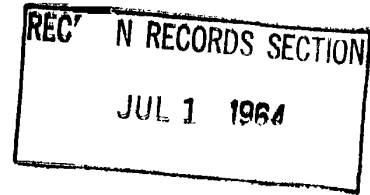




BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



July 1, 1964

CONFIDENTIAL (FR)

TO: Federal Open Market Committee

FROM: Mr. Sherman

For your information, there is enclosed a copy of a paper on U. S. Short-term Capital and Long-term Bank Loans in 1964, prepared by Messrs. Gemmill and Ruckdeschel of the Board's Division of International Finance.

A handwritten signature in cursive script, appearing to read "Merritt Sherman".

Merritt Sherman, Assistant Secretary,
Federal Open Market Committee.

Enclosures

REC'D IN RECORDS SECTION

JUL 30, 1964.

To: Mr. Ralph A. Young Subject: U.S. ~~Short-term Capital and~~
From: Robert F. Gemmill Long-term Bank Loans in 1964.
Fred B. Ruckdeschel

CONFIDENTIAL (FR)

The net outflow of U.S. short-term capital and long-term bank loans was \$1 billion in the first four months of 1964, but there has been some slackening in the net outflow since January, and preliminary data for May show a significant further decline.

The outflow of bank credit (both short- and long-term), which totaled \$600 million in the first four months, dropped in April, and apparently continued at a moderate rate in May. The outflow of short-term bank credit has declined since January to a March/April rate of \$50 million a month, about in line with the general experience of most recent years except 1962, when the outflow was exceptionally small. The outflow on long-term bank loans has fluctuated, but in April and May it was quite moderate; for the first five months of the year, it was \$270 million, approximately the average rate of the last year and a quarter.

Partly offsetting these reductions in credit outflows, the outflow of funds for investment in liquid assets abroad was relatively large in April, as it had been in January. The April net outflow was primarily into assets denominated in U.S. dollars (principally time deposits in Canadian banks.) In the four months January-April, the net outflow of liquid funds amounted to \$300 million.

Short-term Bank Credit.

The heavy outflow of short-term bank credit (both loans and acceptance credits) that began in the fourth quarter of 1963 and continued

- la -

Table 1

U.S. Short-term Capital and Long-term Bank Loans
(millions of dollars)
(- indicates outflow)

	1960-61 (Quarterly Averages)	1962	1963	1963				1964 ^{P/}					
				I	II	III	IV	I	Jan.	Feb.	Mar.	Apr.	May
<u>U.S. Short-term Capital</u>													
1. Bank credit	-190	- 70	-130	+ 60	-170	- 71	-358	-328	-154	-109	- 64	- 44	
2. Liquid funds													
a. dollar assets	- 60	- 20	+ 10	- 60	-160	+100	+180	- 10	- 30	- 10	+ 40	-160	
b. foreign currency assets	- 50	- 20	0	+ 30	- 40	- 10	+ 10	-150	- 80	- 30	- 40	+ 30	
c. Total	-120	- 40	+ 10	- 30	-200	+ 90	+190	-160	-120	- 40	0	-130	
Commercial credits	- 40	- 30	- 60	- 50	- 40	- 10	-160	-100	- 30	- 30	- 40	- 10	
4. Total short-term	-351	-141	-188	- 12	-409	+ 7	-328	-590	-300	-180	-110	-180	- 57 ^a
<u>U.S. Long-term bank loans</u>													
	- 37	- 29	-142	+ 27	-178	-112	-304	-209	- 33	- 60	-116	- 29	- 30

p = Preliminary.

a = Reported by banks only.

Notes: Line 3 for 1964 excludes commercial claims reported by nonfinancial concerns.

When figures are estimates, they are rounded to nearest ten million.

See Appendix A for composition of categories of short-term capital.

