

For Release on Delivery
Wednesday, July 17, 1974
7:00 p.m. M.D.T. (9:00 p.m. E.D.T.)

CAPITAL FLOWS, BANK LENDING ABROAD, AND THE
U.S. BALANCE OF PAYMENTS

A Lecture

By

Andrew F. Brimmer
Member
Board of Governors of the
Federal Reserve System

Before the

American Bankers Association
School for International Banking

Boulder, Colorado

July 17, 1974

CAPITAL FLOWS, BANK LENDING ABROAD, AND THE
U.S. BALANCE OF PAYMENTS

By

Andrew F. Brimmer*

The welter of issues and questions swirling about in the arena of international economic policy today makes it extremely difficult--even for experts--to appraise the trend and outlook for any country's balance of payments. But through the tapestry of turmoil, a common thread can be traced: the enormous increase in the price of oil within the last year has seriously disrupted the pattern of international trade and payments and imposed a severe burden on many countries of the world--regardless of the stage of development.

Unfortunately, the pressing need to deal with the host of trade and financial problems associated with the jump in petroleum prices has left little time for most senior public officials involved in the formulation and implementation of economic policy to appraise the extent and significance of recent changes in this nation's basic international economic position. For this reason, in considering the subject of this lecture, I decided to resist the temptation--to which so many observers are succumbing--to focus on day-to-day movements in particular foreign exchange rates or to agonize excessively over the latest gyration in

* Member, Board of Governors of the Federal Reserve System.

I am grateful to Messrs. Bernard Norwood, Samuel Pizer, and Daniel Roxon of the Board's staff for assistance in the preparation of these remarks. However, the views expressed here are my own and should not be attributed to the members of the staff--nor to my colleagues on the Board.

the political economy of oil. Instead, while giving some attention to both of these issues, I think it might also be enlightening to discuss some of the factors that are operating to affect our basic balance of payments position. These factors include: (1) trends in our foreign trade as these, in turn, are affected by changes in relative prices and cyclical pressures of demand on available resources; (2) capital flows and bank lending abroad--especially in the aftermath of the elimination of capital controls; (3) the behavior of the exchange rate for the dollar, and (4) changing interest rate relationships in the U.S. and foreign money markets.

Before turning to those specific topics, however, I must stress that, in today's world, it is no longer possible--if it ever was--to characterize trends in the balance of payments in terms of some overall balance of payments measure--such as the liquidity balance of the official settlements balance. These measures are still computed and published on a quarterly basis. However, their meaning is increasingly distorted by the fact that exchange rates are no longer systematically fixed by official market intervention; by the difficulty of dealing with flows of oil-producing countries' liquid funds in the same analytical framework as changes in reserves of other countries; and by the upsurge in international flows of private liquid capital--which no longer imply some future change in official reserve holdings.

We are now in a world in which--at times--one or more major countries may make a strong effort to maintain a given exchange rate. But, on the whole, most major countries are intervening in foreign exchange markets, if at all, mainly to moderate and smooth the movements in exchange rates emerging from market forces. Under these circumstances, changes in the U.S. official settlements balance no longer reflect the extent to which official action has been necessary to maintain the exchange rate for the dollar. Instead, that balance reflects only a changing mix of countries that may be intervening in the market for their currencies at any given time. In addition, since early this year, an inflow of liquid funds for investment by the oil-producing countries has also had a significant impact on the U.S. official settlements balance.

These limitations of overall balance of payments measures should be kept in mind as the discussion moves forward. Before proceeding further, however, it may be helpful to summarize here the main conclusions which emerge from the analysis presented below:

- Since the beginning of the year, the U.S. trade position has deteriorated dramatically. In the final quarter of 1973, the trade surplus was running at a \$5 billion annual rate. During the April-May months of this year, we experienced a trade deficit at an annual rate of \$7 billion.
- To a considerable extent, of course, the sharp swing in our foreign trade position reflects the enormous climb in oil prices and the resulting rise in the value of fuel imports. For example, in 1973, we spent just under \$9 billion on such imports, but the current annual rate is in excess of \$30 billion.

- We are now seeing some of the longer-run effects of the depreciation of the dollar. (Since May, 1970, the dollar has depreciated by about 17 per cent.) Our nonagricultural exports (even after correcting for higher prices) have expanded appreciably within the last year. In volume terms, imports (apart from fuel) have been almost flat since early in 1972.

