

IS U.S. INTERBANK LENDING IN SOUTH AFRICA
FOR U.S.-R.S.A. TRADE?

With a Listing of the Overall Exposure of Individual U.S. Banks

by
John E. Lind

California-Nevada Interfaith Committee on Corporate Responsibility
P.O. Box 6819, San Francisco, CA 94101
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INTRODUCTION

Between the end of 1980 and the end of 1984, the lending by U.S. banks to the South African economy increased 4.5 fold as shown in figure 1. This increase in lending was primarily in interbank lending to South African banks which increased over seven fold and accounted for 69% of the total lending by the end of 1984. This increase in interbank lending is in contrast with the lending to the government and government owned corporations which has remained relatively constant over this period. Presumably the reason that government sector lending has not increased proportionally is the pressure against such lending by church investors, pension funds and the enactment of legislation by states and cities preventing them from using banks which lend to the government sector. Even the government relations council of the American Bankers Association is recommending a policy of no government lending and whichever sanctions bill passes congress in September will carry the sanction against bank lending to the government sector. Thus the third of a billion of outstandings of U.S. banks to the government sector will run off over the next few years.

Since June of 1984, the South African economy has been turning down and weakening with a rapid depreciation of the South African Rand versus the U.S. Dollar. This has resulted in a decline of U.S. bank lending by \$780 million or nearly one-sixth during the six months comprising the last quarter of 1984 and the first quarter of 1985. This drop was entirely caused by a decrease in interbank lending as seen in Figure 1. During this period, the South African currency devalued rapidly versus the U.S. dollar and the Bank of England expressed concern over the large foreign exchange exposure of the major South African banks. This rapid decrease of interbank lending was possible because of the short-term nature of much of it.

This report will discuss the private sector lending and will show that U.S. bank lending is not related to U.S.-South Africa trade. Rather, increases of lending correlate well with deficits in the South African balance of payments. Then estimates are made of the total South African outstandings of the 21 U.S. banks that provided 93% of all U.S. bank lending to South Africa at the end of 1984.

PRIVATE SECTOR LENDING

The private sector lending is divided into bank and non-bank lending with this lending being reported by the Financial Institutions Examinations Council in their Country Exposure Lending Survey separately for each of three groups of banks: the nine money Center banks, the other 15 large banks and the "all other banks" (the remaining 182 banks in the survey). Thus from this federal publication, the differences in the lending patterns of these three groups of

