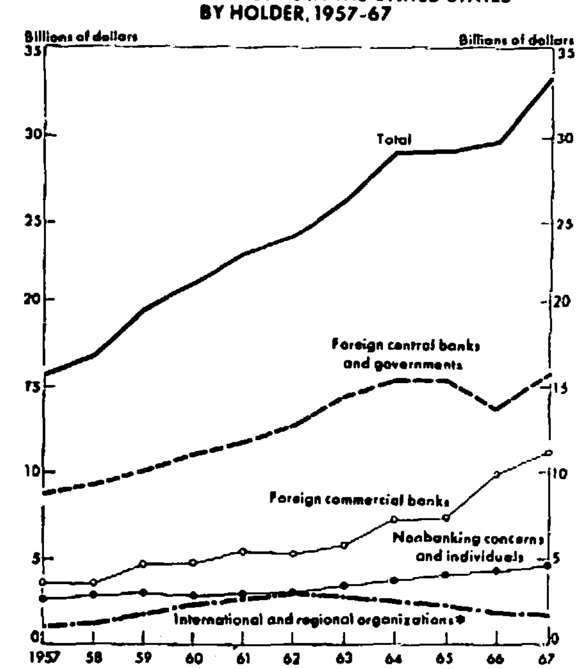
Foreign Liquid Assets in the United States, 1957-67*

Foreign liquid assets held in the United States have more than doubled over the last decade. At the end of 1967 they stood at almost $33½ billion (see Chart I), with the bulk of these holdings accounted for by foreign monetary authorities and foreign commercial banks.[1] The reasons for maintaining liquid assets in the United States, of course, vary with the foreign holder. However, almost all these foreign holdings reflect the dollar's predominant role as a store of value and means of international payment and rest on foreign confidence in its stability. Foreign monetary authorities have been willing to build up large liquid dollar balances, because the dollar has proved to be an attractive international reserve asset and the principal medium for official foreign exchange operations. At the end of last year these liquid asset holdings stood at just over $15½ billion. As shown in Chart II, they accounted for nearly half the total of all foreign liquid assets in the United States.

At the same time, private foreigners have acquired substantial liquid assets here for use in a growing volume of international commercial and financial transactions and because of the wide range of investment opportunities in the United States. The growth of the Euro-dollar market —particularly the participation in this market of United States banks as borrowers through their foreign branches —has been a major factor in the growth of privately held liquid assets in the United States. Furthermore, the operations of foreign banks through branches and agencies in the United States has contributed substantially to the growth of such holdings. Thus, foreign commercial banks accounted for the bulk of the increase in the aggregate of foreign private liquid assets held in the United States to nearly $16 billion at the end of 1967, an amount more than two and one-half times the level outstanding ten years earlier. Dur-

Chart I
FOREIGN LIQUID ASSETS IN THE UNITED STATES BY HOLDER, 1957-67



* Excluding IMF dollar holdings arising from United States currency subscriptions to the Fund and from IMF transactions in dollars with the United States and other members.

Sources: United States Department of the Treasury and the Federal Reserve Bank of New York.

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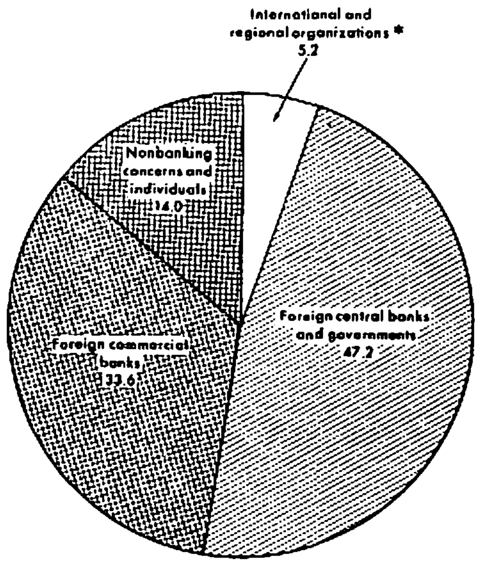
* Leon Korobow, Special Assistant, Foreign Department, had primary responsibility for the preparation of this article.

[1] Foreign liquid assets in the United States, as defined for balance-of-payments purposes, consist of demand deposits, time deposits of not more than one year's original maturity, United States Treasury securities that are marketable or convertible (without regard to maturity), and other assets—such as negotiable certificates of deposit, bankers' acceptances, and commercial paper—held by foreigners in United States banking institutions and having an original maturity of not more than one year. The bulk of these holdings is denominated in United States dollars; at the end of 1967 only $915 million was denominated in foreign currencies. In addition, a small amount represented United States liabilities to the International Monetary Fund which arose in connection with the IMF's general gold deposits in the United States. Foreign liquid assets held in the United States do not, however, include gold held for foreign governments at the Federal Reserve Bank of New York.