- These trade figures suggest to me that we have moved considerably toward the adjustment of our trade balance that has been expected from the realignments of exchange rates since 1970. Of course, such an adjustment is not painless. It means we have had less goods going into the stream of domestic consumption and additional upward pressure on the rate of domestic inflation.

- Since the abolition of capital controls at the end of January, there has been a sizable outflow of funds from the United States. Banking institutions have been a major source of this outflow. During the first five months of this year, these institutions increased their foreign assets by \$8-1/2 billion--to a level of \$34 billion. This gain was larger than that recorded during the full year 1973. Virtually all of the increase represented credit extended to foreign borrowers, since only a small fraction was accounted for by the banks' investment in facilities abroad.

- Moreover, so far this year, only a small share of the rise in bank loans to foreigners has been associated with export financing. Instead, it appears that--with the termination of nonexport foreign lending restraints--banks have deemphasized export financing and intensified their interest in developing other foreign lending and investment opportunities.

- Other types of capital flows have shown a mixed pattern. Private U.S. long-term investments abroad seem to be proceeding with caution, and the outflow of private foreign direct investment during the first quarter was the lowest in several years. So far, the removal of the Interest Equalization Tax has sparked little investment by U.S. citizens in issues previously subject to the tax.

- On the other hand, it appears that we are now seeing a flow of oil-related funds into the U.S. money market. However, it is difficult to see in the data any evidence of substantial flows of petroleum countries' funds into more permanent forms of investment.

- Under present circumstances, one must interpret overall measures of the balance of payments with a great deal of caution. But it might be noted that, on the official settlements basis, the U.S. balance of payments showed a surplus of about \$1.0 billion in the first quarter of this year. However, in the second quarter, we probably experienced a sizable deficit.

- In foreign exchange markets, the dollar tended to decline from January through mid-May. To some extent, the downtrend reflected a number of factors--including large increases in banking outflows from the United States; the market's reappraisal of the prospects for the U.S. trade balance, and the fact that other industrial countries were borrowing very large amounts from the Euro-dollar markets. Since mid-May, the dollar has strengthened somewhat. This situation undoubtedly reflects to a large extent the tightening of monetary policy in the U.S. and increases in domestic interest rates while rates elsewhere have leveled off or even declined. Fundamentally, however, I believe there has developed a recognition of the fact that U.S. financial markets are indeed superior in many respects for placements of large investment funds, and there is also an improved understanding of the relative strength of our trade position.

- In looking ahead, it seems evident that our current account balance--at present levels of oil prices--will deteriorate further. Therefore, to maintain overall balance, we would have to experience a sizable net inflow of capital--including a sizable share of the funds accruing to oil producers.

But we, like other countries, must find a reasonable trade-off between current account deficits and capital inflows. Strong measures aimed at reducing trade deficits that individual countries see in the immediate future must be tempered by consideration for the situation of others. By the same token, an unduly large flow of foreign capital to the United States--if it should develop--might also upset an appropriate overall structure of our international accounts. Personally, I believe that countries--despite a disturbing tendency to work at cross-purposes--will continue to make an effort to resolve their problems in an atmosphere of cooperation.

Trends in the U.S. Trade Balance

As traditionally viewed, the U.S. trade balance has worsened drastically since the beginning of the year--after registering a remarkable recovery from a \$7.0 billion deficit (balance of payments basis) in 1972 to a surplus of \$600 million in 1973. (See Table 1, attached). Indeed, by the fourth quarter of last year the trade surplus was running at an annual rate of over \$5 billion. The balance dropped to near zero in the first quarter of this year and to a deficit at an annual rate of nearly \$7 billion in April-May. But we and other countries need to revise our analyses of trade balances to take into account the extent to which payments for oil are obscuring an otherwise satisfactory performance.

In the case of the United States, I am especially impressed by the fact that in real terms (that is, abstracting from changes in the unit values of exports and imports since 1967) our trade balance not only improved steadily in 1973 but registered further gains in the first and second quarters of this year.