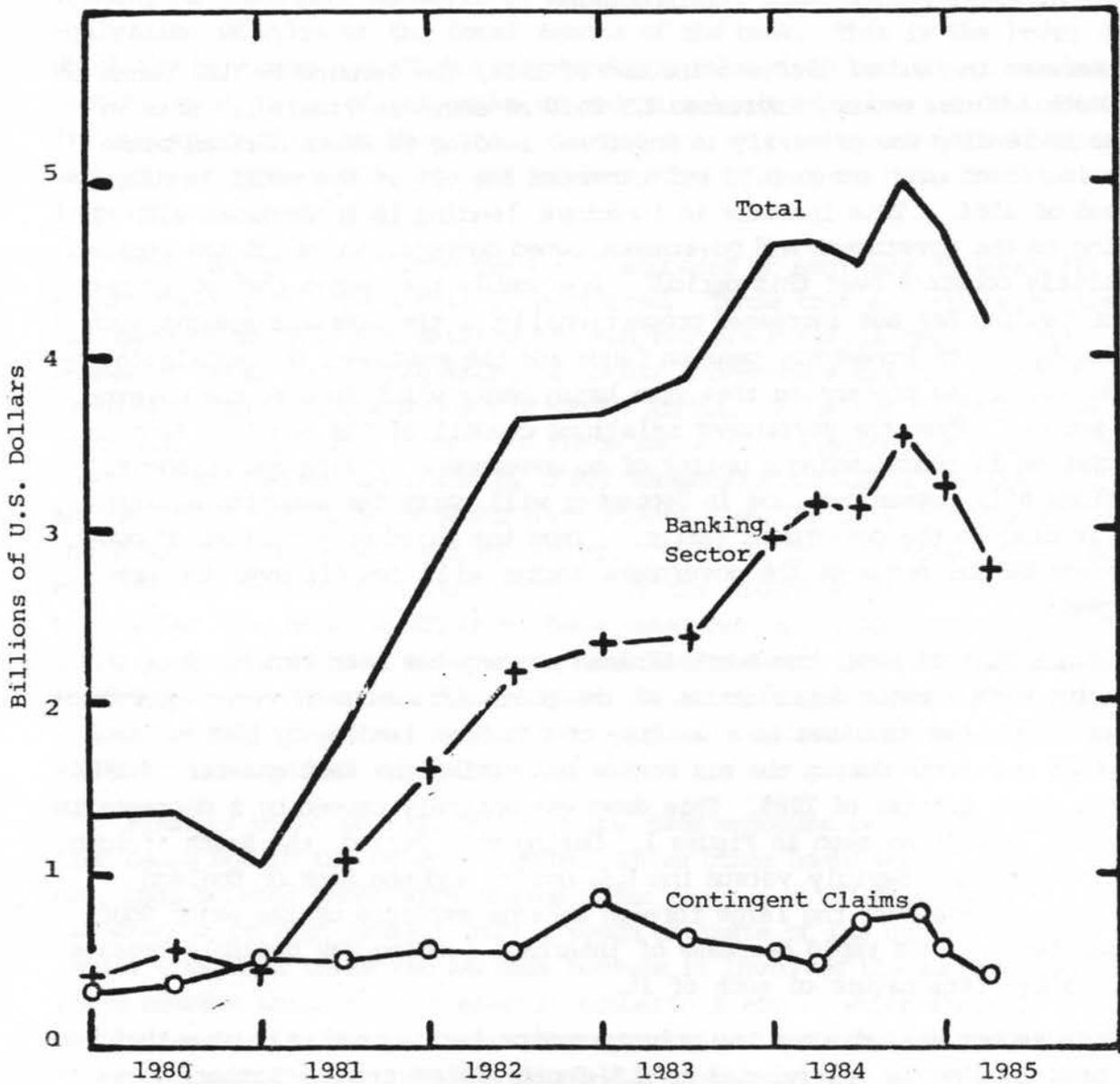


Figure 1. U.S. bank lending in South Africa. Solid line represents all U.S. bank lending to all sectors of the South African economy. Graph with crosses for data points represents lending to South African Banks, and the graph with circles for data points represents contingent claims of U.S. Banks in South Africa.

banks can be seen. Table I shows the private sector lending of this group of banks at the end of 1984 together with the percentage of that lending that was to the non-bank sector. Table II which will be discussed later lists the banks in each of the first two groups.

TABLE I: Private Sector Outstandings in South Africa by U.S. Bank Group as of December 31, 1984.

Bank Group Defined by Country Exposure Lending Survey	Total Private Sector Outstandings U.S.\$ Millions	Non-Bank Private Sector As % of Private Sector
Nine Money Center Banks	2,871.6	33%
Other 15 Large Banks	1,045.4	4%
NCNB	123	37%
All Other Banks (excluding NCBC)	311	27%

Sources: Country Exposure Lending Survey and Annual Report of NCBC.

For the money center banks, which are the large international banks, about a third of their lending is to non-banks and two-thirds to banks. However, for the "other 15 large banks", only a mere 4% is lent to the non-bank sector and this non-bank lending has remained about \$50 million with some fluctuations over the past five years. Thus the closer connections of the international banks to South Africa are required for significant amounts of lending to the non-bank sector. Of the money center banks, Citibank has a subsidiary operating in the South African banking system and Chase Manhattan has a branch office in South Africa, while the others operate through their London offices. Presumably, the other 15 large banks lend to the South African banks through the London offices of the major South African Banks, but do not have the connections necessary for a large amount of nonbank lending.

Some surprises occur for the last group of "all other banks". The exposure of one bank of this group is known because its exposure is greater than 0.75% of its total assets and it must therefore report this exposure in its annual report. This bank is NCNB (North Carolina National Bank) and it is well connected with South Africa through its representative office in Johannesburg. Thus it shows the same lending pattern as the money center banks with over one-third of its private sector lending in the non-bank sector. NCNB's lending was about one-fourth of the total in this last group of banks. When NCBC is subtracted out from the group in Table I, the group still shows a high exposure to the non-bank sector of South Africa. These banks might include some of the small subsidiaries of the United Kingdom banks like National Westminster USA, Barclays Bank of New York, Schrodgers (NY), and Union Bank of California (Standard Chartered). Other possibilities are smaller international banks like American Express International and European American Bank.