REC'D IN RECORDS SECTION
 JUL 1 1964

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Table 2

Capital Outflows, by Type and Country, Reported by
U.S. Banks and Nonfinancial Concerns, January thru April, 1964
 (millions of dollars)
 (- indicates outflow)

	<u>Bank Credit</u>		<u>Liquid funds</u> <u>denominated in</u>		<u>Com-</u> <u>mercial</u> <u>credits</u>	<u>Total</u>
	<u>Short-</u> <u>term</u>	<u>Long-</u> <u>term</u>	<u>U.S.</u> <u>dollars</u>	<u>Foreign</u> <u>currencies</u>		
Europe	- 78	-183	+ 36	+ 27	- 24	-221
Canada	- 19	+ 10	-231	-104	- 1	-345
Latin America	- 60	+ 1	- 3	+ 7	- 24	- 77
Japan	-164	- 63	+ 23	- 42	- 46	-292
Other Asia	- 70	+ 6	+ 4	- 2	- 10	- 72
Other	+ 19	- 8	+ 5	- 5	- 5	+ 4
World	-372	-237	-166	-119	-110	-1003

Note: Components may not add to area totals because of rounding.

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through February of this year has mainly reflected large-scale borrowing by Japan, and to a lesser extent a more than doubling of the relatively small volume of outstanding credits to the Philippines. Similarly, much of the recent decline in total outflow of short-term bank credit has resulted from reduced outflows to these two countries. Net extensions of credit to Europe and Latin America in 1964 have accounted for one-third of the total outflow. In the case of Latin America the outflow appears to have been larger than is usual at this season of the year.

The total net outflow to all areas was \$370 million in the four months through April, with a monthly average of \$130 million in January/February and of \$50 million in March/April.

The decline in the outflow of short-term bank credit to Japan, first noted in March and continued in April, paralleled changes in economic activity in that country. Industrial production leveled off in March/April, after having risen rapidly in the first two months of the year. Moreover, the rise in Japan's total imports has slackened appreciably in recent months, and imports from the U.S. have not returned to the peak fourth quarter level.

Almost two-thirds of the net extension of U.S. bank credit to Japan in the first quarter was in the form of acceptance credits, primarily based on U.S. exports and on goods shipped between or stored in foreign countries; and recent changes in the composition of outstanding acceptance credits by U.S. banks appear to reflect the recent pattern of Japanese imports. According to the monthly acceptance survey of the Federal Reserve Bank of New York, total outstanding acceptances based on U.S. exports declined in April and May, following with some lag the dip

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in U.S. exports to Japan. Similarly, outstanding acceptances based on goods shipped or stored abroad rose at a more moderate rate than earlier, presumably reflecting at least in part the lessened growth in total Japanese imports.

Long-term Bank Loans.

The outflow from long-term bank loans has continued to represent net extensions of credit to Europe and Japan, mainly to non-bank private borrowers and to banks in a few countries for relending to such borrowers. Month-to-month variations in outflow on long-term loans have been substantial, but the \$270 million net outflow for the first five months of the year (May data are still preliminary) has been close to the high rate that began in the spring of 1963, about \$0.7-0.8 billion per year. Slightly more than half of the outflow this year represented loans with maturities of 3 years or more.

Confidential data obtained by the U.S. Treasury on long-term loan commitments to foreigners, as reported on IET forms, show new loan commitments in the first four months of the year were \$550 million, excluding commitments associated with one major direct investment project. Thus gross new commitments have been at an annual rate of about \$1.5 billion. But at current levels of outstanding long-term loans, the flow of gross repayments may be about half that large. Accordingly, it appears that the recent rate of commitments would support a net outflow of long-term loans little if any greater than the \$0.7-0.8 billion of the past 12 months.

Gross commitments to industrial countries in the first four months accounted for about 58 per cent of total new commitments, while

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Table 3

Commitments on Long-term Loans
(millions of dollars)

	<u>Total</u> <u>4 months</u>	<u>Jan.</u>	<u>Feb.</u>	<u>Mar.</u>	<u>Apr.</u>	<u>May</u> ^{p/}
Total	553	148	95	198	112	80
of which:						
industrial countries	322	104	54	114	50	45
non-industrial countries	231	44	41	84	62	35

p = Preliminary.

Note: Contains information on transactions that was obtained by U.S. Treasury on IET forms in confidence and must be specially safeguarded. Data exclude commitments so far totaling \$90 million connected with one major direct investment transaction.