Export Trade: On the export side, the value of U.S. shipments has been rising sharply. This can be traced partly to a surge in agricultural exports, but rising sales of other products played an even more important role. In volume terms, agricultural exports have declined a little since 1973, but the value of shipments reached a peak annual rate of over \$23 billion in the first half of this year because of escalating prices. For other exports, prices have also risen substantially, but at the same time

export volumes have jumped by nearly 20 per cent in the last year. This increase in volumes has persisted even after a slowdown in the growth of economic activity abroad--and in spite of full utilization of capacity to produce many products in the United States. Some of the gain in exports may be a side effect of our price controls, which for a time made exports more profitable than domestic sales. However, I believe we are also seeing the longer-run effects of the depreciation of the U.S. dollar. Compared with the international value of the dollar in May, 1970, that depreciation now stands at about 17 per cent, as measured against a weighted average of rates of our major industrial competitors.

The increase in nonagricultural exports, in real terms, in the first five months of this year was broadly-based, extending to all major categories. Machinery exports increased by more than 20 per cent over the year-earlier period. The backlog of foreign orders is still rising, and it would appear that further gains in these exports can be expected. Shipments of nonagricultural industrial materials were also up substantially--by nearly 15 per cent. Higher exports of these products (particularly coal, steel, and chemicals) may reflect to some degree the effect of the price control program. These restraints kept domestic prices below those of world markets and provided U.S. producers with an incentive to market a greater share of their output in foreign countries. With the termination of price controls at the end of April, domestic prices of many of these commodities increased appreciably. Consequently, this incentive has now been removed. Exports of automobiles and other consumer goods also increased in quantity, contributing significantly to the increase in total nonagricultural exports this year.

Import Trade: On the import side, the evidence that dollar depreciation has held down demand is rather clear. In volume terms, imports (apart from fuel) have been almost flat since early in 1972. This is especially noteworthy in view of the strong pressures on U.S. supplies last year--although more recently the slowdown in U.S. aggregate demand must also be holding down imports. Here again, I would attribute a considerable part of the weakness in import demand over the last two years to the continuing effects of the adjustment of the dollar's exchange rate. The prices of foreign manufactured goods in terms of U.S. dollars have risen sharply, and we are probably seeing a more than temporary switch of demand from foreign products to domestic substitutes. Probably the clearest example of this is the recent slump in sales of foreign automobiles, which seems to be mainly a reaction to the high price of imports and the availability of competitive U.S.-produced small cars.

In contrast to the strength in real nonagricultural exports this year, real imports of nonfuel commodities in the first five months of 1974 have declined slightly from year-ago levels. As might be expected from the marked weakening in U.S. output and demand, the greatest decreases have been in nonfuel industrial materials and in consumer goods (excluding food and European and Japanese cars). The volume of imports of both categories is down about 10 per cent this year. Imports of capital goods have risen quite sharply this year--again in line with the heavy demand in the United States for such equipment. While unit imports of cars from

Europe and Japan are nearly one-fourth larger this year than in the same period a year ago, most of these are in inventories. Sales of such foreign cars are actually down by 25 per cent from last year, and their share of the domestic market has dipped to less than 14 per cent in the last three months compared with about 15-1/2 per cent in calendar 1973.

What these trade figures in volume terms suggest to me is that we have moved considerably toward the adjustment of our trade balance that had been expected from the realignments of exchange rates since 1970. Such an adjustment is not painless, of course. It means we have had less goods going into the stream of domestic consumption and additional upward pressure on the rate of domestic inflation.

Oil Prices and the Trade Balance

I would like to turn now to the impact of the rise in oil prices on our trade balance--and indirectly on other sectors of the balance of payments. As you may know, U.S. imports of fuels have jumped from \$8.8 billion in 1973 to a current annual rate of somewhat over \$30 billion. This is a much greater increase than had been estimated earlier--mainly because the average price of a barrel of imported oil reached \$11.61 in April-May of this year, compared with about \$9.10 in the first quarter and a little over \$3 per barrel in 1973. I do not know what the future holds on oil prices, nor is it clear whether the volume imported will be sustained at these price levels. However, neither the United States or any other oil-importing country can count on lower payments for oil in projecting its balance of payments outlook.