Chart II

FOREIGN LIQUID ASSETS IN THE UNITED STATES BY HOLDER, DECEMBER 31, 1967

Percentage of total



* Excluding IMF dollar holdings arising from United States currency subscriptions to the Fund and from IMF transactions in dollars with the United States and other members.

Sources: United States Department of the Treasury and the Federal Reserve Bank of New York.

ing the same period, international and regional organizations acquired almost $1 billion of liquid assets in the United States, bringing their holdings to over $1½ billion at the end of 1967.

In addition to their liquid assets, foreigners—mainly national monetary authorities and international and regional organizations—have increased their holdings in the United States of near-liquid assets to a total of $2½ billion by the end of 1967. These assets consist principally of time deposits in United States banks, including certificates of deposit (C/D's), having an original maturity of more than one year. Although these holdings are considered long-term investments in the United States balance of payments, they have many attributes of liquidity.[2]

Although foreign monetary authorities have added very substantially to their dollar reserves over the period as a whole, they have increased their gold reserves by an even larger amount. Since the United States Treasury was a major supplier of this gold, United States gold reserves fell by about $10¾ billion during the period 1957-67. This decline, by and large, was the result of gold sales to a small number of Western European countries. However, in 1967 nearly all the drain of just under $1¼ billion represented the United States share of the losses sustained by the active members of the Gold Pool in stabilizing the market price of gold in London.

OWNERSHIP OF FOREIGN LIQUID ASSETS IN THE UNITED STATES

In analyzing the distribution of foreign liquid assets in the United States—by both type and location of owner—it must be kept in mind that the reported data can be difficult to interpret. For example, increased deposits by official institutions in the Euro-dollar market may be accompanied by a rise in private foreigners' liquid holdings in the United States, as the banks receiving the deposits hold them in their own name or relend them to other foreign banks or firms. In addition, official forward exchange operations by both the United States and foreign monetary authorities can give rise to temporary shifts in liquid dollars held in the United States from official to private hands. Another complication for the analysis of ownership results from dollar deposits placed by residents in one country with banks in another foreign country and lent onward, finally to appear in United States statistics as liabilities to still another country.

Moreover, foreign-held liquid dollars in the United States are subject to influences which can produce rather sharp movements between owners as reported by type and country. Thus, rapid shifts of funds can take place across international currency exchanges, reflecting actual or anticipated changes in conditions in major financial markets in response to altered domestic or international economic and political developments. Nevertheless, during the period under review, significant patterns have emerged not only in the ownership but also in the composition of these foreign-owned assets in the United States, and these patterns are discussed in the sections to follow.

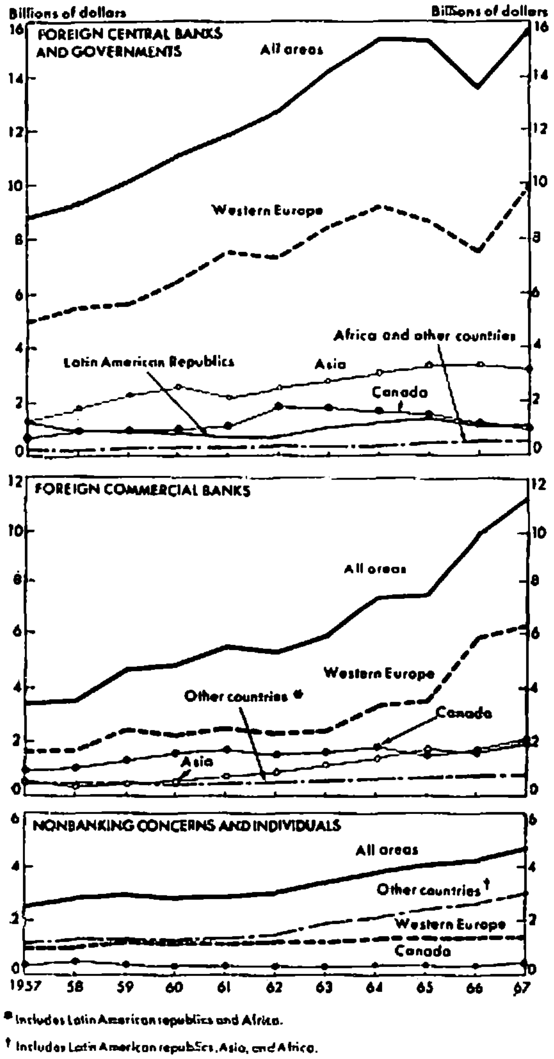
FOREIGN CENTRAL BANKS AND GOVERNMENTS. Foreign central banks and governments increased their liquid assets here by nearly $7 billion in the decade after the end of 1957. Western European monetary authorities, whose liquid holdings in the United States totaled almost $10 billion at the end of 1967, accounted for about $4¾ billion of this increase in official holdings to a new peak (see Chart III). However, official Western European holdings declined sharply in 1966, before recovering the next year. In 1966,