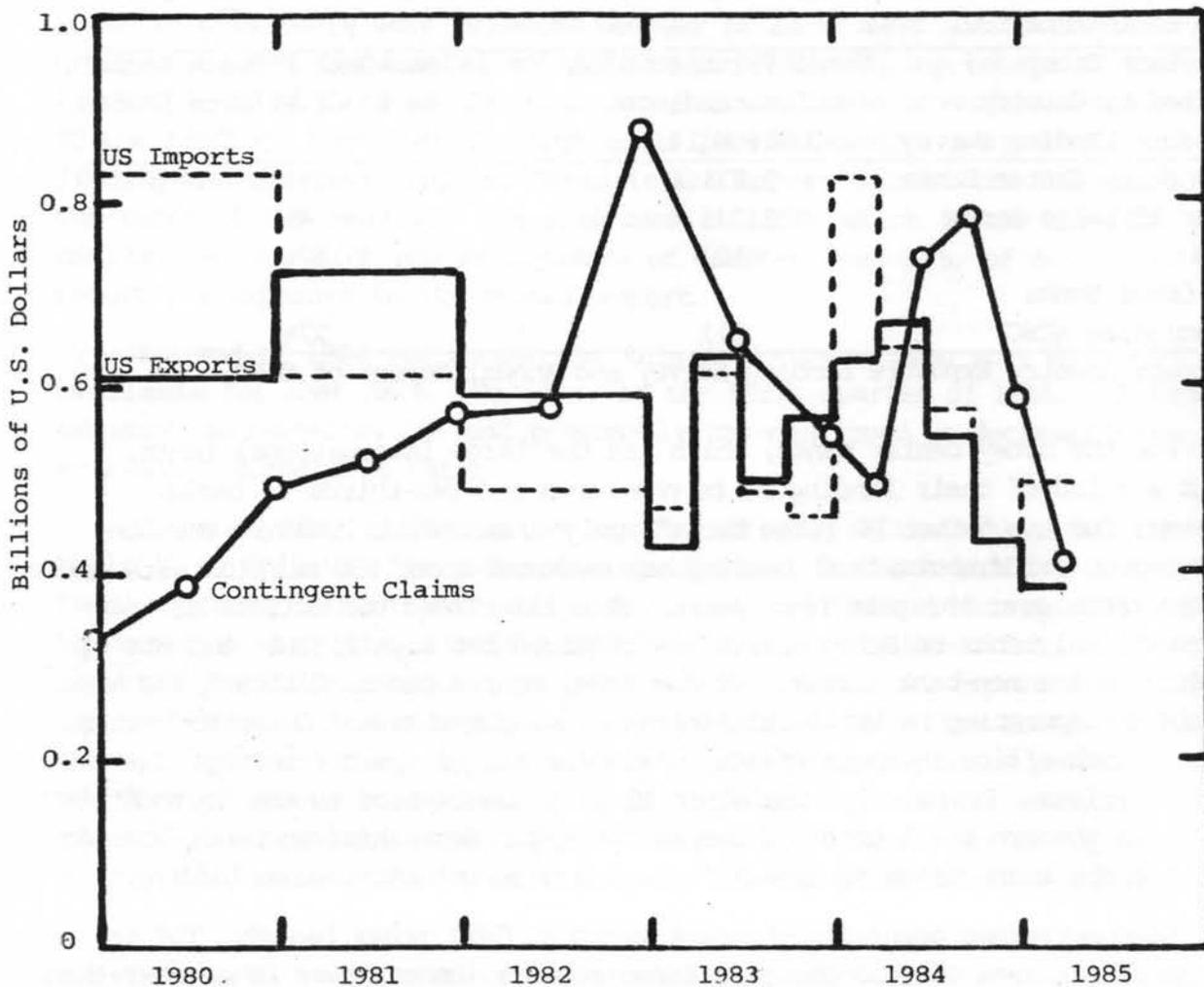


Figure 2. U.S. exports to and imports from South Africa on a quarterly basis as compared to contingent claims of U.S. banks in South Africa. Average quarterly exports and imports are used for the earlier years to reduce the congestion in the graph. Solid line represents U.S. exports and dashed line represents U.S. imports. Graph with circles for data points represents contingent claims of U.S. banks in all sectors of South Africa. Sources: Contingent Claims - Country Exposure Lending Survey, Federal Financial Institutions Examination Council, Table III; U.S. annual data converted to average quarterly amounts for 1980-1982 - U.S. Imports, Commerce Dept. FT 155, and U.S. Exports, Commerce Dept. FT 455; quarterly data for 1983-1985 from U.S. Commerce Dept. FT 990.

INTERBANK LENDING:

Since seven-tenths of the U.S. bank lending at the end of 1984 was to South African banks, the question can be raised as to whether or not this lending is financing specific trade between the two countries. The argument below will show that most of this lending is not directly related to the U.S.-R.S.A. trade. The volume of this lending is directly correlated with the South African balance of payments. The lending is short-term and is most likely short-term deposits on call, loans to South African banks, bankers acceptances and other trade financing for trade with other countries. Such lending can easily be arranged through the London offices of the major South African banks.

TRADE FINANCING:

One index of trade financing activity is the level of contingent claims of U.S. banks on South African banks. These contingent claims include letters of credit used in trade finance. Their total amount is shown at the bottom of figure 1 to be relatively constant at between one-third and two-thirds of a billion dollars during the period of rapid increase of interbank lending.

