Capital Controls, Political Risk, and Deviations from Interest-Rate Parity

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It is shown that the interest differential due to political risk, given the prospect of future capital controls, depends essentially on the gross stocks of debt outstanding against different governments and the distribution of world wealth among residents of different political jurisdictions. A simple model of portfolio behavior is used to explain the differential between Euromark rates and interest rates within Germany in the presence of controls on capital flows into Germany between 1970 and 1974. The explanation separates the interest differential into the effective tax imposed by existing controls and a political risk premium associated with prospective controls.

Introduction and Overview

In his reinterpretation of the interest-rate parity theorem, Aliber (1973) distinguishes between exchange risk and political risk as determinants of deviations from interest-rate parity. Deviations from interest-rate parity reflect exchange risk when assets are denominated in different currencies and/or political risk when assets are issued in different countries (i.e., under different legal jurisdictions).

It is now well established (see Aliber 1973; Dooley 1974; Herring and Marston 1976) that assets differing essentially in only their currencies of denomination, such as Eurocurrency deposits issued by the same bank, exhibit interest differentials equal to the forward exchange premiums that must be paid to cover against exchange risk.\(^1\)

The views expressed herein are solely ours and do not necessarily represent the views of the Federal Reserve System. We have received helpful suggestions from Peter Clark, Jacob Frenkel, Frank McCormick, and two anonymous referees.

\(^1\) It is also recognized that the interest-rate parity condition is an equilibrium relationship among four variables, any three of which can be independently influenced or pegged by policy authorities. Thus the forward premium is influenced fundamentally by the stance of policy.

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after adjusting for transactions costs. In contrast, it is not well understood to what extent political risk has contributed to disparities between interest rates on assets denominated in the same currency but issued in different political jurisdictions. Aliber (1973, p. 1453) defines the concept of political risk as "the probability that the authority of the state will be interposed between investors in one country and investment opportunities in other countries"—that is, the probability that controls will be imposed on capital flows. By the nature of risk, this concept has nothing to do with existing capital controls per se but, rather, relates to the uncertainty of future capital controls. Thus interest differentials due to the political risk of future capital controls must be distinguished from disparities due to the effective tax that existing controls place on interest earnings.

The purpose of this paper is to establish that the interest differential due to political risk, given the prospect of future capital controls, depends essentially on the gross supplies of debt outstanding against different governments and the distribution of world wealth among residents of different political jurisdictions. This point is developed with a simple model of portfolio behavior, which is then used to explain the differential between the interest rate on Euromark deposits in Zurich (EDM) and the interest rate on interbank mark-denominated loans in Frankfurt (GDM) for 3-month maturities between January 1970 and December 1974. During that period Germany placed a series of controls on capital inflows (see the Appendix for a chronology), and the interest differential (GDM − EDM) fluctuated from near zero at the start of 1970 to an annual rate of more than 10 percent in April 1973, and then back to near zero after the controls were effectively removed in late 1973. Our reading of the empirical evidence suggests that most of the swing was due to shifts in the tax that controls effectively imposed on nonresident earnings from assets held in Germany. At its peak between February and October 1973, we estimate that this tax accounted for an interest differential of about 6 percent per annum. An additional differential of up to 2 percent was apparently required, in the context of political

\footnote{Branson (1969) and Frenkel and Levich (1975, 1977) have independently estimated that the round-trip cost of 90-day covered arbitrage transactions amounts to about 0.14 to 0.18 percent per annum; but see also McCormick (1979), who suggests that these numbers are overstatements, and the reply by Frenkel and Levich (1979). Prachowny (1970) has modeled the extent to which deviations from interest-rate parity can result from less-than-infinite elasticities of supply and demand for arbitrage funds, and maximal values of these elasticities have been estimated empirically by Frenkel (1973) and Frenkel and Levich (1975); but none of these studies has attempted to relate the elasticities of funds to either political or exchange risk. Levi (1977) has modeled the extent to which deviations from interest-rate parity can result from international differences in the taxation of either interest earnings or gains from foreign exchange transactions.}
risk, to induce nonresidents to hold the excess supply of German outside debt.\(^3\)

**Theoretical Underpinnings**

Under the modern theory of forward exchange—as developed by Spraos (1953), Tsiang (1959), and Sohmen (1961), who built on the important contribution by Keynes (1923)—the interest differential between mark deposits in Germany and Euromark deposits outside Germany can be attributed to intervention sales of marks by the German Bundesbank. Critical to this analysis is the assumption that private capital mobility was imperfect and, accordingly, that the Bundesbank succeeded in its objective of holding the spot value of the mark below the level to which private speculators would otherwise have pushed it. According to this view, speculative bids for forward marks, coupled with central bank sales of spot marks, opened a covered differential in favor of mark-denominated deposits at German banks. Arbitrageurs purchased marks spot (from the Bundesbank), invested the mark balances in German bank deposits (or other claims on German residents), and sold the marks forward (to private speculators). As the stock of these arbitrage positions grew, arbitrageurs became increasingly averse to increasing the share of their portfolios that was subject to political risk peculiar to nonresident claims on German residents. Individual arbitrageurs could have diversified and reduced their political risk by purchasing mark-denominated claims on non-German banks (i.e., Euromark deposits) instead of German bank deposits. But this would have forced Eurobanks either to hold uncovered mark liabilities subject to exchange risk or to pay a premium to purchase marks forward, or themselves to purchase claims on German residents and accept the associated political risk. Consequently, Eurobanks would have discouraged mark depositors by offering lower yields. Thus the difference between Euromark rates and the interest rates available on claims against German residents can be attributed to the reluctance of nonresident arbitrageurs, including Eurobanks, to acquire a larger stock of claims on German residents.