I mentioned earlier that traditional trade analysis might be inappropriate to our present situation. I had in mind especially the need to adjust our thinking to the impossibility of achieving earlier goals of a balance or a surplus in merchandise trade at a time when we and the other oil-consuming countries taken together must expect a current account deficit of perhaps \$50 billion with the oil producers in 1974. Under these circumstances, it is not at all clear what an appropriate aim for the U.S. trade balance ought to be. This is partly because some share of the aggregate trade deficit in oil must be expected to fall on the United States. But the difficulty arises as well because the process of adjusting to the new oil situation also involves major changes elsewhere in the U.S. international accounts. For the United States, higher net income on investments abroad in the petroleum industry has helped to offset some of the effects of the higher price of imported oil. There was an especially large increase in foreign investment income in the first quarter. However, this rise probably included a sizable amount of one-time inventory profit, and it is not likely to be typical of the longer-run situation. More important in the period ahead will be the distribution among countries of the funds accruing to oil producers from their worldwide oil sales.

Capital Flows in the U.S. Balance of Payments

As noted above, flows of funds in international capital markets have been greatly influenced by the massive increase in revenues of the oil-producing countries--setting off a scramble for funds even before payments to them had to be made. These developments were followed by

the abolition of the structure of U.S. controls over capital outflows at the end of January of this year--accompanied by the reduction or elimination of other countries' controls against inflows. We have experienced a worldwide escalation in interest rates as countries moved to resist already intensive domestic inflation threatening to get further out of control. As a consequence of the extreme pressures generated by these events--aided at times by sheer mismanagement--the soundness of some individual banks (both here and abroad) has been undermined.

Against this background, an assessment of capital flows in the U.S. balance of payments is necessarily difficult. However, a careful analysis of the available figures does suggest that--as far as the U.S. is concerned--commercial banks have been a major source of capital outflows in the first half of this year. Other types of capital flows (particularly direct investment and net purchases of securities) have exhibited a more mixed pattern.

Foreign Lending by U.S. Banks

Since the termination on January 29, 1974, of U.S. controls on capital outflow, banking institutions in this country have increased sharply their loans to foreigners, and they have also raised their other investments abroad. In the first five months of the year, their total foreign assets increased more than they did in all of the previous year.

It will be recalled that through late January, 1974, foreign lending and investment by U.S. commercial banks, as well as by U.S. agencies and branches, had been subject to restraint under the Federal Reserve Voluntary Foreign Credit Restraint (VFCR) Guidelines. In force for nine years as part of the Administration's balance-of-payments program, and accompanied by other programs of restraint administered by the Treasury Department (the Interest Equalization Tax) and by the Department of Commerce (the Foreign Direct Investment Program), the VFCR set ceilings on the gross foreign assets of banks and of agencies and branches--except that as of particular dates the agencies and branches could increase their foreign asset holdings to the extent they financed the increase by obtaining funds from abroad.

When the three programs were terminated in late January, the banking institutions were asked to continue to submit monthly data for the remainder of the year in order that we could monitor capital flows. Some changes were made in the data classifications and some detail was dropped to reduce the reporting burden to a bare minimum, and, because of the particular timing of the termination announcement, we had to skip a report for the end of January. However, based on checks against other series, we believe end-of-January, 1974, was not greatly different from end-of-December, 1973. Under this revised reporting system, we now have figures for the period through the end of May. These can be compared with those for the end of December to measure what happened to bank lending abroad after controls were lifted. (See Table 2.)

In the first five months of the year (which is about the same as saying in four months following the end of capital outflow restraints), total foreign assets held by U.S. banks and by U.S. agencies and branches for their own account increased by about one-third. In dollar terms, the increase was about \$8-1/2 billion and brought the level to \$34 billion. Almost all of that increase represented credit extended to foreigners. A very small amount was accounted for by the increase in direct investment in bank branches, subsidiaries, or other affiliates abroad.