[2] For a historical series giving United States banks' long-term liabilities to foreigners, see the *Federal Reserve Bulletin*.

tight monetary conditions in the United States led United States banks to make heavy use of foreign-owned dollar balances acquired through their foreign branches, particularly those in Western Europe. The branches (which are regarded as foreign banks in the United States balance-of-payments statistics) actively sought foreign-owned dollars for placement in accounts with their respective parent organizations. As private foreigners in turn acquired dollar balances for placement with the branches, central bank holdings were reduced in the aggregate. In addition, the branches, notably those located in the United Kingdom, received substantial offerings of liquid dollars as funds flowed from official United Kingdom reserves to private foreign holders during the market uncertainties in the spring and summer of 1966, when foreign investors sharply reduced their sterling balances.

Chart III

FOREIGN LIQUID ASSETS IN THE UNITED STATES BY AREA, 1957-67



* Includes Latin American republics and Africa.

† Includes Latin American republics, Asia, and Africa.

Sources: United States Department of the Treasury and the Federal Reserve Bank of New York.

The easing of monetary conditions in the United States late in 1966, however, set the stage for a sharp reflow of funds to foreign monetary authorities. By the year-end, United States banks had started to reduce borrowings from their foreign branches. These branches in turn began to pour back into the Euro-dollar market the funds obtained earlier when pressures were acute. Moreover, as the new year began, returning confidence in sterling sparked a strong demand for pounds, and a sizable covered interest incentive emerged in favor of short-term investments in the United Kingdom. These developments combined through the first quarter of 1967 to produce large movements of funds through the Euro-dollar market into official hands, with the Bank of England the principal beneficiary of this influx. Such flows continued at a much reduced pace in the spring and, as midyear approached, were interrupted by the increasing tensions in the Middle East, culminating in the outbreak of war in June. In those circumstances, heavy flows of funds between official and private holders of dollars as well as among foreign central banks swept through the foreign exchanges before more normal conditions were restored with the cessation of fighting.

But new doubts about currency parities—particularly sterling—soon reasserted themselves and gathered momentum during the summer and fall. The events surrounding the devaluation of the pound in November 1967 and the ensuing uncertainties in December triggered unprecedented flows of funds between central banks and between official and private holders. In the aggregate, official liquid holdings here rose by about $1½ billion in the latter part of 1967, thus accounting for most of the year's rise. This increase was entirely concentrated among official holders in Western Europe, where currency uncertainties distorted normal international commercial and financial flows and generated massive repatriations of funds from sterling and Euro-dollars into local currencies. During 1967, official operations conducted to ease the impact of these flows of funds added to the aggregate of outstanding foreign liquid assets in the United States, both official and private.[3]

[3] For a description of these official operations, see Charles A. Coombs, "Treasury and Federal Reserve Foreign Exchange Operations", this *Review* (March 1968), pages 38-52.

In contrast to the recent sharp movements in the liquid assets in the United States owned by monetary authorities in Western Europe, Asian central bank holdings here have grown rather steadily during the past decade. Asian holdings increased by nearly $2 billion during the entire period under review, reaching just over $3 billion by the end of 1967. A substantial portion of this gain was accounted for by Japan as a consequence of that country's growing strength in international trade and finance. The modest dip in official Asian assets last year largely resulted from shifts of liquid dollars into long-term time deposits in the United States.

Canadian official assets in the United States reached a peak in 1962 in the wake of Canada's recovery from an exchange market crisis in the early part of that year. At that time Canada's official holdings in the United States were significantly bolstered by substantial gold sales to the United States and a large drawing from the International Monetary Fund (IMF). The subsequent gradual decline in Canada's liquid holdings here reflected a number of factors, including repayment of the IMF drawing, conversions into United States dollars of Canadian dollars drawn from the IMF by other Fund members, and short-term capital outflows in response to the pull of the high United States money market rates in 1966. In addition, in 1966 and 1967, the Canadian government purchased outstanding securities from United States residents.[4]

The liquid assets in the United States of the Latin American republics at the end of 1967 (about $1 billion) were somewhat below the level of ten years earlier. Moreover, few of the newly formed African central banks added significantly to their holdings in the United States during this period.

