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Statement by

Henry C. Wallich

Member, Board of Governors of the Federal Reserve System

before the

Commerce, Consumer, and Monetary Affairs Subcommittee

of the

Committee on Government Operations

House of Representatives

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I am pleased to testify on the evolution of OPEC investments and their effects.

The Federal Reserve has supplied to the Subcommittee a great deal of information on this subject from our files over the past year, and your letter raises a number of questions regarding this material. Questions of a statistical nature are covered in the annex to this testimony. As available data have become progressively better and more complete, some statistical questions have diminished, and some policy issues have become of less immediate concern. In my testimony, I shall review the evolution of the OPEC surplus and the effects of OPEC investment decisions on financial markets and the banking system.

Evolution and Impact of the OPEC Surplus

The Federal Reserve staff estimates that, over the seven years from 1974 through 1980 inclusive, OPEC had a cumulative current-account surplus of almost $350 billion. This figure includes public transfers from OPEC countries to other countries and thus is somewhat smaller than the cumulative surplus on goods, services, and private transfers alone.

Over the years the OPEC current-account surplus has gone through several distinct periods. The increase in the price of oil from less than $3 per barrel in 1973 to around $11 per barrel in 1974 produced a current-account surplus of $70 billion in 1974. In the next four years the price of oil rose much more slowly while OPEC imports continued to increase very rapidly. After being in the $30-40 billion range in 1975-77 the OPEC current-account surplus disappeared in 1978. The renewed very large oil price increases in 1979-80 raised the price from $13 per barrel to the range of $30-40 per barrel, and the OPEC surplus has reemerged larger than ever, reaching more than $100 billion in 1980. This year the surplus has diminished as oil demand has weakened and OPEC imports have risen further. Our staff projections suggest the 1981 surplus will be about two-thirds as large as last year.

Because the OPEC countries have had an aggregate current-account surplus in the past seven years, the rest of the world in the aggregate has had a current-account deficit. The uneven distribution and uncertain financing of this deficit has been a major source of economic strain for many oil-importing countries.

When the OPEC surplus emerged on an enormous scale in 1974, concerns were expressed both about the ability of oil-importing countries to deal with their sharply higher oil bills, and about the effects of OPEC investment decisions on international banking and the international financial system. As the situation has developed, it is clear that to date the problems of coping with the effects of increased oil bills -- high inflation, depressed activity, efforts to restrain oil consumption and rising debts to finance oil-related deficits -- have been more serious than any problems that have been associated with the investment of OPEC reserves.

Investment of the OPEC Surplus

Our experience with OPEC investment decisions over the past seven years has shown that these investments have not disrupted financial markets substantially. Moreover, information about these investments has improved over the years.

By and large, while individual OPEC countries may tend to concentrate on one broad type of investment in preference to others, OPEC investments in the aggregate have been quite widely distributed.

Our information on OPEC investments come primarily from reports by U.S. financial institutions and from the Bank of England, whose data and estimates have been published by the Bank for International Settlements (BIS). The quality of the data has improved very considerably in recent years. As a result of these improvements in the data, we are now able to account for virtually all of the OPEC surpluses. For example, our earlier estimates of total OPEC investments in the six years 1974-79, aggregating $240 billion, contained an unidentified component of more than $70 billion -- 30 percent of the total. Now, using the improved information published by the BIS we estimate the aggregate unidentified component at $8 billion for those six years combined (only about 3 percent of the total). Most of the reduction in the unidentified component comes from improved reporting of OPEC investments in Continental Europe, Japan and developing countries rather than from OPEC investments in the United States.

The published data identify the main types of OPEC investments over the years. For the period 1974-80, a little under 20 percent of the cumulative OPEC current-account surplus in those years was invested in the United States, mostly in U.S. Treasury and other securities. Another 40 percent of the total has gone into Eurocurrency deposits and other bank deposits in industrial countries. And as shown in the table in the statistical annex, the remainder was invested in a variety of forms in several locations.

Our information on the investment strategies of OPEC countries is based primarily on the regular statistical reports that I have already mentioned. In some cases, these reports can be supplemented by qualitative information from press reports or market sources. Available statistics show that most OPEC countries invest heavily in short-term instruments -- about half of the total OPEC surplus of the past seven years has been placed in securities with maturities of a year or less. From published BIS figures, it is clear that Iraq and Venezuela hold large amounts of bank deposits outside the United States, as do Kuwait and Saudi Arabia. On the other hand, Kuwait is known to have purchased equity securities and real estate as well, and Saudi Arabia has purchased longer-term government securities and some lesser amounts of corporate securities and notes.