For the period end-of-February to end-of-May, export credits (which are included in the total foreign asset figures given above) rose by a scarcely significant 3 per cent. Unlike the aggregate total asset data, we do not have export credit figures that can be used to examine the full span from a date before VFCR termination to a recent date. Before VFCR termination, we collected figures on export credits to non-residents of the United States other than Canadians (since Canada was exempt from restraint under the VFCR). Since termination of the controls, we are collecting data for export credits to all non-U.S. residents including Canadians. Although there might have been a big increase in export credit in January and February that we did not capture because we gathered no data for that period, each of the month-to-month changes since February has shown only slight increases or decreases. This stagnant situation contrasts sharply with the activity in this sector in 1972 and 1973. In those years (which followed the exemption of export financing from the VFCR), export credits rose at an average quarterly

rate of over 18 per cent. The virtual cessation of this trend in the first months after the January, 1974, termination of nonexport foreign lending restraints indicates that banks have deemphasized export financing and intensified their interest in developing other foreign lending and investment opportunities. To express it another way, the reported data point up how much preferential treatment was given to export financing by the capital controls.

When we look at the data for U.S. commercial banks, on the one hand, and for U.S. agencies and branches of foreign banks, on the other, we can observe one important difference in their behavior during these early months of decontrol of capital outflow. In the period through April, the total foreign assets of the U.S. banks increased at about ten times the rate for the agencies and branches. (These changes occurred in nonexport financing.) In May, however, agencies and branches increased their foreign assets at triple the rate of commercial banks.

Because of the way the VFQR Guidelines were written for agencies and branches in the last months of the program, we then (and still do) gather information from reporters on the extent to which they obtain funds from abroad to finance their lending from the United States. At the end of May, their "net foreign position" was about the same as it was at the end of 1974. That is, the increase in their credits to foreigners was matched by an increase in funds obtained from foreigners. In passing, it might be noted that the U.S. agencies and branches of foreign banks--while funding themselves to a large extent from abroad--hold almost half as much foreign assets as do U.S. commercial banks.

Other Types of Capital Flows

Data for other types of capital flows this year are still very incomplete. Moreover, the figures are distorted by temporary flows related to the petroleum situation. Private U.S. long-term investments abroad (apart from bank lending) seem to be proceeding with caution. Preliminary data for the first quarter indicate that direct investment outflows were the lowest in several years. To some extent, this probably was due to the fact that petroleum companies were sending funds back to the United States, on balance. New issues placed abroad to finance direct foreign investments were only \$25 million in the first quarter, and such borrowing abroad has apparently remained low. This may reflect both the ending of capital controls and the sharply increased costs of financing abroad. On the other hand, it may also signal some softening in investment plans. Nevertheless, the latest survey of plans for capital outlays by foreign affiliates of U.S. companies still showed a substantial year-over-year projected increase in 1974.

The removal of the Interest Equalization Tax (IET) has certainly not sparked much investment in issues previously subject to the tax. Except for traditional purchases of Canadian bonds, U.S. investors have been exhibiting practically no interest in foreign securities. In the January-April months of this year, U.S. investors sold, net, \$21 million of foreign stocks, and bought, net, only about \$75 million of foreign bonds-- other than those of Canada and Israel.

Foreign private long-term capital flows to the United States have shown mixed trends so far this year. Net foreign private purchases of U.S. corporate bonds have been quite small--including the offshore issues mentioned above. Net foreign purchases of U.S. corporate stocks through April totaled under \$400 million, and such purchases were dropping lower as the year progressed. On the other hand, foreign direct investment flows to the United States appeared to be holding up well and may approach last year's record of \$2.5 billion. Clearly, as far as securities are concerned, the weakness and uncertainty of markets nearly everywhere have tended to divert investors to other types of assets. In the case of direct investments, the two-way flow will probably remain high, but the balance of the flows seems more likely to tilt in favor of the United States--since these flows are more directly affected by the shift in relative cost advantage resulting from the depreciation of the dollar. Of course, cyclical factors will also be important in the shorter run.

As I mentioned above, a great deal of attention has to be given to the strains being imposed on the international financial system by the flood of capital transfers connected with payments for oil. By now the magnitudes of these flows are widely-known. However, it might be well to remind ourselves that gross revenues of those nations that are members of the Organization of Petroleum Exporting Countries (OPEC) at current prices exceed \$100 billion per year. After expenditures for the importation of goods and services, their net funds available for investment are on the order of \$60 billion.

I believe we are now seeing the influence of these massive oil payments on short-term capital flows--both inward and outward--on the U.S. balance of payments. However, it is difficult to see in the data any evidence of substantial flows of petroleum countries' funds into more permanent forms of investment. This is only natural, I believe, given the need of the producing countries to adjust their thinking to unparalleled flows of funds and to develop investment strategies that suit their long-run needs. I personally hope that they will undertake to provide a large part of the financing of the oil deficits of needy countries, but in the meantime the accumulating funds will find their way to the broadest and most secure markets.