PRIVATE FOREIGNERS. As noted above, the activities of United States banks in obtaining funds through their foreign branches and the operations of foreign commercial banks through their branches and agencies in the United States have made a very substantial contribution to the growth of foreign commercial banks' aggregate holdings of liquid assets in the United States; these foreign-owned assets rose to about $11 billion by the end of 1967, more than triple the amount outstanding ten years earlier (see Chart III). In collecting and placing liquid dollars with their head offices, the United States banks' foreign branches, which are foreign banks for balance-of-payments purposes, obtain liquid claims on the United States institutions. It should be noted that these placements are not subject to legal reserve requirements and Federal Deposit Insurance Corporation charges because they are not deposits as defined by the applicable regulations. Moreover, the interest rates that foreign branches pay on time deposits placed with them are not subject to Regulation Q ceilings. As monetary conditions tightened in the United States in 1966, United States banks intensified their search for foreign-owned dollars through more aggressive bidding for Euro-dollars by their overseas branches. These efforts were very successful, and over the course of that year the branches increased the funds held with their head offices in the United States by an extraordinarily large amount—about $2 billion. To some extent, of course, the United States branches were the recipients of money flowing out of sterling during the spring and summer of that year.

Total outstanding placements by foreign branches with their head offices in the United States reached a peak for the year in excess of $4 billion in mid-December 1966. The subsequent easing of money market conditions in the United States was an important factor in a reduction of more than $1 billion from that peak in the first half of 1967. During the last six months of 1967, however, United States banks' liabilities to their foreign branches surged ahead, reaching new peaks briefly late in the year. The renewed advance in branch placements with head offices was partly in response to favorable interest cost differentials between rates on C/D's and Euro-dollars through the late summer of 1967 and, to some extent, probably also reflected anticipations of tighter monetary conditions in the United States. In addition, during November and December of 1967, United States banks' foreign branches had received substantial funds in the wake of the severe disturbances that had dominated the exchange markets in these months.

The operations of United States-owned foreign branches not only have affected the growth of total foreign commercial banks' liquid assets in the United States, but have also strongly influenced their regional distribution. Western European banks, which are at the center of the Euro-dollar market, accounted for more than one half of the $11 billion total of foreign commercial banks' liquid assets here as of the end of 1967 and for about 60 per cent

[4] During the period, Canada implemented its agreement of July 1963 with the United States (subsequently amended) to keep its international reserves within an agreed limit in return for exemption on new securities issues from the United States interest equalization tax and the guidelines applicable to long-term investments by nonbank financial institutions cooperating with the President's voluntary foreign credit restraint program. Discussion and details of this agreement can be found in the Bank of Canada's *Annual Report of the Governor to the Minister of Finance*, 1965 and 1966.

of their growth since 1957 (see Chart III). At the end of 1967, more than half of the Western European total consisted of the holdings of commercial banks in the United Kingdom, where the operations of United States-owned branches have been especially important. It should be noted that commercial banks and official institutions in other Western European countries as well as in other parts of the world hold substantial liquid dollar balances in the form of claims on United Kingdom banks, and United Kingdom banks in turn hold portions of these funds as liquid balances in the United States.[5] Commercial banks in other major Western European countries—notably Swiss banks, traditionally havens for foreign-owned funds—also hold significant amounts of liquid dollars in the United States.

The activities of Canadian banks, operating through their United States agencies and affiliates, have contributed significantly to the relatively rapid growth of foreign commercial banks' liquid assets in the United States. The Canadian agencies, which are not deposit-taking institutions, have acted as intermediaries on behalf of their head offices in Canada, which have offered United States corporations attractive rates and maturities for United States dollar deposits. If the Canadian head offices place such funds in liquid form with their New York agencies, these institutions acquire dollar liabilities to their Canadian head offices. The agencies in turn use these balances to finance loans to brokers and securities dealers and in other operations in the New York money and loan markets.[6] Canadian banks not only function as intermediaries in the United States market, but the home offices also accept and place Euro-dollars in other countries and accept dollar deposits from and extend dollar loans to Canadian residents. These operations contributed significantly to movements in Canadian commercial banks' liquid holdings in the United States, which have remained in excess of $1½ billion in recent years and in 1967 rose to a new peak for the period of about $2 billion.

The holdings of Asian commercial banks constituted about 17 per cent of the December 1967 total of all foreign commercial banks' liquid assets in the United States. Both their substantial size and relatively sharp growth have been heavily influenced by the increase of the liabilities of Japanese agencies in the United States to their head offices in Japan. The Japanese agencies in the United States, like the Canadian agencies, are regarded as domestic institutions in the United States balance of payments, and therefore the funds deposited with them by their head offices in Japan are regarded as foreign liquid assets. The agencies in turn employ the dollars to finance Japan's international trade. In addition, part of the Japanese agencies' liabilities to their head offices represents trade bills drawn on United States importers and then forwarded by the head offices in Japan to the United States agencies. The latter normally accept the instruments, credit the head offices with liquid claims, and then hold the instruments to maturity.