These data for contingent claims on South Africa are replotted in figure 2 with an expanded scale. In the same figure is also plotted the quarterly U.S. exports to and imports from South Africa. The quarterly, rather than the annual, exports and imports are given because much trade financing is of relatively short term, three months or less. Thus the U.S. quarterly exports should be comparable to the reported contingent claims like letters of credit which later result in claims in the form of bankers acceptances. Indeed, figure 2 shows that the contingent claims are roughly equal to the quarterly U.S. exports to South Africa.

The contingent claims increased from about \$300 million at the end of 1980 to fluctuations around \$600 million in 1983 and 1984, while U.S. exports have fluctuated around \$500 to \$600 million over the same time period. Thus there certainly has not been any great increase of U.S.- South African trade over this period to generate increased bank activity to finance it. At most the slight increase of contingent claims might suggest slight changes in the method of trade finance. Even if U.S. banks finance all U.S. exports to and imports from South Africa, the total would only be \$1 billion on a quarterly basis. This is still much less than a third of the interbank lending. It is also unlikely that the length of the term of maturity of this lending could have significantly increased during this period, because 84% of all U.S. lending is of short term with a maturity of one year or less, at the end of 1984.

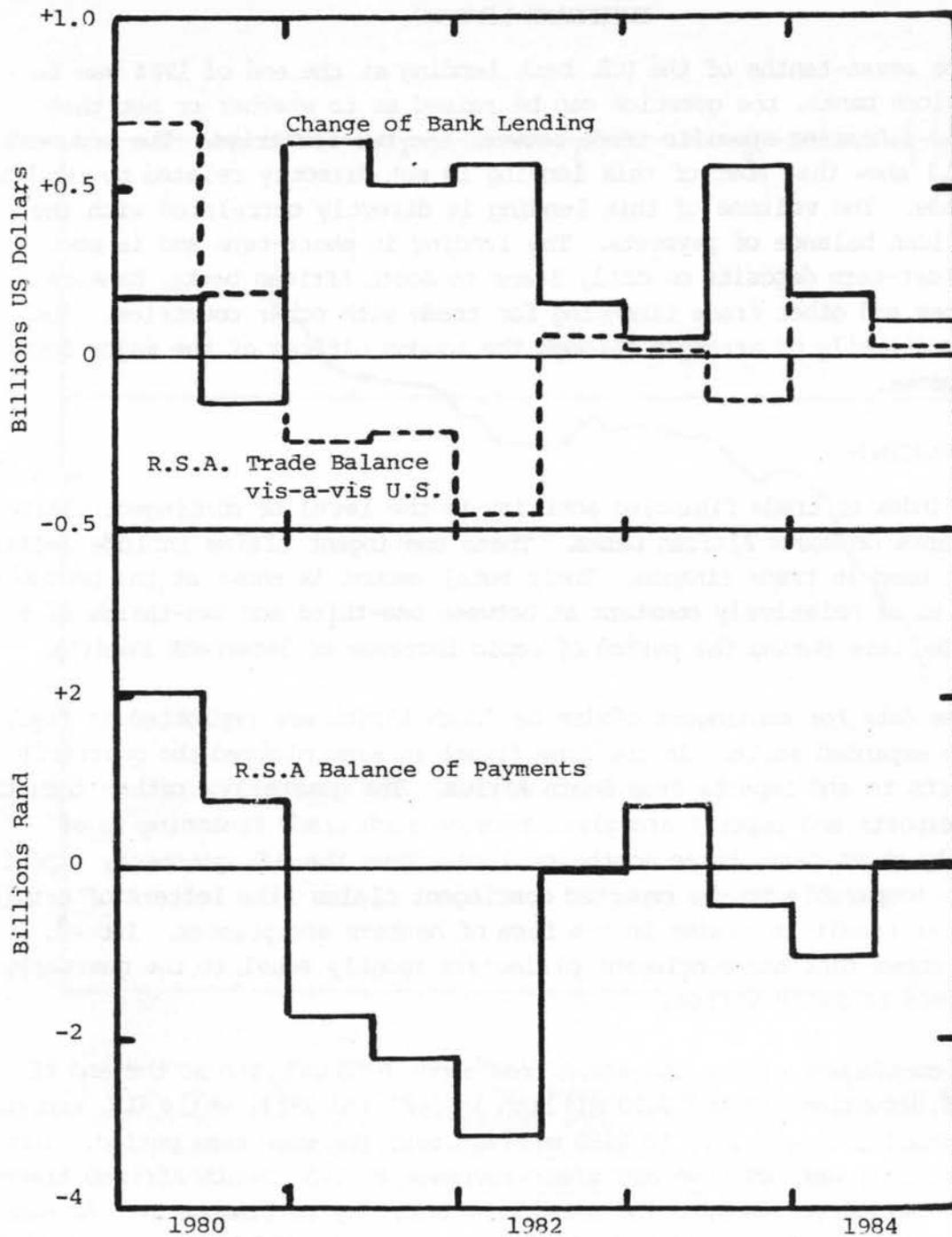


Figure 3. Upper figure: Solid line is semi-annual increase of U.S. inter-bank lending to South African banks. Dashed line is South African trade balance vis-a-vis the U.S. Lower figure: South African balance of payments world-wide in rand. The rand scale is one fourth the dollar scale because U.S. lending is about one fourth of foreign bank lending and thus the dollar and rand scales are approximately directly comparable by incorporating the scale factor in the graph scaling. Sources: U.S. interbank lending from Country Exposure Lending Survey, Federal Financial Institutions Examinations Council; U.S. imports, and export, Department of Commerce FT 990, R.S.A. balance of Payments from the Reserve Bank of South Africa bulletin.

As a result we must argue that most of the interbank lending by U.S. banks does not go to finance direct U.S.-South African trade. The question is then: what does this lending finance?

SOUTH AFRICAN BALANCE OF PAYMENTS:

