

Capital Movements Between the United States and Foreign Countries

This supplement to the November 1945 issue of the "Treasury Bulletin" provides detailed information regarding capital movements between the United States and foreign countries for the period January 1942 through April 1945. Publication of this information was discontinued as of January 1942 for reasons of national security; publication was resumed in the November 1945 "Treasury Bulletin" which provided summary information for the period January 1942 through April 1945 and details for May 1945.

The discussion in the November "Treasury Bulletin" explaining the coverage and meaning of the statistics is repeated below.

Coverage of statistics

Banks, bankers, and securities brokers and dealers are the "reporters" of these data. They report with respect to (1) their foreign transactions in securities on their own account and on behalf of other institutions and individuals, and (2) the outstanding short-term foreign assets and liabilities in their own accounts or in accounts with them.

The term "foreigners" covers all institutions and individuals domiciled outside of the United States. Thus, foreign branches of United States institutions are regarded as "foreign" while the United States branches of foreign institutions are regarded as "domestic". The United States branches of foreign institutions report with respect to their liabilities to and claims on, as well as their transactions with or on behalf of, their head offices. The United States head offices report regarding their branches abroad in like manner. In addition, assets and liabilities held by non-reporting domestic custodians, nominees, or agents acting on behalf of or for the benefit of persons or institutions domiciled outside of the United States, and transactions in securities executed by such custodians, nominees, or agents are reportable by banks and brokers to the extent that the relationship is known.

"Foreign countries" include all countries and territories except continental United States and the following territories and possessions of the United States: Alaska, American Samoa, the Canal Zone, Guam, Hawaii, Midway Island, Puerto Rico, Virgin Islands, and Wake Island.

Assets, liabilities, and transactions expressed or executed in foreign currencies are converted at the rates of exchange prevailing on the reporting date or when the transactions were executed.

Capital movements

The "capital movement" tables relate to the net flow of funds between the United States and other countries. Included therein are (1) the net change in the short-term liabilities of United States banks to foreigners, (2) the net change in the short-term assets of United States banks and their customers in foreign countries, (3) the net changes in brokerage debit and credit balances and (4) the net purchases and sales of domestic and foreign long-term securities by foreigners.

The data regarding "capital movements" do not purport to cover fully the international movement of funds; they do identify the trends in the movement of funds. One of their principal defects is that the short-term data are obtained by subtracting the book balances of one date from those of another without its being possible to take account of such changes as the writing off of a bad debt or the classification of an account as domestic, which previously had been considered as foreign, because the owner has acquired domicile in this country. Furthermore, these data do not cover the entire range of international capital transactions. Among the omitted types of data the principal ones are: (1) the movements of the short- and long-term funds of corporations and individuals that are not handled through the agency of reporting banks or brokers in the United States, such as direct investments by corporations, and (2) the capital transactions of the United States Government. The latter became of prime importance only during the war.

"Short-term foreign assets and liabilities" are defined as those payable on demand or maturing not more than one year from date of report, except that securities having a maturity of more than one year from the date of issuance are classed as long-term even when they come within one year of maturity.

The reporting of United States liabilities to foreigners is probably more nearly complete

than that of United States assets abroad because, while the reporting banks are in a position to report their own liabilities to foreign individuals and corporations, they often do not have knowledge of the short-term foreign assets belonging to individuals and corporations in the United States. Funds placed abroad for the account of domestic clients and funds earmarked abroad or in this country for specific uses, such as the payment of interest, are included in the reported data.

Long-term securities are defined as those having no contractual maturity and those of a maturity of more than one year from the date of issuance. Holdings of securities with an original maturity of less than one year are included in the reported short-term assets and liabilities.

The data on securities transactions relate to the total amount of money debited or credited to foreign accounts as a result of transactions in long-term securities. (The amounts debited or credited to foreign accounts are defined as the cost of purchases plus commissions and other charges, or the proceeds of sales less commis-

sions, etc.). Purchases and sales of long-term securities executed in the United States for account of foreigners and purchases and sales executed abroad for the reporter's account or for the account of domestic clients are both included. The redemption of securities in the United States or abroad, as well as purchases and sales for sinking fund purposes, are included, as are those connected with the underwriting of new issues.

Purchases and sales for arbitrage accounts in which the reporter participates as a principal jointly with a foreigner are also included to the extent that they are executed in the United States. The opposite side of the arbitrage transaction -- the sale or purchase executed abroad -- is not reportable.

Net position in foreign currencies

The "net position in foreign currencies" represents the net balance of the foreign currency claims and commitments of reporting banks and bankers. Outstanding spot and forward contracts are both included. Positions in gold or silver bullion are excluded.