In addition to the factors just described, foreign commercial banks' liquid asset holdings in the United States have grown moderately in response to working-balance needs associated with the expansion of international trade and finance.

Private nonbanking concerns' and individuals' liquid assets here have shown a fairly steady uptrend since 1957, and by the end of 1967 stood at just over $4½ billion. Most of the growth since 1957 in this category of foreign liquid assets is attributable to an increase in Latin American holdings, which accounted for half of the total at the end of 1967. Apart from the liquidity requirements of Latin American-based businesses, particularly in the petroleum industry, individuals and corporations in many Latin American countries have found dollar balances, notably short-term time and savings deposits, increasingly attractive investments in the face of continuing domestic inflation and currency uncertainties. Western Europeans held about 30 per cent of the aggregate of these privately held liquid assets at the end of 1967; such holdings are importantly influenced by the growth of contingency reserves of foreign-owned life insurance companies operating in the United States.

INTERNATIONAL AND REGIONAL ORGANIZATIONS. At the end of 1967, international and regional organizations held somewhat more than $1½ billion of liquid assets in the

[5] The extent to which banks in the United Kingdom have served as a center for the mobilization of foreign-owned dollars is indicated by Bank of England data on United Kingdom banks' external liabilities in dollars. These data show that, at the end of 1967, United Kingdom banks' total deposit liabilities denominated in dollars to nonresidents stood at about $9½ billion. See Bank of England, *Quarterly Bulletin* (March 1968), page 83.

[6] New York State banking statutes prior to 1960 prohibited foreign commercial banks from opening branches—i.e., offices that accept deposits for their own account—although foreign banks could and still can operate agencies in New York. But no outright restrictions prevented foreign banks from organizing a banking subsidiary under a New York State charter, an option which several foreign banks have chosen. In 1960, new legislation permitted foreign commercial banks to open branches in New York State, provided that United States banking institutions were accorded reciprocal privileges in the country in which the foreign bank is domiciled. A number of foreign commercial banks have elected to take advantage of the opportunity to open a branch in New York State.

United States.[7] Changes in these holdings mainly reflect a number of special transactions of the IMF, the operations of the International Bank for Reconstruction and Development (IBRD), and the activities of the Inter-American Development Bank (IADB).

During the period under review, the IMF increased its liquid assets in the United States, by more than $775 million, to $1 billion at the end of last year. This gain resulted largely from reversible Fund gold sales to the United States to obtain earning assets and from IMF gold deposits placed with the United States to mitigate other Fund members' gold purchases made in connection with subscriptions under the 1965 IMF quota increase. The liquid dollar balances of the IBRD and the IADB reached a peak of just over $2 billion in 1962, as resources for lending accumulated faster than loan disbursements. Subsequently, these holdings fell to about $675 million by the end of 1967 as a result of more rapid use of resources and sizable shifts of liquid dollars into long-term time deposits.

COMPOSITION OF FOREIGN LIQUID ASSETS IN THE UNITED STATES

FOREIGN CENTRAL BANKS AND GOVERNMENTS. There are marked differences in the type of liquid assets held in the United States by foreign official institutions, compared with those held by private foreigners. Foreign central banks have held the bulk of their liquid assets in the United States in those short-term instruments providing a maximum of security and liquidity. These requirements have been met largely by United States Treasury securities, because the broad and active markets for these instruments have assured easy liquidation of sizable amounts. At the end of 1967 more than 60 per cent of these liquid holdings of foreign monetary authorities took the form of United States Government securities (see Chart IV). While these assets are concentrated in short-term United States Treasury obligations (bills and certificates of indebtedness), foreign central banks and governments also hold a sizable amount of United States Government bonds and notes (see Chart V).

