the second half of the 1970's to banks in Canada, Japan, and Western Europe. The reasons are twofold: there are obstacles to the growth of U.S. banks' total assets generally, and there are constraints affecting their international asset expansion in particular.

The willingness of banks in the United States to accelerate or decelerate their deposit-taking and lending activities traditionally has been related to the outlook for profit opportunities and to the expected evolution of the banks' capital base. At the present time, the future is not a bright one on either count. Domestically, American banks — and especially the largest among them — face two major challenges: one is the growth of non-bank financial intermediation (especially via the commercial paper market), and another is the expansion of domestic lending on the part of the many foreign banks now operating within the United States. Both have reduced the share held by U.S. banks of the market for short- and medium-term corporate lending, and both cloud the prospects for rapid or profitable expansion of domestic assets in the future. Internationally, meanwhile, U.S banks face a very competitive market where numerous relatively less exposed, less supervised, and less experienced foreign financial institutions vie for the available business. As detailed below, in the international arena the road to substantial asset expansion appears to run only through areas where profit opportunities are somewhat above average but where the risks are considerably greater.

The relative size of the capital base of the internationally most active U.S. banks is also a limiting factor. In the past four years, asset expansion at an annual average rate of 14% has tended to outstrip the growth of equity capital, and thus the capital ratios of the ten leading banks have continued

[10]For a detailed analysis of the banks' experience in Latin America, see Porzecanski (1980).

their long-term decline. (See table 7.) This is a phenomenon of genuine and increasing concern to bank managers, regulators, stockholders, and large depositors, for a bank's capital is the ultimate protection against mismanagement and portfolio risk. Certainly, there are no absolute standards against which to judge the adequacy of the existing capital base: Capital adequacy is, above all, a function of the general business environment of the time. In this connection, the recent great volatility of interest rates, which has led some bank managers to miscalculate the rate of return earned on assets or the rates paid on liabilities, suggests that bank capital ratios ought not to be allowed to weaken. Internationally, the political risks associated with lending to developing countries, and which have been highlighted by events in Iran and Nicaragua, also indicate the need for capital ratios to be maintained.

Table 7
Average equity of ten largest U.S. commercial banks (as a % of average total assets).[a]

	1975	1976	1977	1978	1979	1979 capital formation rate[b]
Citicorp	4.0%	4.3%	4.1%	3.8%	3.6%	11.4%
BankAmerica	3.1%	3.3%	3.6%	3.5%	3.5%	12.7%
Chase Manhattan	3.9%	3.8%	3.7%	3.6%	3.7%	9.8%
Manufacturers Hanover	3.7%	3.6%	3.8%	3.8%	3.6%	9.1%
J.P. Morgan	4.6%	5.3%	5.2%	5.1%	4.6%	10.2%
Chemical New York	3.4%	3.5%	3.4%	3.5%	3.3%	7.7%
Bankers Trust New York	3.3%	3.5%	3.2%	3.3%	3.3%	7.5%
Continential Illinois	4.3%	4.2%	4.2%	4.2%	3.9%	10.4%
First Chicago	4.7%	5.0%	4.7%	4.8%	4.5%	6.0%
Security Pacific	4.4%	4.4%	4.3%	4.1%	4.2%	11.7%
Weighted average	3.8%	4.0%	4.0%	3.9%	3.7%	10.3%

[a]*Source*: Salomon Brothers.
[b]Retained net income as a % of year-end stockholders' equity.

And yet, banks have been unable to counter the slippage in capital ratios through new stock issues because the performance of bank equities has been quite disappointing. Price-to-earnings ratios have declined dramatically during the past several years, and are now half of what they were in mid-1976 — when already they were lower than in the late 1960's and early 1970's. Comparisons of bank share prices to book values similarly betray a serious deterioration. Consequently, unless these trends are reversed in the near future, it is likely that, aside from the presence or absence of opportunities for rapid growth, the expansion of bank assets will remain close to the 10% annual rate that is consistent with the preservation of existing capital ratios.

There are also some factors that work against a repetition of past asset growth patterns that favored a more accelerated rise of international as opposed to domestic assets. In the first place, the risks of lending to developing countries, and even to many of the smaller industrialized ones, have been enhanced. The overwhelming majority of these countries have relied increasingly on borrowing from commercial banks as a means of sustaining high rates of economic growth and as a way of financing larger current account deficits. As a result, the burden of their external indebtedness has risen in proportion to their Gross Domestic Product and, with few exceptions, in relation to their exports of goods and services as well.[11] More recently, and in view of much higher oil prices and a slowdown of economic activity in the United States and in the major European countries, most

Table 8
Exposure of nine largest U.S. commercial banks to non-oil developing countries.[a,b]

	December of 1977		December of 1979	
	In billions of dollars	As a % of capital	In billions of dollars	As a % of capital
Brazil	7.4	40%	8.8	40%
Mexico	5.9	32%	6.4	29%
South Korea	2.2	12%	3.5	16%
Argentina	1.7	9%	2.8	13%
Philippines	1.3	7%	2.6	12%
Taiwan	1.8	10%	2.4	11%
Sub-total (six major borrowers)	20.2	110%	26.5	121%
Total (all non-oil developing countries)	28.7	156%	38.6	176%

[a]*Source*: Board of Governors of the Federal Reserve System.
[b]Capital is defined as equity, subordinated debt, and loan-loss reserves.

developing nations are recording yet more sizeable current account imbalances that require still higher levels of bank financing. While a majority of the non-oil LDCs is taking necessary steps to contain their balance-of-payments deterioration, their chances for success hinge critically on the longer-run behavior of oil prices and the pace of economic growth in the industrial countries. Until there are grounds for some optimism on these global issues, therefore, it is likely that most large U.S. banks will be cautious in their approach to international lending.

In the second place, the main U.S. banks face constraints in their lending to those few, higher-income developing countries which traditionally account

[11]Among the exceptions are Mexico and Taiwan. For additional detail, see International Monetary Fund (1980).

for the bulk of bank exposure to LDCs. In past years, lending to government and private entities in Brazil, Mexico, South Korea, Argentina, the Philippines, and Taiwan has grown to the point where it represents a significant concentration of risk. (See table 8.) For the nine leading banks, Federal Reserve data show that lending to Brazil is now equivalent to 40% of bank capital, Mexican exposure is equivalent to about 30% of capital, and claims on each of the other four countries surpass 10% of capital. Since 1979, the federal regulatory agencies have noted all exposures in excess of this 10% level in the course of the bank examination process, and all claims that are above the 15% level have received special comment in their reports.[12] Given that the major banks wish to avoid a greater concentration of risk, and that they are being encouraged to do so by the supervisory authorities, it is difficult to imagine that lending to these six countries will be able to proceed at a rate that is much different from the growth of bank capital.

In short, there are several reasons that point to a limited international financial role for U.S. commercial banks in the years ahead. What is worrisome about this conclusion, of course, is that it flies in the face of the renewed need for a recycling of funds from oil-producing to oil-consuming countries. Unlike in 1974–1976, therefore, this time the burden of recycling apparently is going to fall most heavily on commercial banks in other industrial countries and, it is to be hoped, on international financial institutions such as the International Monetary Fund and the World Bank.

[12]See Wallich (1980).

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