

Taiwan effectively prohibits U.S. banks from accepting from the public demand, time, or savings deposits from branches in that country, thus limiting the banking services that may be offered to the public to the lending function and also normal payments and exchange operations necessary to facilitate trade. On the other hand, the Government of Taiwan does itself maintain deposits in U.S. branches there so the latter are not entirely reduced to agency status.

In some cases the ability of U.S. banks to attract deposits may be inhibited by understandings or specific banking agreements against active solicitation of accounts from the customers of other banks. Because of the tendency for many countries to have much more limiting "codes of fair competition" than prevails in the United States, the development of U.S. banking business abroad tends to be a sensitive subject, particularly so since U.S. banks cannot afford to incur the enmity of either public officials or the banks of the host country. In Austria, for example, the banking agreement which foreign banks are expected to uphold considers unethical calls on other banks' customers for the purpose of soliciting accounts.

Second only to the direct prohibition of foreign banking, limitations on the obtaining of deposits by U.S. banks abroad is the most confining method of restriction confronted by American banks in their overseas business. Yet, only a small minority of countries employ this method and in most countries there is little question of the function of U.S. banks in this regard.

RESERVE REQUIREMENTS

Perhaps the most common form of monetary control for both indigenous and foreign banks is the requirement that banks maintain deposits—usually nonearning—with central banks or other government institutions equal to specified percentages of their deposit liabilities. This method of control is also a major tool in bank regulation in the United States. There is a Federal Reserve interpretation of long standing which does not require branches of U.S. banks abroad to maintain reserves with the Federal Reserve, therefore such branches are subject only to the regulations of the host country. A variation of this technique is the system of "special deposits" used by a number of central banks. A second related technique is that of requiring secondary reserves in the form of cash and government securities.

In times of inflation, or other economic stress, reserve requirements may be very high percentages of deposits, 75 percent or more, thereby limiting or even prohibiting new extension of credit by banks. At present, for example, extremely high reserve requirements are in effect in Chile and the Dominican Republic as part of anti-inflationary programs. In certain countries, such as Venezuela and India, only a portion of the reserve requirement must be deposited with the central bank. These reserve requirements may affect the profitability of American banking abroad but they do not tend to discriminate against U.S. banking facilities vis-a-vis indigenous banks. In fact, contrary to usual practices, Ireland currently imposes reserves and liquidity requirements on local banks but not on foreign banks.