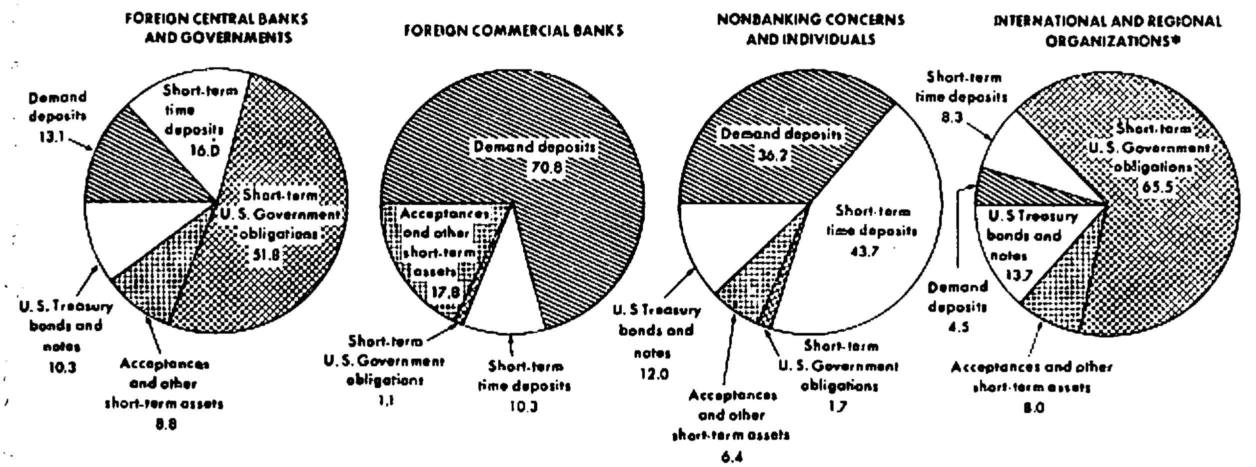
Foreign central bank holdings of short-term United States Treasury securities largely reflect routine investments in Treasury bills. However, from time to time these banks have temporarily acquired liquid dollars in the form of special United States Treasury certificates of indebtedness as a result of inter-central-bank reciprocal currency operations.[8] For example, when the United States initiates a swap drawing on a foreign central bank, the United States obtains a specific amount of foreign currency and the foreign central bank obtains an equivalent amount of dollars. These dollars are generally invested in special United States Treasury certificates, although some foreign monetary authorities have chosen to place the dollars in Treasury bills. Normally, the United States uses the foreign exchange so acquired to purchase dollars held by the foreign central bank pending reversal of the short-term swap contract. Thus no net increase in aggregate central bank liquid holdings in the United States takes place, although United States swap drawings usually result in an increase in the special Treasury certificates outstanding during the term of the swap. In contrast, a swap drawing on the United States by a foreign central bank increases the total of foreign liquid assets held here (matched by an equivalent amount of United States foreign currency assets). These assets arise in the form of special Treasury certificates (or in the form of Treasury bills) unless the foreign central bank immediately disburses the dollars in foreign exchange market operations or subsequently turns the Treasury instrument into cash. Outstanding Treasury certificates of indebtedness arising from swap drawings totaled nearly $1½ billion at the end of 1967; this amount by and large reflected drawings by the United States.

In addition to the short-term United States Treasury securities denominated in dollars described above, there was outstanding at the end of 1967 about $150 million equivalent of special Treasury certificates of indebtedness denominated in foreign currencies. These certificates were sold by the United States Treasury to foreign monetary

[7] These holdings exclude about $4¾ billion of IMF-owned dollars which arose mainly in connection with the United States currency subscription to the Fund but also as a result of United States drawings on the IMF. United States transactions with the IMF, as well as other members' transactions in dollars with the Fund, are accorded special treatment in the United States balance of payments; the net of changes in these transactions represents the change in the United States reserve position with the IMF. With outstanding United States drawings on the IMF still within the "gold tranche" (i.e., the amount equal to 25 per cent of a country's quota that can be drawn virtually at will), the change in the United States reserve position with the Fund is treated as part of United States monetary reserves in the balance of payments. See the *Treasury Bulletin* or the *Federal Reserve Bulletin* for a historical series on IMF liquid dollar holdings and dollar transactions with the United States and other Fund members.

[8] United States Treasury certificates of indebtedness are short-term instruments issued with a given coupon rate. Such instruments have been issued in marketable form or in the form of special Treasury certificates which are nonmarketable but are convertible into cash at short notice. At the end of 1967, only the special Treasury certificates of indebtedness were outstanding.

Chart IV
FOREIGN LIQUID ASSETS IN THE UNITED STATES BY TYPE OF ASSET, DECEMBER 31, 1967
Percentage of total



* Excluding IMF gold deposit account and IMF dollar holdings arising from United States currency subscriptions to the Fund and from IMF transactions in dollars with the United States and other members.

Sources: United States Department of the Treasury and the Federal Reserve Bank of New York.

authorities in order to obtain needed foreign exchange while meeting the special liquidity requirements of those authorities.[9] It should be noted that, just as United States swap drawings usually result in a change in form but not in the aggregate amount of outstanding liquid holdings here of foreign monetary authorities, the proceeds of Treasury sales of foreign-currency-denominated securities are used to absorb dollars from foreign authorities, leaving unchanged the aggregate of foreign liquid assets in the United States.