Effects of OPEC Investment Decisions

OPEC investment decisions have had far less impact on the economies and financial markets in the rest of the world than have the inflationary consequences of OPEC oil pricing policies. In principle, we would not expect OPEC investments to affect significantly the general level of dollar interest rates, which is determined primarily by financial and economic conditions in the U.S. economy. Moreover, the levels of U.S. monetary aggregates are the result of Federal Reserve policy decisions, and cannot be thrown off course by OPEC investments.

Broadly speaking, whether OPEC investment decisions have an effect on the prices of particular financial assets and the interest rates on those assets depends on whether OPEC preferences for financial assets differ from those of other investors. At times in the past, we have observed that interest rates on U.S. Treasury bills have shifted relative to other U.S. money market rates, when there were large foreign official purchases or sales of Treasury bills. These temporary influences on Treasury bill rates were usually the result of rapid changes in dollar reserves of industrial countries that were associated with intervention in foreign exchange markets. In principle, the same sort of effect on relative interest rates could be produced if OPEC investments were concentrated in, or withdrawn from, any single type of asset. In fact, as I have already noted, OPEC investments have been spread over a range of financial assets, both in the United States and in overseas financial markets, and we have no evidence to suggest that OPEC placements have had a significant impact on relative interest rates on different assets in the United States or on differentials between U.S. and foreign interest rates.

OPEC investment decisions are also capable of affecting exchange rates. However, it should be emphasized that exchange rates have been affected primarily by other factors. In particular, the sharp exchange rate movements that have occurred in the past year -- notably the appreciation of the dollar relative to the German mark and other Continental European currencies -- essentially reflect developments in the major industrial economies and their financial markets. While funds of OPEC investors are large, they are only part of the enormous volume of financial resources involved in international financial transactions. To the extent that shifts of OPEC funds do affect exchange rates, the impact would be the same as that of shifts of similar magnitudes from other sources. In that connection, it is useful to bear in mind that U.S. exports and imports are each running at a rate of $20 billion per month, and Japanese and German exports and imports at $10-15 billion per month. A decision by international traders to shift the pattern of trade financing by one month -- for example, delaying payment for one country's imports by 30 days and accelerating receipts of exports -- would produce very large flows of funds.

Anecdotal evidence suggests that OPEC countries as a practical matter adjust the composition of their foreign currency reserves by directing new receipts into the desired currency, rather than by drawing down existing investments and transferring the proceeds into assets denominated in another currency. This practice tends to minimize any disruptive effects on foreign exchange markets, which OPEC countries recognize would likely result in large capital losses on their financial assets.

The fear, often expressed in the mid-1970s, that OPEC would seek to shift rapidly from one currency to another has not been realized. In general, OPEC countries have acted as rational investors, interested in preserving and adding to their capital, and on occasion OPEC investments have contributed to stabilizing exchange rates -- for example, making sizable investments in Germany and Japan in the past year or so when Germany has had a current-account deficit and the mark and yen have depreciated. On the whole, OPEC does not appear to pose special problems for the multi-currency reserve system. We should, of course, be alert to the possibility that politically-motivated actions by an OPEC country could lead to disruptions, but this possibility is not limited to OPEC countries.

OPEC investments could have the greatest potential for being disruptive if they were made without regard to their market impact. In a "thin market" an effort to place large sums could produce exaggerated price movements, and in fact over the past years we have seen dramatic swings in the prices of a number of commodities as investors have moved in and out. But these swings were not the result of OPEC decisions, and evidence suggests that, by and large, OPEC is interested in making profitable investments in broad, liquid markets, rather than seeking to bid up the price of assets in more specialized markets. Thus, these countries appear to be following investment policies designed to assure a source of foreign earnings against the day when they may have to rely less on current receipts from oil.

As you know, evidence is mounting that the OPEC surplus will decline from the 1980 peak of more than $100 billion, although based on the latest available estimates, it would be premature to conclude that the surplus will soon disappear.