The increase of interbank lending in Figure 1 generally shows a plateau when the price of gold is high such as in 1980 and in the late 1982 through early 1983. Since gold accounts for about half of South Africa's exports world wide, the South African balance of payments is sensitive to the price of gold. When it is high, the country has plenty of foreign exchange to finance its imports, but when the price is low the country runs a negative balance of payments. The lower graph in figure 3 shows the balance of payments on a semi-annual basis expressed in local currency (rand). Out of the ten semi-annual periods during 1980 through 1984, four showed a positive balance of payments; and the three of these four semi-annual periods which showed significant positive balance of payments were just those when the price of gold was high.

Interestingly enough when the semi-annual increase of U.S. interbank lending to South African banks is plotted in the upper portion of figure 3, the pattern is almost a mirror image about the horizontal plane of the balance of payments. That is, when the South African balance of payments goes negative, U.S. interbank lending increases proportionately. Also plotted with the incremental changes of U.S. bank lending is the South African balance of trade vis-a-vis the U.S. It follows the general South African balance of payments, but amounts to only a small fraction of the U.S. bank lending.

When the total South African balance of payments is converted into dollars, using the conversion data in figure 4, the U.S. bank lending can be directly compared to the deficits of the South African balance of payments. Over 92% of all U.S. interbank lending occurred in the six semi-annual periods when the balance of payments was negative, and the U.S. lending was equivalent to compensating for 30% of the payments deficit. The remaining small amount of 8% of the increase of U.S. interbank lending occurred in the four semi-annual periods when the balance of payments was positive.

Obviously this correlation will not continue into 1985 because the interaction between the economic problems and the political instability are raising the question of investment risk in South Africa. This has resulted in further devaluation of the rand since the summer of 1984, as shown in figure 4, and a rapid decrease of U.S. interbank lending since the last quarter of 1984.

However, for the 5 - year period 1980 through 1984, there is a very good correlation between increases of U.S. interbank lending and negative balance of payments in South Africa. Since 84% of U.S. lending in South Africa at the

