

DEPOSITS OF FOREIGN CENTRAL AUTHORITIES

Proposal

The Board shall be authorized to require that all deposits of foreign governments and foreign central banks in the United States be maintained on deposit with Federal Reserve banks.

Discussion

Movements of deposits from the Federal Reserve banks to commercial banks or vice versa have an effect on the reserve position of the banking system. For this reason it is proposed that foreign central banks and governments be required to keep the funds that they have in this country on deposit with the Federal Reserve banks whenever the Board deems it in the public interest.

By giving the Board this authority foreign central banks and governments will be deprived of the power of increasing or decreasing the reserves of our banking system without reference to the credit policy pursued by our own authorities. It is not good policy to make it possible for a foreign power, intentionally or unintentionally, to ease or tighten conditions in our money market by the transfer of funds from the Federal Reserve bank to a commercial bank, or from such a bank to the Federal Reserve bank.