The experience of 1978 provides an illustration of the economic effects of a declining surplus. OPEC purchases of imported goods and services continued to grow, while OPEC receipts from oil were little changed. Industrial countries experienced increased exports and strengthened demand, and current-account deficits of most oil importers were reduced and in some instances replaced by surpluses. The country by country pattern of such shifts would be difficult to anticipate; in 1978 Germany and Japan experienced large current-account surpluses

As I have indicated, a slowing of the price rise for oil and a corresponding reduction in the OPEC current-account surplus would have an important beneficial effect on the economies of industrial and developing countries alike. Continued growth in OPEC imports would help oil purchasing countries move to more sustainable external payments positions, particularly if these developments occurred in a period when industrial countries generally had excess capacity and inflationary pressures were slowing.

A sharp decline in the overall OPEC surplus would doubtless mean that some OPEC countries would become borrowers on an increasing scale, and also draw down their reserves. Because Saudi Arabia accounts for a large share of the present OPEC surplus, a shift in its position sufficient to eliminate its surplus and to result in a major draw-down of Saudi reserves would appear to be a remote possibility. Instead, I would anticipate that in coming years Saudi Arabian reserves would grow at a slower pace than in recent years, and that its development policies would be adjusted to the new circumstances. However, some countries with smaller oil exports may be running down their reserves in the period ahead.

Significance of OPEC Investments for the Banking System

The large volume of OPEC funds that has been invested in bank deposits has focused public attention on the role of the commercial banking system, both as an outlet for investment and as a source of funds for lending to oil importing countries. Banks have played a major role in the recycling of OPEC surpluses, but we need to ensure that the recycling process does not result in an overloading of the commercial banking system. In part, this can be achieved by seeing to it that there are alternatives to commercial bank lending -- through the IMF and other international organizations as well as through credits from national governments, including those of the oil exporting countries. And in part we can avoid an overloading through our supervisory procedures.

One of the foundations of our bank supervisory process is the principle of diversification. This is appropriate on both the deposit side of the balance sheet and the loan side. The Federal Reserve System examination report contains a schedule that shows large deposits as a percentage of the bank's total deposits. Examiners review the accounts of large depositors to analyze their maturity structure as it might affect a bank's funding operations, although information on individual accounts is not included in the examination report.

I should note that OPEC deposits do not appear to represent an unduly high share of the deposits of U.S. banks in general, or of the large U.S. banks. As shown in the table in the statistical annex, deposits of Middle East oil producers represent less than 5 percent of total deposits of the largest U.S. banks, and much smaller percentages for other large banks. The major banks that accept large amounts of deposits from OPEC are generally aware of the desirability of maintaining diverse sources of funding. Banks with high levels of OPEC deposits frequently have systems to monitor the levels and movements of those deposits. In some cases, banks set limits on the amount of deposits they will accept from any one source. Banks may occasionally refuse deposits from a large depositor, although they are more likely to discourage deposits by offering low rates.

The fact that U.S. banks participate actively in the international interbank markets is a valuable element of insurance against sudden deposit withdrawals by one or several major depositors. When such withdrawals have occurred, the funds have been redeposited in another international bank, which then has funds available for lending to the U.S. bank that suffered the deposit loss.

With respect to lending, international or domestic, diversification of portfolios is an essential element of prudent banking, and the country exposure system of the three Federal bank supervisory agencies is based on this principle. Under that system, the exposure of individual banks to particular countries is measured against the capital of the bank. The ratio to capital is not a limit -- voluntary or otherwise -- but rather a signal that the position of the bank should be considered closely by bank management. The significance of a particular ratio of loans to capital depends on the overall position of the country, the nature of the lending (whether it is short-term trade financing or longer-term credits), the identity of the particular obligor, and collateral. In a recent speech I noted that the number of banks with exposures of more than 30 percent of capital in developing countries has jumped substantially during the past 18 months. I regard that not as a sign that the system is breaking down, and certainly not as a sign that banks have overstepped prudent boundaries, but rather as a situation that bears careful watching. That, of course, is the essence of prudent banking.

Your letter refers to a point that has been of concern to me -- that the margins on syndicated international credits have declined to the point at which banks may not be covering the risks involved and also obtaining an adequate return on capital. While margins on some Euroloans have been increased for particular borrowing countries over the past year, some widening of margins generally would appear appropriate if banks are to continue to provide sizable amounts of funds to borrowing countries.

