

LIQUIDITY RATIOS

Functions similar to reserve requirements and their variations may be accomplished by so-called liquidity ratios. Under this technique, banks are required to maintain specified percentages of assets or deposits in highly liquid assets such as cash, demand deposits, and short-term government securities.

France, for example, presently requires banks to hold amounts equal to a significant percentage of deposits in short-term instruments. In Nigeria, 25 percent of deposits must be in call loans, Treasury bills, Marketing Board bills, and similar assets. Similarly, in South Africa, 15 percent of total liabilities must be in "prescribed investments" determined by the Reserve Bank. American banking offices overseas are expected to conform to these liquidity ratio requirements of the host country. Again, discrimination against foreign banks in liquidity requirements apparently does not occur.

INVESTMENTS IN GOVERNMENT SECURITIES

As a further means of restricting credit or alleviating government financial stringency, banks may be required to hold specified amounts or percentages of assets in government securities, thereby restricting availability of credit to others and, frequently, limiting earnings. In several countries investments in government securities may be included as part of reserves. Honduras, India, Pakistan, Spain, and South Africa are among the countries in this category.

This type of regulation is not infrequently imposed by "moral suasion" rather than specific legislation. In Nigeria, banks are expected to maintain a treasury portfolio, while in Chile banks are "encouraged" to do so. Local banks in Italy are also under a similar implicit regulation and it can be assumed that foreign banks would also be obligated. This type of regulation may reduce the profitability of U.S. facilities, but it is apparently not applied to discriminate against foreign banks.

OTHER INVESTMENTS

Banks may be required to make investments of other types; for example, purchase of shares of the central bank, purchase of shares or other long-term securities of development banks or other government financial institutions, or investment of specified portions of earnings in long-term, less attractive loans to local industry.

As in the case of government securities, moral suasion is occasionally used as a means of fostering investments in government-affiliated institutions or in long-term loans to industry. In Venezuela banks are requested to invest in public works bonds. Pakistan takes a different approach. While not requiring banks formally or informally to invest in long-term securities, authorities permit government-guaranteed issues to be included in meeting capital requirements.

This type of regulation is sometimes directed specifically to foreign banks and is a condition to entry. Foreign affiliates in Greece are expected to commit themselves to utilizing a portion of dividends in long-term loans to industry. Foreign exchange regulations in Greece do not permit the remittance of dividends beyond a stated percentage of capital and it is the remaining amount which must be invested