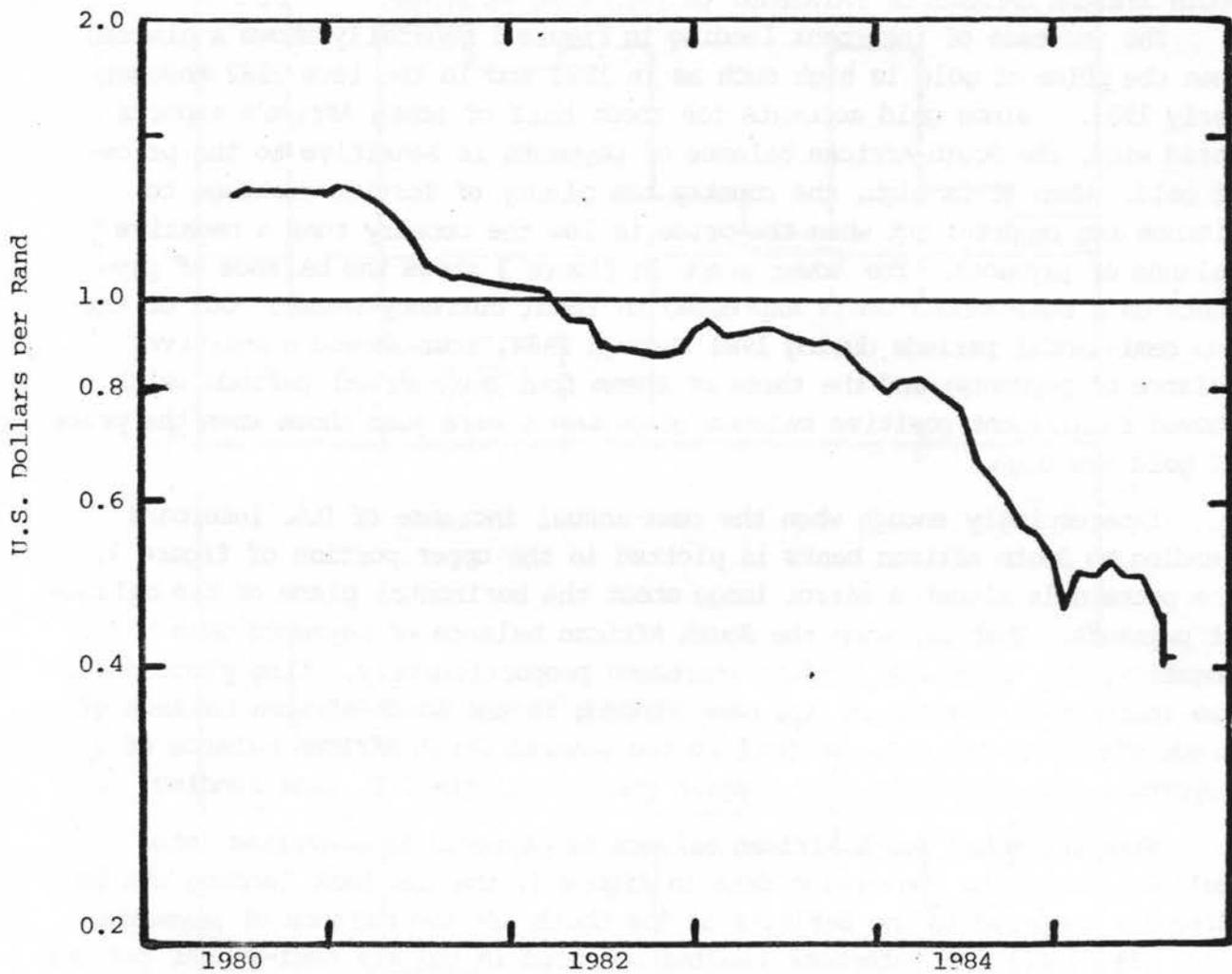


Figure 4. Currency Conversion, U.S. Dollars per Rand. The currency conversion is plotted on a logarithmic scale so that equal linear changes of the conversion factor at any point on the graph represent equal percentage changes in the exchange rate. Source: Monthly averages of certified noon buying rates in New York for cable transfers, Table 3.28, Federal Reserve Bulletin.

end of 1984 had a maturity of one year or less, this short maturity raises a serious question. If our analysis is correct, then balance of payments deficits are being financed by South Africa banks through short-term financing. This is a dangerous practice, since such imbalances are being carried over on the books of U.S. banks by rolling over this short term debt, effectively making it into medium term financing. However, since the U.S. banks can pull 84% of their lending out of South Africa within a year just by banning new loans, the South African banks could find themselves with serious liquidity problems in foreign currencies.

This appears to be what has happened, for there is certainly concern over the exposure of South African banks in foreign currencies. In November 1984, the South African Reserve Bank swapped and sold gold to bolster the economy gaining \$150 million in foreign exchange. Since subsidiaries of U.K. banks at the end of 1984 represented over half the assets of the South African banking system, the Bank of England began asking question of these U.K. banks about their South African operations and also started looking into the London branches of all South African banks. As a result of the Bank of England pressure, the South African Reserve Bank has set up a new section to supervise credit risk exposure of South African banks, including forward exchange contracts and overall exposure in the world markets. This over-exposure is part of the downward pressure on the rand since mid-1984.

In summary we can say there is definitely a liquidity problem that is beginning to show itself because of the overexposure of South African banks in the short term. This is consonant with the thesis that short term U.S. bank lending is being used to solve medium term balance of payment problems of the South African economy.

CONCLUSION:

U.S. interbank lending to South African banks over the five years 1980 through 1984 has increased in direct relation to periods of deficit in the South African balance of payments. It is not related directly to U.S.-South Africa trade which has remained about constant over that five year period. Admittedly, some U.S. interbank lending may have picked up through financing South African trade with other countries, either through direct financing or buying up banker's acceptances for that trade.

LENDING BY INDIVIDUAL BANKS IN SOUTH AFRICA

About 93% of all U.S. bank lending in South Africa at the end of 1984 was done by 21 U.S. banks. Thus bank lending in South Africa is significantly more concentrated in the hands of a few large banks compared to lending in Latin America. These banks are among the 25 banks listed in Table II. The banks in this table were selected because 24 of them constitute two subgroups for which the federal authorities provide subgroup totals of their lending in South Africa. The nine money center banks provide about two-thirds of the lending, the other 15 large banks provide another quarter of the lending and the remaining 182 banks in the survey account for the remaining one-tenth of the lending. The 25th bank is NBND, which is the one bank of the smaller banks, which has an exposure of greater than 0.75. of assets and must report its exposure in its annual report.