Foreign central banks and governments also held about $1½ billion of liquid United States Treasury bonds and notes at the end of 1967 (see Chart V). These holdings consisted of about $900 million of marketable Treasury securities and about $700 million of special Treasury bonds or notes which, although not marketable, are readily convertible into cash or short-term United States Treasury securities.

With respect to foreign monetary authorities' holdings of nonmarketable Treasury bonds or notes which are readily convertible into cash or short-term Treasury instruments, virtually all these securities have been denominated in foreign currencies. These foreign-currency-denominated securities, first introduced in 1963, were offered to foreign monetary authorities in order to help meet United States official foreign exchange needs. The outstanding amount of such instruments in the hands of foreign central banks and governments rose to a peak just over $1 billion in late summer of 1965 and then declined when the United States subsequently repaid part of these obligations. In addition, some of these instruments were replaced at maturity with special short-term Treasury securities when market yields on United States Government bonds had moved above the 4¼ per cent statutory maximum payable on such newly issued securities. Although Treasury notes (and short-term Treasury securities) did not come under an interest rate ceiling, the Treasury lacked authority to issue Treasury notes denominated in foreign currency. In order to continue its policy of offering foreign central banks market yields on special United States Treasury securities, the Treasury therefore issued foreign-currency-denominated certificates of indebtedness (mentioned above). In late 1966, authority was obtained to issue foreign-currency-denominated Trea-

[9] The circumstances under which foreign-currency-denominated obligations have arisen, or have been liquidated, are described in the reports of "Treasury and Federal Reserve Foreign Exchange Operations", by Charles A. Coombs, regularly appearing in this *Review* in March and September.

sury notes, and most of the certificates have been refunded into notes. Moreover, to meet subsequent United States foreign exchange needs, the Treasury issued further notes in the foreign-currency series; at the end of 1967, such convertible Treasury securities outstanding totaled just over $675 million.[10]

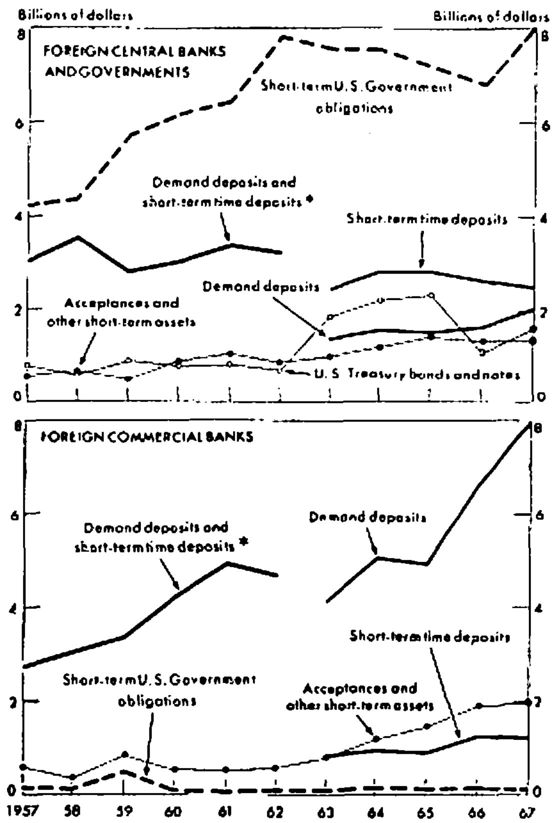
Foreign monetary authorities have placed somewhat increased emphasis in recent years on holdings of bankers' acceptances and other prime short-term money market assets, notably negotiable time C/D's (which are included in the United States balance of payments and the charts under "acceptances and other short-term assets" rather than under "short-term time deposits"). This change perhaps is the result of the attractive yields available, the substantial growth of the commercial paper market, and the development of the secondary market for negotiable C/D's. After rising in 1964, short-term time deposit holdings (excluding C/D's) have fallen back, probably reflecting central banks' and governments' preference for C/D's. In addition, these institutions' holdings of long-term time deposits (not shown) have risen sharply.

Foreign central banks have held demand deposits to the minimum necessary to meet the routine flow of payments through their dollar accounts. Central banks' major payments can be scheduled to some extent and their short-term investments—e.g., United States Treasury bills—are highly liquid. Therefore their demand accounts in general have been kept to relatively small proportions.