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outstanding long-term loans to industrial countries at the end of April, 1964, represented 54 per cent of the total. The slightly greater role of industrial countries in new commitments than in outstandings would be consistent with a gradual increase over time in the proportion of long-term U.S. bank loans outstanding in industrial countries, a tendency that was already evident last year. However, as shown in Table 3, gross new commitments to less developed countries this year have again become relatively more important since January.

Role of U.S. Member Banks.

The capital outflows discussed above are reported on Treasury forms by member banks, by agencies and branches of foreign banks, and by certain other banking institutions. However, the bulk of the outflows represent net extensions of credit by member banks. The recent Board survey of bank lending to foreigners, based on retabulations by the Reserve Banks of data on the Treasury forms, showed that as of April 30, member banks accounted for 80 per cent of the outstanding claims under acceptance credits, for 75 per cent of the outstanding short-term loans to foreigners and for 95 per cent of the outstanding long-term loans.

Essentially the same picture emerged from an examination of the net outflows of these various categories of bank credit. Outflows were calculated for two periods, the 3 months ending April 30, 1964 and the 9 months ending on that date. Member banks accounted for 2/3 of the net outflows on both acceptances and short-term bank loans in the 9 months ending April, and for more than 95 per cent of the outflow on long-term loans.*

* In the 3 months ending April, member banks' role in acceptance credits was somewhat greater, and that in short-term loans somewhat less; in this period member banks again accounted for 95 per cent of total outflow on long-term loans.

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Within the group of member banks, a small number (in almost all instances banks with total deposits exceeding \$2.5 billion) accounted for the bulk of the outflow reported by these banks. The concentration of lending activity was highest in the case of long-term loans and least in the case of acceptance credits.

A comparison of net outflows reported by twelve member banks with the total for all member banks that reported net outflows yield similar results for both the 3-month period and the 9-month period.* Twelve banks accounted for 90 per cent of total positive net outflows on long-term loans, for 80-85 per cent on short-term loans and for 65 per cent on acceptances. Many, though not all, of these banks are active in extending all three types of credit. Tables giving results of the survey are attached to this paper as Appendix B.

Liquid Funds.

The recorded outflow of liquid funds into short-term investments abroad, although smaller than the outflow of short-term bank credit, amounted to \$300 million in the first four months of this year. Outflows were largely to Canada. In January especially, and in the first quarter in general, funds were placed in foreign currency assets, primarily finance paper; in April the outflows were into U.S. dollar-denominated deposits, and there were inflows from foreign currency investments.

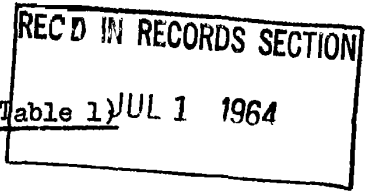
* This method of computation was adopted to avoid complications arising from the fact that some banks reported substantial net repayments of short-term loans. For long-term loans and acceptance credits the results of this calculation agreed closely with those obtained by comparing net outflow of the most active lenders with total net outflow of all member banks, including those with net repayments of credits.

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The shift in composition of outflows in April may in part reflect increases in Euro-dollar rates which appeared in March, but which may not have influenced U.S. capital outflows until some time after the U.S. March tax date. A small net inflow from foreign currency investments in April resulted from a decline in holdings of Canadian finance paper which more than offset some rebuilding of banks' holdings of sterling deposits. Sterling deposit holdings had been reduced by \$50 million -- a more than seasonal decrease -- in the first quarter of the year.

Appendix A

Composition of Categories of Short-term Capital (Table 1)



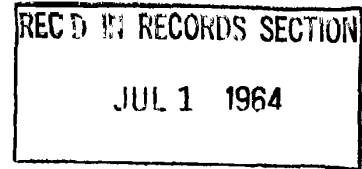
Line 1. Bank credit consists of short-term bank loans to foreigners, adjusted for known window-dressing loans, and acceptance credits.

Line 2. Liquid funds comprise selected U.S. dollar and foreign currency short-term claims reported by banks and by nonfinancial concerns. Reporting U.S. banks do not specify some types of U.S. dollar claims, but available evidence indicates that the claims not identified by type are mainly dollar deposits in Canadian banks and commercial and financial paper issued by Canadian companies but denominated in U.S. dollars. Also included in liquid funds denominated in dollars are dollar claims on the U.K. and Canada reported by non-financial concerns.