Foreign Exchange Rates and the Balance of Payments

As noted above, under present circumstances, one must interpret overall measures of the balance of payments with a great deal of caution. With that limitation in mind, I would note that the official settlements measure showed a surplus of about \$1.0 billion (seasonally adjusted) in the first quarter of this year, but it probably registered a substantial deficit in the second quarter. On closer examination, we find that the first quarter surplus occurred mainly very early in the year, when market forces were tending to appreciate the dollar and other countries were selling dollars to moderate the depreciation of their currencies. Beginning in January, the dollar tended to decline in the market until about mid-May. This was accompanied by some dollar purchases by other countries (as well as some intervention by the U.S. authorities)--again aimed primarily at smoothing the effects of shifting market preferences.

A few countries--Italy, France and the United Kingdom--were net sellers of dollars to support their currencies. Since mid-May, the dollar has tended to strengthen against a weighted average of major foreign currencies--without much official intervention in the market--since markets have been fairly stable. However, countries other than the major industrial countries have been adding to their official holdings of liquid U.S. assets. As I noted above, I believe we are now seeing the beginnings of a substantial inflow of oil-producers' funds for investment in U.S. market instruments.

Some of the change in the market's view of the position of the dollar since last October has reflected varying judgments about the effect of higher oil prices on the U.S. balance of payments. Back in October, it might be recalled, there was an upsurge in confidence in the dollar. This was based largely on the relative self-sufficiency of the United States in oil production. But it was also partly a reflection of the expectation that the massive revenues of the OPEC countries would naturally be attracted to the investment opportunities offered by U.S. markets.

As I have mentioned, market sentiment shifted again in January. I would interpret the depreciation of the dollar into mid-May as a combination of several factors--including the easing of the oil shortage in other countries; the initiative taken by some of the deficit countries to borrow in the Euro-dollar market to cover their foreign exchange needs for the year; the removal of capital controls here and abroad; and the emergence of a large U.S. trade deficit. Since the low point of the dollar in May, we have seen a more stable situation--with the dollar tending to

appreciate on balance. This latest turn of events no doubt reflects to a large extent the tightening of monetary policy in the United States and increases in domestic interest rates while rates elsewhere have leveled off or even declined. More than that, however, I believe there is again a recognition that U.S. financial markets are indeed superior in many respects for placements of large investment funds, and there is also an improved understanding of the relative strength of our trade position.

Outlook for the U.S. Balance of Payments

In the case of the United States, it appears that the most likely outlook for our current account balance--at present levels of oil prices--is some further deterioration. To maintain overall balance, therefore, we would have to experience a sizable net inflow of capital, including in that picture a sizable share of the funds accruing to oil producers. But we, like other countries, must find a reasonable trade-off between current account deficit and capital inflows. Strong measures aimed at reducing the trade deficits that individual countries see in the immediate future must be tempered by consideration for the situation of others. By the same token, an unduly large flow of foreign capital to the United States, if it should develop, might also upset an appropriate overall structure of our international accounts.

This question of sharing equitably on a multilateral basis the burden of adjusting current and capital accounts is scarcely new. It is exactly the kind of analysis we were engaged in at the time of the realignment of exchange rates at the end of 1971. What is new, perhaps, is the magnitude of the potential flows relative to the size of capital

- 20 -

markets, as well as the introduction of a new set of investors--the oil producers. Personally, I believe that countries--despite a disturbing tendency to work at cross-purposes--will continue to work together to resolve their problems in an atmosphere of cooperation.