The end of 1984 was chosen for this analysis because more data were available for that date. However, in the first quarter of 1985, U.S. bank exposure decreased by 10% and presumably has continued to decrease since then at least a comparable rate.

The analysis leading to the exposure of each of the banks listed in the table is as follows: For each subgroup of banks in the federal survey, their total exposure in South Africa is known from the Federal Survey. For a few of the banks in each group, their individual exposure is known from their annual reports or their own disclosure. These known individual exposures are totaled and subtracted from the total for the subgroup given by the federal survey. The remainder was then apportioned among the remaining banks proportional to the foreign assets of each bank. Total international assets were chosen because a more precise index like the international assets in Africa and the Middle East was not used consistently by all the banks in their annual reports.

The first column in Table II lists the outstandings to the South African government and state owned corporations. Most banks have no outstandings in this sector of the South African economy. For the few that have remaining loans on the books, most have either a policy or a present practice to let those loans run off the books. The one or two banks which do not have such a policy or practice will be forced to adopt such a practice if sanctions are passed by the Congress in September. Among the money centered banks, only Morgan has a high exposure but Morgan has adopted in 1985 a policy not to renew or make new loans. The distinction between a policy of no lending and a present practice of no lending blurs together when the present practice has been in force for a number of years and seems to have become a policy. However, where there are still outstandings but the bank has made a statement of reducing those outstandings as a matter of policy or practice, this is indicated in the table by Po for policy and Pr for practice.

TABLE II: LENDING BY U.S. BANKS IN SOUTH AFRICA AT THE END OF 1984.

Bank	Government and Parastatals Outstandings	Banks+Nonbank Private Sector Outstandings	Reporting Level of 0.75% Assets	Total Outstandings E-Estimated
Money Center Banks: Millions of U.S. Dollars				
Citicorp	3 Pr		1,129	840 E
BankAmerica	0	214	883	200
Chase Manhattan	0		652	470 E PPr
Mag. Hanover	0		455	310 E
Morgan	Po		481	350 E
Chemical NY	0		382	220 E
Continental Illinois	0	230-300	228	270
Bankers Trust	0		339	270 E
First Chicago	0	0	298	0 Pr
				2,930
Country Exposure	202.3	2,871.6		3,073.9
				2,933.5 (Adj.)
Other 15 Large Banks:				
Security Pacific	0		346	150 PPr
First Interstate	0		341	10 E
Wells Fargo	0	0	211	0 Po
Crocker (Midland Plc)	25 E Po		167	110 E
Mellon	0	1 Po	230	1 Po
Marine Midland	0		165	150 E
Bank of Boston	0	75 Po	166	75 Po
Irving	0	205	142	205
Bank of New York	0	12*	114	12*
Interfirst	0	0	162	0 Pr
RepublicBank (TX)	0		162	100 E PPr
NBD	0	0	107	0 Pr
Texas Commerce	20*	13.5*	155	33*
First City			130	25 E
Republic NY			93	90 E
				995
Country Exposure	118.6	1,045.4		1,164.0
				996.5 (Adj.)
"All Other Banks":				
NCNB	7 Po	123	118	130
Other Banks	25	311		264
				394
Country Exposure	32.2	434.3		466.5
				393.8 (Adj.)
All U.S. Banks in Survey				
Country Exposure	353.1	4,351.3		4,704.5
				4,323.8 (Adj.)

Country Exposure - Country Exposure Lending Survey, Federal Financial Institutions Examination Council. Now issued quarterly and lists exposure by residence of borrower and then adjusted (Adj.) for loan guarantees from other countries. E - Estimated, Po - policy to reduce number to zero, Pr - Practice to reduce number to zero, PPr present practice not to lend, * Data for 1983.

The second column lists the private sector lending including interbank lending for each bank whenever it is known. The third column lists the dollar equivalent of 0.75% of the total assets of the bank. This is the level above which the bank must report its outstandings in a given country in its annual report. Only three of the banks exceed this limit (Continental Illinois, Irving, and NCNB), and thus these numbers are upper bounds to the lending of each of the remaining banks, and any estimate we make of their lending must be lower than this number.

The last columns lists the total exposure of each bank in South Africa, either known from some source or estimated. Those that are estimated are followed by an "E". The details and sources are given in the appendix. A number of banks in the beginning of August announced a present practice of no lending to the private sectors of South Africa. It is not certain however, that this practice will remain in force until all outstandings run off the books. These banks are noted by a PPr (Present Practice) after their exposure in the table. Other banks which have stated a policy or a practice of letting their South African outstanding run off the books or have none on the books are noted by Po and Pr respectively after the amount of their outstandings in the table. The banks which might have outstandings in South Africa in the third group called "all other banks" was discussed on page 2. Several banks in that group announced a present practice of no further lending in South Africa. These are Harris Bancorp (Chicago, a subsidiary of Bank of Montreal), Norwest (Minneapolis) and MCorp (Dallas).