The shortage of bank capital is one potential impediment to expansion of banks' international loan portfolios at a rate sufficient to keep pace with the credit demands of oil-importing countries. One way of conserving capital that appears promising would be for banks to act as brokers instead of lenders of funds, arranging loans for OPEC investors for a fee, with the investor bearing the credit risk. Prototypes for such techniques may be found in the United States, where banks have created mortgage-backed pass-through securities, and in Switzerland, where banks provide funds through trustee accounts. Both techniques have the effect of economizing on bank capital and of taking advantage of the banks' expertise in international financing. I have no direct knowledge that OPEC countries would be receptive to such an approach, but in the interests of selling their oil, they might at some point be prepared to extend some credit in this fashion, particularly if the arranging bank were also to participate in the credit. Conceivably a developing country might be willing to do what developed countries have firmly resisted -- indexing debt securities issued to OPEC investors. This indexing (presumably using a price index related to the currency of the loan) could be accompanied by a very moderate interest rate, and the combination would constitute a positive rate of return.

In closing, let me comment briefly on concerns that are sometimes voiced regarding contingency plans in the international banking environment. The Federal Reserve makes loans to solvent U.S. banks on the basis of sound collateral. The Board has established guidelines to aid in the administration of the discount window. The large money market banks that are engaged in international lending would be expected to make use of their other sources of liquidity before coming to the Federal Reserve for liquidity assistance. In developing policies regarding such emergency assistance, the Board has not believed it would be useful to set quantitative limits or targets for the amounts of the assistance. Instead the amounts would be determined in the light of circumstances at the time, in conformity with Board guidelines and statutory responsibilities.

Statistical Annex

OPEC Country Investible Surpluses

1. The Federal Reserve estimates of the OPEC current-account surplus, after taking account of public transfers, are as follows (in billions of dollars). We do not make estimates of individual country surpluses.

1974	70
1975	30
1976	37
1977	30
1978	0
1979	66
1980	103
Total, 1974-80	337

2.a. Below is a table on the "Estimated Deployment of OPEC Countries' Investible Surplus, 1974-80." Data for the years 1974-75 and 1979-80 are found in the 51st Annual Report for the BIS, June 15, 1981, p. 97; data for the other years, and revisions, were supplied specially by the BIS. "Short-term" means with a maturity of one year or less, "long-term" is all other.

	1974	1975	1976	1977	1978	1979	1980
	in billions of U.S. dollars						
Identified investible surplus[1/]	53.2	35.2	35.8	33.5	13.4	60.6	86.5[r/]
Short-term investments	36.6	9.5	9.8	11.9	3.1	43.2	42.5
of which:							
in the United States[2/]	9.4	1.1	0.7	-0.5	-0.2	8.3	0.2
in the United Kingdom	18.2	3.4	3.0	3.2	-1.6	16.2	16.1
(of which: Eurocurrency deposits)	(13.8)	(4.1)	(5.6)	(3.1)	(-2.0)	(14.8)	(14.8)
in other industrial countries[3/]	9.0	5.0	6.1	9.2	4.9	18.7	26.2
Long-term investments	16.6	25.7	26.0	21.6	10.3	17.4	44.0[r/]
of which:							
in the United States	2.3	8.5	11.4	9.6	1.5	-1.5	14.3
in the United Kingdom	2.8	0.9	1.5	0.6	-0.2	1.0	1.5[r/]
in other industrial countries	3.1	5.8	4.7	4.1	2.7	8.7	16.7
with international institutions[4/]	3.5	4.0	2.0	0.3	0.1	-0.4	4.9
in developing countries	4.9	6.5	6.4	7.0	6.2	9.6	6.6

1/ The difference between the current-account position and identified foreign investment reflects, apart from recording errors, borrowing (net of repayments) by OPEC countries, direct investment inflows, trade credits, and other unidentified capital flows.
2/ Includes bank deposits and money-market placements.
3/ Bank deposits only.
4/ IBRD and IMF.
r/ Revised since publication in BIS Report.
Source: Bank of England.

b. The Federal Reserve believes that on the whole the estimates of the disposition of the OPEC investible surpluses, presented above under 2.a., are the best available for its purposes. However, as regards the investments in the United States they do show some discrepancies with the U.S. Treasury's figures, perhaps because they have not picked up Treasury revisions of earlier data. Consequently the BIS estimates should be corrected for these discrepancies.

3.a. The Federal Reserve's own estimates of the OPEC current-account surpluses in the years 1974-80 aggregate about $337 billion, while the BIS estimates of the identified investments made in that period (corrected for discrepancies vis-a-vis U.S. Treasury figures on investments in the United States) cumulate to $313 billion. The difference of $24 billion reflects net unidentified investment flows. Of this total, $16 billion is applicable to 1980 and $8 billion to 1974-1979.