Liquid funds in the form of foreign currency assets consist of demand and time deposits and other short-term investments. Foreign currency deposits have been adjusted for known window-dressing transactions.

Line 3. Commercial credits represent both collection items reported by banks and short-term U.S. dollar claims reported by nonfinancial concerns except for claims on the U.K. and Canada, which are included in liquid funds.

Line 4. The short-term total differs from the short-term total in the Department of Commerce balance of payments (not shown) for three reasons. First, many sizable revisions in the basic data have not been incorporated in the balance of payments data. Second, the figures in line 4 do not include changes in brokerage balances, which are included in the balance of payments. Thirdly, the balance of payments figures have not been adjusted for window-dressing, although the seasonally adjusted figures may do this somewhat.



Appendix B

Survey of Bank Loans and Acceptance Credits to Foreigners
by Size of Bank

TABLE 1-A. Short-term Bank Loans to Foreigners
(Form B-2, Cols. 1-3, dollar amounts in millions)

Bank class (deposit size as of Dec. 1963 call date)	Amount outstanding 4/30/64	Change in three months since January 31, 1964								
		Total dollar change	Banks showing changes of							
			+ \$25 or more		+ \$5 to + \$25		+ \$0.1 to + \$5		\$0 or decline	
			Number of banks	Net dollar change	Number of banks	Net dollar change	Number of banks	Net dollar change	Number of banks	Net dollar change
<u>U.S. banks with total deposits:</u>										
Over \$2,500	1310	59	1	39	7	63	2	5	4	- 48
\$1,000 - \$2,500	71	- 9					2	2	10	- 10
\$500 - \$999	135	11					10	19	13	- 8
\$100 - \$499	36	5					4	7	14	- 2
Under \$100	6	1					4	1	2	0
<u>Agencies and branches of foreign banks</u>	382	52	2	50	1	7	14	21	15	- 26
<u>Other respondents</u>	172	-33*			1	6	6	2	8	- 41*
TOTAL	2112	86	3	89	9	76	42	57	66	-135

TABLE 1-B. Short-term Bank Loans to Foreigners
(Form B-2, Cols. 1-3, dollar amounts in millions)

Bank class (deposit size as of Dec. 1963 call date)	Amount outstanding 4/30/64	Change in nine months since July 31, 1963								
		Total dollar change	Banks showing changes of							
			+ \$25 or more		+ \$5 to + \$25		+ \$0.1 to + \$5		\$0 or decline	
			Number of banks	Net dollar change	Number of banks	Net dollar change	Number of banks	Net dollar change	Number of banks	Net dollar change
<u>U.S. banks with total deposits:</u>										
Over \$2,500	1310	269	4	172	5	96	3	9	2	- 8
\$1,000 - \$2,500	71	- 4					5	5	6	- 9
\$500 - \$999	135	48			4	31	11	24	8	- 7
\$100 - \$499	36	12					7	13	9	- 1
Under \$100	6	1					4	2	1	- 1
<u>Agencies and branches of foreign banks</u>	382	75	1	30	6	60	11	32	14	- 47
<u>Other respondents</u>	172	28			1	14	9	16	5	- 2
TOTAL	2112	427	5	202	16	201	50	101	45	- 75

Note: Due to rounding, components may not add to total.

* Includes a \$32 million decline reported by the Federal Reserve Bank of New York.

TABLE 2-A. Acceptances Made for Account of Foreigners
(Form B-2, Col. 5, dollar amounts in millions)

Bank class (deposit size as of Dec. 1963 call date)	Amount outstanding 4/30/64	Change in three months since January 31, 1964								
		Total dollar change	Banks showing changes of							
			+ \$25 or more		+ \$5 to + \$25		+ \$0.1 to + \$5		\$0 or decline	
			Number of banks	Net dollar change	Number of banks	Net dollar change	Number of banks	Net dollar change	Number of banks	Net dollar change
<u>U.S. banks with total deposits:</u>										
Over \$2,500	1437	66			6	62	4	9	4	- 5
\$1,000 - \$2,500	209	23			1	11	8	13	4	- 1
\$500 - \$999	157	12					11	19	9	- 7
\$100 - \$499	62	8					7	11	7	- 3
Under \$100	1	1					1	1		
<u>Agencies and branches of foreign banks</u>	320	26			2	13	16	22	11	-10
<u>Other respondents</u>	182	- 3					6	- 7	6	-10
TOTAL	2368	131			9	86	53	53	41	-32