Finally there is a question of how much exposure is there in South Africa from banks not in the federal survey. These other banks would include small U.S. incorporated banks with assets under about a billion dollars and the U.S. branches of foreign banks. Only a rough estimate of the outstandings of these latter groups of banks can be made because it involves the subtraction of two large numbers which are not exactly compatible and in which there is some double counting.* This subtraction suggests that perhaps another \$370 million of exposure at the end of 1984 by smaller banks and U.S. offices of foreign banks. Thus at most, 14% of all lending from the U.S. is left unaccounted for among the banks and branches not included in the list of 25 banks in Table II.

* This number is the result of subtracting the Country Exposure Lending Survey from the sum of Table 3.18 (Federal Reserve Bulletin) and Statistical Release E.11. Any double counting arises from Citibank's branch in South Africa and the home office. This subtraction assumes that all the lending from the bank office in the U.S. is in U.S. dollars.

APPENDIX: SOURCES AND DETAILS OF INDIVIDUAL BANK LENDING

MONEY CENTER BANKS:

Citicorp: In a letter of Feb. 6, 1985, Hans Angermueller, Vice Chairman of Citibank, stated that outstandings on existing public sector loans were expected to be eliminated on or before March 31, 1985.

BankAmerica Corp: Stated at the 1985 annual meeting that outstandings in South Africa were less than at the end of 1982. Church investors knew that their outstandings at that time were about \$214 million.

Chase Manhattan: Ban on all present South African lending (Wall Street Journal 1/8/85, New York Times 1/8/85) was reported with estimates of exposure running between \$400 and \$500 million.

Morgan: Policy of no lending to the South African government and state owned corporations stated in a letter of April 3, 1985 by David L. Brighten of Morgan to ICCR.

Continental Illinois: Exposure given in 1984 annual report because it exceeded 0.75% of assets.

First Chicago: Report in IRRC survey of \$4 million total outstandings and implied that the exposure was running off the books.

15 OTHER LARGE BANKS

Security Pacific: Bank has had a practice for several months of not to lend any money to South Africa (NYT 8/3/85). Letter from R.H. Smith, Vice Chairman, to NC-ICCR stated "we have been liquidating our term bank and private sector financing..., but continue to provide short term trade financing to banks." He also indicated that private sector outstandings would be between \$100 and \$150 million at the end of 1985.

First Interstate: Statement at their 1985 annual meeting indicated that their outstandings as "A miniscule amount of credit is still outstanding on declining balances of trade-finance agreements." For the purpose of estimation an exposure of \$10 million is assumed as relatively small.

Wells Fargo: Letter of November 30, 1984, from Lewis W. Coleman, Executive Vice President to NC-ICCR, stated that the bank has no loans or investments in South Africa.

Crocker National: Policy statement of March 15, 1985, of no further lending to the South African government or parastatals.

Mellon: Phone Call by bank on August 7, 1985, to ICCR stating that their loans to South Africa are running off the books and only \$1 million of private sector loans have yet to run off.

Bank of Boston: Statement in Wall Street Journal (3/26/85) that the bank will discontinue all remaining lending in South Africa. It indicated it had about \$75 million outstanding to 9 South African banks which would run off the books by mid-1986.

Irving: Exposure given in 1984 annual report because it exceeded 0.75% of total assets.

Bank of New York: Stated in IRRC survey that its outstandings were \$12 million at the end of 1983.

Interfirst: Reported to IRRC that it had no outstanding in South Africa.

Republic Bank (TX): S.F. Chronicle (8/6/85) U.P. release state Republic Bank of Dallas has extended the ban on South African lending to the private sector.

NBD: IRRC survey reports no outstandings as of April 1984.

Texas Commerce: Exposure reported in 1983 annual report but not in 1984.

ALL OTHER BANKS

NCNB: Exposure is reported in the bank's annual report. Policy of no lending to the South African government and its parastatals reported in the Wall Street Journal (2/20/85).

Other banks in this category stated they have a present practice of banning private sector loans in South Africa are **Harris Bancorp** (a subsidiary of the Bank of Montreal), **Northwest Corp** (Minneapolis) and **MCorp** (Dallas). (N.Y. Times 8/3/85).

Sources: The IRRC Survey is Foreign Investment in South Africa of the Investor Responsibility Research Center, December 1984. Unless otherwise noted the source of information relating to outstandings with the government sector is from the IRRC survey or the statements in What the Banks Say on South Africa, by Fantu Cheru and Jim Winkler, Interfaith Center on Corporate Responsibility.