For individual years, it may be seen from the data shown above that the identified investments sometimes fall short of the estimated current surplus and sometimes (i.e., in 1975 and 1977-78) are greater than the current surplus. The numbers in the two series differ not only because of unidentified investment flows, but also because the amount of funds available to the OPEC countries for new investment during a particular year is affected by the amount of borrowing done by the OPEC countries in that year, by the amount of repayments of borrowings, and by foreign direct investment in OPEC countries, in addition to the current-account balance itself.

b. It is not the OPEC countrios themselves that provide the information on the components of their investments, but rather the countries where the investments are made. With the recently improved reporting by industrial countries, it appears that the bulk of investments by OPEC countries are covered.

c. The $30 billion of unidentified capital inflows into the United States in 1980 do not seem to be associated in sizable degree with OPEC countries. Given that the recorded net inflows of OPEC funds were substantial, it seems likely that some unrecorded net inflows also came from OPEC countries. However, we do not believe that a substantial share of the unrecorded inflow is more likely to have been associated with OPEC investments than with non-OPEC investments.

4.a. The latest CIA estimates of the OPEC current-account surplus (including public transfers) in the years 1974-80, as communicated orally by CIA personnel to the Federal Reserve staff, compare with those of the Federal Reserve as follows (data in billions of dollars):

	1974	1975	1976	1977	1978	1979	1980
CIA	66	29	33	21	-3	60	103
Federal Reserve	70	31	37	30	0	66	103

b. The Federal Reserve has no information on how the CIA has made its estimates of the disposition of OPEC surpluses. The Federal Reserve estimates have been based largely or wholly on U.S. Treasury data (for investments in the United States) and Bank of England data. These sources have also been available to the CIA, which, however, has other sources of its own as well.

OPEC Country Holdings

1.a. On March 31, 1981, foreign branches of U.S. banks had total liabilities of $408.4 billion, of which $29.3 billion were to OPEC countries. The breakdown of the liabilities to OPEC was as follows (in billions of dollars):

Ecuador	0.3
Venezuela	3.6
Indonesia	1.5
Middle East countries	20.7
African countries	3.2
Total	29.3

b. The $29.3 billion of liabilities to OPEC compares with $379.1 billion to other countries.

c. The data collected from the foreign branches do not contain a breakdown between demand and time deposits. In the Eurocurrency market, deposits have maturities ranging from overnight to as long as several years. At the end of 1980 the maturity breakdown, in percentages of the total, of dollar deposits at foreign branches of U.S. banks was as follows:

Less than 3 days	- 21 percent
3 days to 1 month	- 31 percent
Over 1 month to 3 months	- 26 percent
Over 3 months to 6 months	- 16 percent
Over 6 months to 1 year	- 4 percent
Over 1 year	- 2 percent

The distribution of OPEC deposits at the foreign branches was probably very similar to that for total deposits.

d. The information referred to was sent to Chairman Rosenthal by letter (from Chairman Volcker) dated July 10. The liabilities to Middle East oil-exporting countries of the domestic offices and foreign branches of three groups of U.S. banks were as follows (in billions of dollars):

	3/31/79	3/31/81
Six largest U.S. banks	19.4	19.8
Second largest six	2.1	3.0
Next nine banks	0.8	1.2

2. The very small increase of only $0.9 billion in 1980 in OPEC holdings in foreign branches of U.S. banks, compared with an increase of $9.1 billion in 1979, mainly reflects actions involving depositors in Middle

East OPEC countries. Foreign branch liabilities to Middle East oil-exporting countries rose $5.3 billion in 1979, but declined $1.1 billion in 1980. In addition to the well-known special factors affecting foreign branch liabilities to Iran, some Middle East oil-exporting countries evidently became less inclined during 1980 to hold funds in U.S.-chartered banks. (On the other hand, Middle East holdings of U.S. Government and other U.S. securities increased in 1980.) The evidence suggests that total bank deposits held by Middle East oil-exporting countries increased as much or more in 1980 as in 1979, and that the flow of funds formerly going into foreign branches of U.S. banks was diverted to non-U.S. banks.

The $0.8 billion decline in the first quarter of 1980 resulted from declines in liabilities to Venezuela and Middle East oil-exporting countries (partly offset by increases in liabilities to Indonesia and African oil-exporting countries). We are not aware of any special factors producing these results, but would point out that temporary fluctuations in accounts may be a factor in any short period.