FOREIGN COMMERCIAL BANKS. In contrast to the asset composition of foreign central banks' and governments' liquid holdings in the United States, a high proportion of foreign commercial banks' liquid assets is held in the form of demand deposits, rather than in the form of earning assets (see Chart IV). Actually, however, a very substantial part of the nearly $8 billion in so-called "demand deposits" represents deposits held by the foreign branches of United States banks with their head offices. In addition, the head offices of foreign commercial banks have held substantial demand deposits with their agencies or branches in the United States. The holdings of the head offices of Canadian and Japanese agencies in the United States have been quite large. Just as any bank employs its deposits to acquire earning assets, the United States institutions involved—i.e., the United States head offices of their foreign branches and the Japanese and Canadian agencies in the United States—use their resources to acquire such assets. But the relationship between head office and branch or agency is a far closer one than just bank and depositor, so that the foreign branch or head office does in effect, through its intercorporate accounts,

Chart V

FOREIGN LIQUID ASSETS IN THE UNITED STATES BY TYPE OF ASSET, 1957-67



* Demand and short-term time deposits not available separately before 1963.

Sources: United States Department of the Treasury and the Federal Reserve Bank of New York.

[10] In addition to the types of securities just described, the Treasury has issued nonconvertible foreign-currency-denominated securities from time to time since 1962. Such nonconvertible United States Treasury obligations are not considered liquid in the balance of payments. At the end of 1967, about $360 million equivalent of these instruments was outstanding, of which $250 million represented special nonliquid securities issued to the German Federal Bank in conjunction with the agreement between the United States and German governments regarding the offsetting of $500 million of United States military expenditures in Germany, in four quarterly instalments of $125 million each. In addition, the Treasury has issued to foreign monetary authorities nonconvertible nonmarketable securities denominated in dollars. These obligations arose in United States Government transactions with the governments of Canada and Italy; at the end of 1967, they stood at $490 million. Such securities are not considered liquid in the United States balance of payments.

share in the return on the United States entity's assets earned with the resources placed in the United States by the related foreign branch or head office.

United States Treasury bills have played a minor role in the portfolios of foreign commercial banks, because the applicable Federal income tax exemptions on discount earnings on bankers' acceptances and on earnings on time deposits and negotiable C/D's have given these instruments a clear yield advantage.[11] Foreign commercial banks have acquired substantially larger holdings of bankers' acceptances than of negotiable C/D's, however. These holdings in the United States of bankers' acceptances and negotiable C/D's are included under the category "acceptances and other short-term assets" as shown in Charts IV and V. In addition, this category includes a sizable amount of Japanese trade bills mentioned above in connection with the operations of the Japanese agencies.

FOREIGN NONBANKING CONCERNS AND INDIVIDUALS. Foreign nonbanking concerns and individuals have more than doubled their holdings of short-term time deposits from the end of 1963 through the end of 1967 to about $2 billion, as higher yields on these instruments became possible with the increase of interest rate ceilings under Regulation Q. This growth occurred partly at the expense of Treasury bills and acceptances and other short-term money market instruments. At the same time, holdings of United States Treasury bonds and notes have risen moderately since 1963 but by the end of last year had barely exceeded levels reached by 1960; these assets probably reflect holdings of institutions, such as insurance companies, which have longer term investment requirements but which are alert to changing yield opportunities.[12] A moderate growth in demand balances has taken place, as would be expected with rising world commerce.

INTERNATIONAL AND REGIONAL ORGANIZATIONS. IMF dollars held for investment purposes represent the proceeds of reversible gold sales to the United States to obtain earning assets. These assets are held entirely in the form of United States Government securities.[13] United States Treasury securities have accounted for more than half of the liquid assets in the United States owned by nonmonetary international and regional organizations. However, the latter's holdings of bankers' acceptances and negotiable C/D's have shown a tendency to rise in recent years in response to the availability of more attractive interest rates. The recent substantial shifts into long-term deposits were accompanied by a decline in holdings of United States Government securities, although short-term time deposit holdings were also reduced. These institutions' holdings of United States Government securities and the predictable nature of their lending operations have produced only minimal need for dollars in the form of demand deposits (see Chart IV).

[11] The exemptions are available to foreign corporations not engaged in trade or business in the United States and, in some situations, to foreign corporations which are so engaged.

[12] Although foreign commercial banks may hold United States Treasury bonds and notes, available evidence indicates that virtually all foreign private holdings of such instruments were in the hands of foreign corporations and individuals, and Charts IV and V were constructed on this assumption.

[13] In addition to these dollars held as investments, which totaled just over $775 million at the end of 1967, the Fund held slightly more than $225 million in liquid claims on the United States. These claims arose as the IMF placed gold deposits with the United States in order to offset the decline in the United States gold stock resulting from other members' purchases of gold with dollars to meet their gold subscription under the 1965 general increase in IMF quotas.