- 0 -

Table 1

July 15, 1974

U.S. MERCHANDISE TRADE, BALANCE OF PAYMENTS BASIS
(Billions of dollars, seasonally adjusted annual rates)

	Current Dollars													
	1970	1971	1972	1973	1972				1973				1974	
					1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q ^e
<u>EXPORTS</u>	<u>41.9</u>	<u>42.8</u>	<u>48.8</u>	<u>70.3</u>	<u>46.6</u>	<u>46.1</u>	<u>49.4</u>	<u>52.9</u>	<u>60.9</u>	<u>66.7</u>	<u>72.6</u>	<u>80.8</u>	<u>89.2</u>	<u>95.0</u>
Agric.	7.3	7.8	9.5	17.9	8.9	8.7	9.6	10.8	14.7	16.5	19.0	21.2	23.6	23.0
Nonagric.	34.6	34.9	39.3	52.4	37.8	37.4	39.8	42.1	46.2	50.2	53.5	59.7	65.6	72.0
<u>IMPORTS</u>	<u>39.8</u>	<u>45.5</u>	<u>55.8</u>	<u>69.6</u>	<u>53.9</u>	<u>53.3</u>	<u>55.8</u>	<u>60.0</u>	<u>64.8</u>	<u>68.1</u>	<u>70.2</u>	<u>75.5</u>	<u>88.8</u>	<u>100.0</u>
Fuels	3.2	4.0	5.1	8.8	4.7	4.9	5.5	5.4	6.7	7.8	9.0	11.5	20.5	30.8
Nonfuels	36.6	41.5	50.6	60.9	49.2	48.5	50.3	54.5	58.1	60.3	61.2	63.9	68.3	71.0
<u>TOTAL BALANCE</u>	<u>+2.2</u>	<u>-2.7</u>	<u>-7.0</u>	<u>+0.6</u>	<u>-7.3</u>	<u>-7.2</u>	<u>-6.4</u>	<u>-7.1</u>	<u>-3.8</u>	<u>-1.4</u>	<u>+2.4</u>	<u>+5.4</u>	<u>+0.4</u>	<u>-6.8</u>
BALANCE excl. fuel imp. & agr. exp.	-2.0	-6.6	-11.3	-8.5	-11.4	-11.1	-10.5	-12.4	-11.9	-10.1	-7.7	-4.2	-2.7	+1.0
	Constant (1967) Dollars													
<u>EXPORTS</u>	<u>37.9</u>	<u>37.5</u>	<u>41.5</u>	<u>51.1</u>	<u>40.1</u>	<u>39.4</u>	<u>42.1</u>	<u>43.6</u>	<u>48.4</u>	<u>50.6</u>	<u>51.5</u>	<u>53.7</u>	<u>54.8</u>	<u>56.6</u>
Agric.	7.2	7.2	8.2	10.5	8.0	7.8	8.3	8.7	10.5	10.6	10.2	10.4	10.4	10.3
Nonagric.	30.7	30.3	33.3	40.6	32.1	31.6	33.8	35.0	37.8	39.9	41.3	43.6	44.7	46.3
<u>IMPORTS</u>	<u>35.7</u>	<u>38.7</u>	<u>44.2</u>	<u>46.9</u>	<u>44.3</u>	<u>42.5</u>	<u>43.9</u>	<u>46.1</u>	<u>47.9</u>	<u>46.5</u>	<u>46.1</u>	<u>45.6</u>	<u>46.1</u>	<u>45.6</u>
Fuels	3.2	3.6	4.4	6.0	4.1	4.2	4.8	4.6	5.4	6.1	6.4	6.2	5.2	6.1
Nonfuels	32.5	35.1	39.8	40.9	40.2	38.2	39.1	41.4	42.5	40.4	39.8	39.4	41.0	39.5
<u>TOTAL BALANCE</u>	<u>+2.2</u>	<u>-1.2</u>	<u>-2.7</u>	<u>+4.2</u>	<u>-4.2</u>	<u>-3.1</u>	<u>-1.8</u>	<u>-2.5</u>	<u>+0.5</u>	<u>+4.1</u>	<u>+5.4</u>	<u>+8.1</u>	<u>+8.7</u>	<u>+11.0</u>
BALANCE excl. fuel imp. & agr. exp.	-1.8	-4.8	-6.5	-0.3	-8.1	-6.6	-5.3	-6.4	-4.7	-0.5	+1.5	+4.2	+3.7	+6.8

e - Estimated on the basis of April-May data.