3. Table 1 which the Federal Reserve sent on July 1 contains only data on holdings that are classified as official. As of December 1980, official OPEC holdings of banking and money market assets in the United States totaled $6.6 billion. The Treasury data furnished the Subcommittee include holdings of commercial banks (government- or privately-owned) and of nonbanks, including government-owned as well as privately-owned commercial enterprises.

4. The Federal Reserve does not have information that would allow it to calculate with precision the interest paid to OPEC countries on their deposits in foreign branches of U.S. banks in the years 1974-80, particularly given that no data were collected before December 1975 on the geographical breakdown of branch liabilities. For the years 1976-80, a rough estimate could be made by estimating the average amount of deposits outstanding in each

year (by averaging the quarter-end figures) and using the annual average 3-month Eurodollar rate as being typical of the interest rates paid on the deposits during the year. This approximative method yields the following results:

	Average Deposits Outstanding ($ billions)	Average Interest Rate (% p.a.)	Interest Paid ($ billion)
1976	16.2	5.6	0.9
1977	19.4	6.0	1.2
1978	20.2	8.7	1.8
1979	26.1	12.0	3.1
1980	30.2	14.0	4.2

OPEC Country Investment Trends and Strategies

The following response to your question regarding the status of the interagency technical group on international flows of funds has been prepared by the Treasury Department:

This group was a technical one, charged with monitoring international flows of funds arising from the accumulation and disposition of large payments surpluses by the OPEC countries. Its mandate was limited to the collection of information, excluding either analysis or policy recommendations. It was chaired by a Treasury technician, with participation by technical representatives from the State Department, Federal Reserve Board, Council of Economic Advisors, and Central Intelligence Agency, plus the Federal Reserve Bank of New York and the Commerce Department. Its main functions were to identify and evaluate technically all available sources and types of ongoing statistical information on this subject from various U.S. Government agencies, international organizations, and other sources. and to share technical information and methods for estimating other aspects of the subject for which direct statistics were inherently unavailable. These were basically one-time tasks and they were substantially completed by the end of 1975, after which the group ceased to function except as a channel for exchange of current data and for ad hoc bilateral consultations among the participants.

Adequacy of the Federal Reserve's Data Collection Efforts

1.a. The Federal Reserve's quarterly reports from the foreign branches of U.S. banks, showing the country by country breakdown of their foreign assets, collect information on total assets and total liabilities vis-a-vis each country. Detailed reports on the type of customer or the currency of the claim or liability for each of the 165 countries included in the report would represent an excessive reporting burden on the banks.

b. The branch reporting system has in fact worked well in our view, and we have no significant difficulties or problems with it.

2. An interagency committee has conducted an inquiry to identify transactions which may not have been properly reported, and reporting instructions are being revised to ensure that these transactions are properly reported. As the agent for the Treasury, the Federal Reserve Bank of New York will assist in overseeing implementation of the revised procedures.

Confidentiality of OPEC Country-by-Country U.S. Investment Data

The statement of confidentiality contained in certain documents of the Federal Reserve Bank of New York for a short period pending conclusion of a final access agreement was designed to alert the selected staff members at that Bank who received such documents to the sensitivity of the data. The statement was not intended to prevent disclosure of the information to the Chairman or other Board Members when needed in connection with official responsibilities. Information on individual accounts has not been distributed routinely to Board Members. However, the Board is kept informed of developments regarding OPEC investments through periodic reports concerning this group of countries.

Differences Between OPEC Foreign Exchange Holdings and Other Holdings

1. The data in Table 1 (submitted by letter of July 1, 1981) relating to official holdings of foreign exchange are not Federal Reserve data; instead they are taken from the International Monetary Fund publication, International Financial Statistics. There are several reasons why the official foreign exchange holdings of the Middle East oil-exporting countries in March 1981, as shown in that IMF publication, are much smaller than the accumulated foreign assets of those countries. First, not all the foreign assets acquired by holders in those countries are held by official institutions. Second, offic: holdings include assets other than foreign exchange, e.g., gold, SDRs, and the country's IMF position. Third, some countries do not include in the "foreign exchange" holdings they report to the IMF, assets that are relatively illiquid, e.g., loans to other governments, equities, and certain other securities. Fourth, as noted in footnote 1 to the table, Saudi Arabia excludes foreign exchange cover against the note issue from the holdings it reports to the IMF. Fifth, as also noted in footnote 1, the data since December 1978 exclude entirely the official foreign exchange holdings of several Middle East countries as from various dates. The holdings of Iran, Iraq, Kuwait and Qatar are all excluded from the Middle East data on line I.A.1. for March, 1981.