TABLE 2-A. Acceptances Made for Account of Foreigners
(Form B-2, Col. 5, dollar amounts in millions)

Bank class (deposit size as of Dec. 1963 call date)	Amount outstanding 4/30/64	Change in nine months since July 31, 1963								
		Total dollar change	Banks showing changes of							
			+ \$25 or more		+ \$5 to + \$25		+ \$0.1 to + \$5		\$0 or decline	
			Number of banks	Net dollar change	Number of banks	Net dollar change	Number of banks	Net dollar change	Number of banks	Net dollar change
<u>U.S. banks with total deposits:</u>										
Over \$2,500	1437	144	2	55	7	77	4	15	1	- 3
\$1,000 - \$2,500	209	31			3	17	7	15	3	- 1
\$500 - \$999	157	28			3	23	9	11	8	- 6
\$100 - \$499	62	21			1	6	10	16	7	- 1
Under \$100	1	- 1							1	- 1
<u>Agencies and branches of foreign banks</u>	320	82	1	26	4	38	14	30	11	-11
<u>Other respondents</u>	182	22			1	6	10	19	1	- 3
TOTAL	2368	326	3	81	19	167	54	106	32	-27

Notes: Due to rounding, components may not add to total.

TABLE 3-A. All Bank Loans to Foreigners maturing in more than one year
(Form B-3, Cols. 2-4, dollar amounts in millions)

Bank size (deposit size as of Dec. 1963 call date)	Amount outstanding 4/30/64	Total dollar change	Change in three months since January 31, 1964							
			Banks showing changes of							
			+ \$25 or more		+ \$5 to + \$25		+ \$0.1 to + \$5		\$0 or decline	
Number of banks	Net dollar change	Number of banks	Net dollar change	Number of banks	Net dollar change	Number of banks	Net dollar change	Number of banks	Net dollar change	
<u>U.S. banks with total deposits:</u>										
Over \$2,500	2550	166	3	93	6	72	1	3	4	- 2
\$1,000 - \$2,500	238	23			2	19	2	8	6	- 4
\$500 - \$999	96	12			2	13	3	4	10	- 5
\$100 - \$499	17	0					3	1	12	- 1
Under \$100										
<u>Agencies and branches of foreign banks</u>	79	- 2					8	6	7	- 8
<u>Other respondents</u>	58	10			1	8	6	3	7	- 1
TOTAL	3038	209	3	93	11	112	23	25	46	-21

TABLE 3-B. All Bank Loans to Foreigners maturing in more than one year
(Form B-3, Cols. 2-4, dollar amounts in millions)

Bank size (deposit size as of Dec. 1963 call date)	Amount outstanding 4/30/64	Total dollar change	Change in nine months since July 31, 1963							
			Banks showing changes of							
			+ \$25 or more		+ \$5 to + \$25		+ \$0.1 to + \$5		\$0 or decline	
Number of banks	Net dollar change	Number of banks	Net dollar change	Number of banks	Net dollar change	Number of banks	Net dollar change	Number of banks	Net dollar change	
<u>U.S. banks with total deposits:</u>										
Over \$2,500	2550	576	8	498	4	77	1	2	1	- 1
\$1,000 - \$2,500	278	36			3	30	4	9	3	- 3
\$500 - \$999	96	35			3	31	4	8	8	- 3
\$100 - \$499	17	2					2	2	12	0
Under \$100										
<u>Agencies and branches of foreign banks</u>	79	- 3			1	7	4	5	10	-15
<u>Other respondents</u>	58	13			1	10	7	6	6	- 2
TOTAL	3038	659	8	498	12	155	22	32	40	-24

Notes: Due to rounding, components may not add to total.