

flows by principal types and areas, and other factors affecting the values of the investments, since 1950.

SHORT-TERM CAPITAL OUTFLOWS

Information on short-term foreign assets reported by banks and nonfinancial institutions shows that capital outflows of this type averaged a little over \$200 million annually in the 1951-59 period, then rose abruptly to \$1.3 billion in 1960 and \$1.4 billion in 1961. In the first half of 1962, the partial data now available indicate that the outflow has been greatly reduced.

Many types of assets and possible motivations come under the category of "short-term assets," and the grouping in table 1 is intended to separate out, as far as it can be done with the basic data available, the main types and patterns of these flows.

The first important distinction is between acquisitions of assets in the principal monetary centers and assets or claims in other countries. The former group is considered for this purpose to consist of the United Kingdom, the Common Market countries, Switzerland, and Canada. It will be seen from table 1 that U.S. banks have directed comparatively little capital to these countries, although the flow in 1960-61 was above the very small amounts of the 1951-59 period.

Since the end of 1961 short-term claims of U.S. banks in the European countries have been reduced, and in the case of Canada, the reductions began late in 1961.

A further subdivision is made in table 1 as between claims and assets payable in dollars and those payable in foreign currencies. Acquisitions of the latter in part reflect attempts to protect against any losses in value of the dollar, as well as the existence of liquid instruments with a higher interest yield. Banks reported moderate increases in both of these categories on the financial centers in 1960-61, and reductions in the first half of 1962. Such flows include funds of the banks' customers, as well as of the banks themselves.

Almost all of the activity in European foreign currency assets was with the United Kingdom, and the 1960 flow to the United Kingdom coincided with an enlarged interest differential, after covering the exchange risk. However, the maximum amount of sterling assets reported by banks was about \$200 million. In the case of Canada, the flow into foreign currency holdings reported by banks reached a peak late in 1960, when the interest differential was large, and the amount outstanding reached a peak of about \$275 million during 1961. These holdings were much reduced by June 1962.

Holdings reported by banks of foreign currency assets in countries other than the United Kingdom and Canada have been relatively inconsequential.

By far the largest outflow of funds reported by banks has been to countries other than the main financial centers. Sizable amounts of financing have been provided to Latin American countries over a long period, and in 1960-61 a greatly enlarged flow of credit to Japan was the principal factor in the overall rise of bank lending to foreigners. Loans to this group of countries are almost entirely repayable in dollars, and probably largely represent commercial financing of trade and other transactions.

This lending by banks has also diminished greatly in 1962, with the large outflows to Japan largely representing the completion of credit arrangements made in 1961.

Beginning in 1960, the capital outflow was augmented considerably by acquisitions of short-term assets abroad, principally in the financial centers by nonfinancial concerns. In 1960 the flow was largely directed to the United Kingdom and in 1961 to Canada.

An important feature of the short-term capital outflow in 1961 was an increase of well over 300 million in U.S.-dollar-denominated assets in Canada. These presumably included deposits attracted to banks in Canada, but the basic data do not permit a distinction between deposits and other assets payable in dollars.

The foregoing has described the situation for short-term capital outflows as recorded in the available data. Although capital flows connected with assets or types of investments that are nominally long term are discussed in a following section, it should be noted here that in fact there is no such sharp distinction. Many of the flows included in the direct investments relate to intercompany current trading accounts or may actually involve the indirect acquisition of money market instruments abroad. Also, trading in foreign securities may be highly volatile, and in some cases the securities may be close to maturity.