large increase in capital inflows reported by banks may, in part, be attributed to the guidelines established early this year under the intensified program to improve the balance of payments.

(4) Net sales of U.S. securities to foreign residents amounted to about $675 million. This exceptionally large amount includes about $560 million of newly-issued bonds—most of which are convertible into stocks—sold by U.S. corporations to finance their foreign investments. (These amounts do not include securities sold abroad by foreign subsidiaries of U.S. corporations.) These funds are either transferred to foreign subsidiaries or, pending such transfers, invested in short-term assets abroad. The disposition of these funds is not yet known; it is included among the net debits on "other transactions" (shown on line 16 of the table).

The total amount of such new issues during the first quarter was far above the quarterly average of about $115 million in 1967. The large increase resulted from the new regulations issued on January 1 restricting capital outflows for direct investment, particularly to the developed countries in continental Western Europe.

Other transactions in U.S. securities include net sales by foreigners of U.S. bonds amounting to about $160 million (including $40 million sold by international agencies) and net purchases of U.S. stocks amounting to $275 million. (In addition, about $210 million of stocks newly issued by a U.S. subsidiary of a foreign corporation were purchased by the foreign parent company. This transaction is not included in the figure for security sales, but is considered a foreign direct investment in the U.S. Since other reports on such foreign direct investments are not yet available, the capital inflow of $210 million is still included among the "other transactions" (line 16 of the table).) Foreign purchases of outstanding U.S. stocks declined during the quarter from about $160 million in January to $80 million in February and about $35 million in March. Foreign purchases of U.S. stocks had risen sharply last year, from a quarterly average of $65 million in the first half of the year to $335 million in the second half.

(5) Net foreign investments—mainly by foreign official agencies and international organizations—in time deposits or certificates with an original maturity of one year or more, and in nonconvertible, nonmarketable medium-term government bonds amounted to over $310 million, nearly as much as in the previous quarter. These investments do not affect the balance measured on the official reserve transactions basis but improve the balance measured on the liquidity basis. Foreign purchases of such bonds include the quarterly receipt of $125 million from Germany to offset partly U.S. military expenditures in that country. The remainder of these investments frequently approaches in liquidity those classified as liquid liabilities.

(6) Other transactions for which data are not yet available, but for which the balance can be derived as a residual between receipts and payments on those transactions for which data are available, resulted in net payments (after seasonal adjustment) of about $1,900 million. This is less than the quarterly average of over $2.2 billion in 1967.

These transactions include military sales and expenditures, services transactions, investment incomes received and paid, private remittances, government pensions, government grants and capital transactions, capital transfers by U.S. corporations for direct and other investments (including the transfers of the $560 million borrowed abroad in the first quarter), foreign direct investments in the United States (including the $210 million mentioned above), changes in corporate liabilities to foreigners (other than those created through the new bond issues), and those transactions that are usually reflected in "Errors and Omissions".

SPECIAL TRANSACTIONS

Special financial transactions and large temporary transactions improved the balance measured on the liquidity basis by about $250 million, and the balance measured on the official reserve transactions basis by about $50 million.

Following is a summary of such transactions that improved the liquidity balance:

(1) The $360 million liquidation of bank-reported assets, which cannot be repeated over the long run.

(2) Receipts of about $210 million from the new stock issue by a U.S. subsidiary of a foreign corporation.