Table 2

FOREIGN ASSET HOLDINGS BY U.S. DOMESTIC AND FOREIGN BANKING INSTITUTIONS

MILLIONS OF DOLLARS, END OF MONTH

	Dec. 1973	Feb. 1974	Mar. 1974	Apr. 1974 ^F	May 1974	Change from			
						Dec. 1973 to May 1974		Apr. 1974 to May 1974	
						Amount	Per cent	Amount	Per cent
A. ALL BANKING INSTITUTIONS									
Number of reporting institutions	305	315	320	323	328				
1. Claims on foreigners reported on Treasury Forms B-2 and B-3	26,421	28,793	31,581	33,043	35,950	+9,529	+36.1	+2,907	+8.8
2. <u>Less</u> claims held on account of customers	2,718	3,269	3,468	3,703	4,003	+1,285	+47.3	+300	+8.1
3. Claims held for own account (1-2)	23,703	25,524	28,112	29,340	31,947	+8,244	+34.8	+2,607	+8.9
4. Export credits included in line 3	n.a.	8,330	8,267	8,319	8,559	n.a.	n.a.	+240	+2.9
5. Financial leases	170	185	197	197	208	+38	+22.4	+11	+5.6
6. Export credits included in line 5	-	108	120	120	120	-	-	0	0
7. Investment in foreign subsidiaries	1,593	1,665	1,728	1,748	1,794	+201	+12.6	+46	+2.6
8. Total foreign claims held for own account (3+5+7)	25,466	27,374	30,037	31,285	33,949	+8,483	+33.3	+2,664	+8.5

NOTES: n.a. not available

Table 2 (continued)

**FOREIGN ASSET HOLDINGS BY
U.S. DOMESTIC AND FOREIGN BANKING INSTITUTIONS - Continued**
MILLIONS OF DOLLARS, END OF MONTH

	Dec. 1973	Feb. 1974	Mar. 1974	Apr. 1974 ^r	May 1974	Change from			
						Dec. 1973 to May 1974		Apr. 1974 to May 1974	
						Amount	Per cent	Amount	Per cent
B. U.S. BANKS									
Number of reporting banks	230	238	241	239	243				
1. Claims on foreigners reported on Treasury Forms B-2 and B-3	17,520	19,981	21,533	23,483	24,916	+7,396	+42.2	+1,433	1
2. <u>Less</u> claims held on account of customers	2,319	2,804	2,946	2,909	3,197	+878	+37.9	+288	+9.9
3. Claims held for own account (1-2)	15,201	17,177	18,587	20,573	21,719	+6,518	+42.9	+1,146	+5.6
4. Export credits included in line 3	n.a.	5,847	5,841	5,909	6,084	n.a.	n.a.	+175	+3.0
5. Financial leases	170	185	197	197	208	+38	+22.4	+11	+5.6
6. Export credits included in line 5	-	108	120	120	120	-	-	0	0
7. Investments in foreign subsidiaries	1,593	1,665	1,728	1,748	1,794	+201	+12.6	+46	+2.6
8. Total foreign claims held for own account (3+5+7)	16,964	19,027	20,512	22,518	23,721	+6,757	+39.8	+1,203	+5.3
C. U.S. AGENCIES AND BRANCHES OF FOREIGN BANKS									
Number of reporting institutions	75	77	79	84	85				
1. Claims on foreigners reported on Treasury Forms B-2 and B-3	8,901	8,812	10,048	9,560	11,034	+2,133	+24.0	+1,474	+15.4
2. <u>Less</u> claims held on behalf of customers	399	465	522	794	806	+407	+102.0	+12	+1.5
3. Claims held for own account (1-2)	8,502	8,347	9,525	8,767	10,228	+1,726	+20.3	+1,461	+16.7
4. Export credits included in line 3	2,303	2,483	2,426	2,410	2,475	+172	7.5	+65	+2.7
5. Financial leases	0	0	0	0	0	0	0	0	0
6. Export credits included in line 5	n.a.	0	0	0	0	n.a.	n.a.	0	0
7. Investments in foreign subsidiaries *	—	—	—	—	—	—	—	—	—
8. Total foreign claims held for own account (3+5)	8,502	8,347	9,525	8,767	10,228	+1,726	+20.3	+1,461	16.7
9. Foreign liabilities	10,812	12,904	12,088	13,121	12,646	+1,834	+17.0	-475	-3.6
10. Net foreign position (8-9)	-2,310	-4,557	-2,563	-4,354	-2,418	-108	-4.7	+1,936	+44.5

NOTES: n.a. not available

* Does not apply to agencies and branches