2. The $38.2 billion "gap" reflects the fact that, whereas International Financial Statistics does not show the official foreign exchange holdings of many individual oil-exporting countries, estimates of those "missing" holdings are made by the IMF staff so that the publication can show a figure for official foreign exchange holdings of all oil-exporting countries as a group.

July 1, 1981

The Honorable Benjamin S. Rosenthal
Chairman
Subcommittee on Commerce, Consumer
and Monetary Affairs
Committee on Government Operations
House of Representatives
Washington, D.C. 20515

Dear Chairman Rosenthal:

In your letter of June 16, you asked that the Federal Reserve update several tables on OPEC holdings, reserves, and deposits that were furnished to your Subcommittee in July 1979. You also requested an update of the information contained in Governor Coldwell's letter to you of August 21, 1979.

The four updated tables are enclosed. We encountered an unexpected delay in obtaining the information needed to update Governor Coldwell's letter, but we will be able to send you those figures within a few days.

Sincerely,

S/Paul A. Volcker

TABLE 1

FOREIGN OFFICIAL RESERVES OF FOREIGN EXCHANGE
(billions of dollars)

	December						Mar.
	1970	1973	1977	1978	1979	1980	1981
I. Total Holdings	45.4	122.4	243.0	283.3	318.6	382.4	371.5
A. OPEC countries	3.6	12.6	67.9	53.0[1]	65.9[1]	87.4[1]	91.9[1]
1. Middle Eastern[2]	2.5	8.5	52.4	41.7[1]	41.9[1]	40.8[1]	41.4[1]
2. Africa[3]	0.3	1.3	5.3	3.2	7.4	13.4	12.2
3. Other[4]	0.7	2.6	9.6	8.1	10.7	11.8	n.a.
B. All other countries	41.8	109.8	175.1	230.3	252.7	295.0	279.6
II. Holdings in the United States	23.8	66.9	131.1	162.4	162.0	177.0	182.2
A. Treasury bills and certificates	13.4	31.5	47.8	67.7	47.8	56.5	60.6
1. OPEC countries[5]	n.a.	n.a.	4.2	3.3	6.6	8.0	8.2
2. Other countries	n.a.	n.a.	43.6	64.4	41.2	48.5	52.4
B. Marketable Treasury bonds and notes	0.3	5.7	32.2	35.9	43.0	46.0	49.7
1. OPEC countries[5] (approximate)	n.a.	n.a.	11.0	9.0	8.2	16.3	19.3
2. Other countries	n.a.	n.a.	21.2	26.9	34.8	29.7	30.4
C. Nonmarketable Treasury bonds and notes[6]	3.4	15.5	20.4	21.0	22.7	21.1	20.7
D. Other U.S. securities	0.7	1.7	12.7	14.7	15.7	21.0[e]	22.3[e]
E. Banking and money market assets[7]	5.9	12.4	18.0	23.1	32.8	32.4	28.9
1. OPEC countries	n.a.	n.a.	9.6	10.2	8.6	6.6	7.6
2. Other countries	n.a.	n.a.	8.4	12.8	24.2	25.8	21.3
III. Holdings at Foreign Branches of U.S. Banks	4.2	10.3	28.1	31.9	35.7	32.4	29.9
A. OPEC countries[5/8]	n.a.	n.a.	19.1	20.1	29.2	30.1	29.3
B. Other countries	n.a.	n.a.	9.0	11.8	6.5	2.3	.6

1/ Beginning April 1978 data exclude Saudi Arabian foreign exchange cover against the note issue (amounting to about $5.3 billion in March 1978). The figures on the line for "Middle Eastern countries" also exclude Iraq (beginning December 1978), Iran and Qatar (beginning December 1980), and Kuwait (for March 1981). However, estimates for these countries and dates are included in the figures for "OPEC countries."

2/ Iran, Iraq, Kuwait, Libya, Qatar, Saudi Arabia, United Arab Emirates.

3/ Algeria, Gabon, Nigeria.

4/ Ecuador, Venezuela, Indonesia.

5/ Also includes Bahrain and Oman.

6/ None held by OPEC.

7/ Principally bank deposits, CDs, repurchase agreements, bankers acceptances, and commercial paper.

8/ Including some private holdings.

e/ Estimated from Treasury and Commerce Department data.

Sources I.: International Monetary Fund, International Financial Statistics.
II.: U.S. Treasury.
III.: Federal Reserve System.

TABLE 2

FOREIGN OFFICIAL HOLDINGS OF MARKETABLE
U.S. TREASURY SECURITIES, SELECTED DATES

	Amount ($ billions)			Percentage of total outstanding		
	Bills	Bonds & Notes	Total	Bills	Bonds & Notes	Total
1968 - November	6.5	.5	7.0	8.9	0.3	3.0
1969 - June	3.8	.5	4.3	5.6	0.3	1.9
1973 - March	37.6	6.9	44.5	35.8	4.2	16.5
1974 - January	29.2	5.2	34.4	27.1	3.2	12.7
1979 - January	68.4	36.0	104.4	42.1	10.8	21.0
- April	51.3	36.3	87.6	31.3	10.7	17.4
1980 - January	49.0	44.1	93.1	27.9	12.2	17.4
1981 - January	56.6	46.8	103.4	25.7	11.5	16.5

TABLE 3

DEPOSITS OF MIDDLE EAST OIL PRODUCING COUNTRIES
IN FOREIGN BRANCHES OF LARGE U.S. BANKS
(billions of dollars)

	December 1975			March 1979			March 1981		
	Six Largest Banks	Second Largest Six Banks	Next Nine Banks	Six Largest Banks	Second Largest Six Banks	Next Nine Banks	Six Largest Banks	Second Largest Six Banks	Next Nine Banks
(1) Total deposits (consolidated)	197.5	76.3	49.9	273.8 1/	99.9 1/	68.4 1/	328.5	126.5	85.2
(2) Deposits of Middle East Oil Producing Countries 2/	9.8	1.2	0.7	15.3	1.7	0.5	14.8	2.7	0.9
(3) Line (2) as percent of line (1)	5.0	1.6	1.4	6.0	1.7	0.7	4.5	2.1	1.0

Note: Deposits in foreign branches represent more than 75 percent of total deposits of Middle East oil producers in all U.S. banks.

1/ Deposits as of Dec. 1978.
2/ Includes Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

Six largest banks

Bank of America
Chase Manhattan
Chemical Bank
Citibank
Manufacturers Hanover
Morgan Guaranty

Second largest

Bankers Trust
Continental Illinois
Crocker National Bank
First National Bank of Chicago
Security Pacific
Wells Fargo

Next nine

European American Bank & Trust
First National Bank of Boston
First National Bank of Dallas
First National Bank of Detroit
Irving Trust
Marine Midland
Mellon
Republic National Bank, Dallas
United California Bank

TABLE 4

NUMBER OF U.S.-CHARTERED BANKS REPORTING LIABILITIES TO OPEC COUNTRIES AT FOREIGN BRANCHES

	Dec. 1975	Dec. 1976	Dec. 1977	Dec. 1978	Dec. 1979	Dec. 1980
Ecuador	31	36	46	45	45	60
Venezuela	80	82	89	81	88	92
Indonesia	48	52	50	43	39	36
Iran	40	50	53	50	43	41
Iraq	11	23	24	13	14	14
Kuwait	28	30	33	29	34	33
Qatar	17	8	15	17	16	9
Saudi Arabia	18	30	31	33	40	43
United Arab Emirates	19	24	34	38	40	27
Algeria	36	44	45	51	54	54
Gabon	16	19	26	19	20	17
Libya	9	15	14	12	13	11
Nigeria	11	14	13	19	23	26

July 10, 1981

The Honorable Benjamin S. Rosenthal
Chairman
Subcommittee on Commerce, Consumer
and Monetary Affairs
Committee on Government Operations
House of Representatives
Washington, D. C. 20515

Dear Chairman Rosenthal:

Following up my letter of July 1, I am herewith transmitting to you the data on the liabilities to Middle East oil-exporting countries of both the domestic offices and the foreign branches of three groups of large U. S. banks. The latest data, which are for March 31, 1981, are shown below, together with the earlier data for March 31, 1979, that were transmitted to you by Governor Coldwell in August 1979. The figures are as follows (in billions of dollars):

	3/31/79	3/31/81
Six largest U. S. banks	19.4	19.8
Second largest six	2.1	3.0
Next nine banks	0.8	1.2

The information on the liabilities of the domestic offices has been supplied by the U. S. Treasury and include the liabilities of all Edge Act and other domestic subsidiaries as well as those of the parent bank itself.

Sincerely,

S/Paul A. Volcker