A graphic representation of this story would show markets equilibrating on the finitely elastic portion of the arbitrage schedule. There is an alternative story, however, which assumes that markets equilibrated on the infinitely elastic (or risk-neutral) portion of the arbitrage schedule in the context of capital controls already in place. This alternative story attributes deviations from interest-rate parity to the

\(^3\) These estimates explain only four-fifths of the 10 percent peak in the interest differential.
effective tax that existing controls placed on nonresident interest earnings in Germany.

These conflicting stories suggest that estimation of the arbitrage schedule is the key to separating the interest differential due to capital controls already in place from the interest differential due to political risk associated with the prospect of additional controls. A major problem with such estimation, however, is that the arbitrage schedule traditionally has been viewed as describing the flow of arbitrage funds, which does not square well with the currently accepted stock-equilibrium model of portfolio behavior. 4 Our alternative approach is to consider the behavior of both the German private sector and nonresidents in choosing their portfolio stocks, implicitly taking account of arbitrage possibilities.

The Model

Consider a world divided into the German private sector, the German government, and nonresidents. Let B denote the stock of mark-denominated claims against the German government, let B_{NR} denote the mark-denominated claims of nonresidents against the German government plus the net mark-denominated claims of nonresidents against the German private sector, and let B_{G} denote the mark-denominated claims of the German private sector against the German government plus the net mark-denominated claims of the German private sector on nonresidents. The market-clearing condition associated with these claims is

\[ B_{G} + B_{NR} = B. \]  

We let W_{G} and W_{NR} denote the “wealths” of the German private sector and of nonresidents, both valued in marks. The interest rates on mark-denominated claims against German residents and on Euromark and Eurodollar deposits held outside Germany are denoted by GDM, EDM, and EDOL, respectively. We interpret Eurodollar deposits as a composite of all assets not denominated in marks. Capital controls are assumed to apply only to nonresidents’ claims against German residents. 5 The expected rate of appreciation of the mark against the dollar is denoted by E\%X.

4 Early expositions of the stock-equilibrium model include McKinnon and Oates (1966), McKinnon (1969), and the two-country version by Girton and Henderson (1973).

5 The analysis is not affected by the simplifying assumption that all claims against German residents are denominated in marks. More precisely, our regression specification would not be affected by extending the model to include dollar-denominated claims against German residents, paying an interest rate GDOL, provided the differential between GDOL and GDM was identical—as it should be—to the differential between EDOL and EDM.
Portfolio demands of the German private sector are viewed as depending on the difference between the yield on marks held in Germany (which exceeds the yield on Euromarks under the capital controls and political risk that we consider) and the expected mark-equivalent yield on Eurodollars, as well as on German wealth.

\[ B_G = f(GDM - EDOL + E\%X, W_G) : \]  

(2)

Portfolio demands of nonresidents (valued for consistency in marks) are viewed as depending on the yield on mark-denominated claims on Germans relative to both the Euromark rate and the expected mark-equivalent yield on Eurodollars and as depending also on both non-resident wealth (valued in marks) and the level of capital controls already in place (CC):

\[ B_{NR} = g(GDM - EDOL + E\%X, GDM - EDM, W_{NR}, CC) . \]  

(3)

Our analysis treats as constant both the subjective probability distribution(s) of prospective controls on capital flows into Germany and the subjective probability distribution(s) about the size of future exchange-rate changes.\(^6\) These constant subjective perceptions, which are implicitly embodied in the portfolio demand functions, affect the degrees of substitution between the different assets in the model.

Because of aversion toward exchange risk, the expected rate of appreciation of the mark can differ from the forward premium. The difference is referred to as the exchange risk premium, which we denote by \( \varphi \). Since the forward premium is known to equal the excess of the Eurodollar rate over the Euromark rate, we can write

\[ E\%X = EDOL - EDM + \varphi . \]  

(4)

A positive value of \( \varphi \) reflects an unwillingness of portfolio managers to increase their uncovered holdings of mark-denominated assets unless they expect the mark to appreciate by more than the interest differential in favor of the dollar.

In order to avoid a nonlinear specification hypothesis, we assume that (2) and (3) have linear forms

\[ B_G = a_0 + a_1 (GDM - EDOL + E\%X) + a_2 W_G , \]  

(2a)

\[ B_{NR} = b_0 + b_1 (GDM - EDOL + E\%X) \]

\[ + b_2 (GDM - EDM) + b_3 W_{NR} + b_4 CC , \]  

(3a)

with \( a_1, a_2, b_1, b_2, \) and \( b_3 \) all positive in the normal case.\(^7\) Substituting from (4) yields

\(^6\) Thus we assume constant perceived variances of future exchange rates.

\(^7\) Implicitly we assume that \( a_1, b_1, \) and \( b_2 \) are finite, reflecting risk aversion.
\[ B_G = a_0 + a_1 (GDM - EDM + \varphi) + a_2 W_G, \]  
\[ B_{NR} = b_0 + b_1 (GDM - EDM + \varphi) + b_2 (GDM - EDM) + b_3 W_{NR} + b_4 CC. \]

Together, conditions (1), (2b), and (3b) imply
\[ GDM - EDM = c_0 + c_1 B - c_2 W_G - c_3 W_{NR} - c_4 \varphi + c_5 CC, \]
with \( c_1, c_2, c_3, \) and \( c_4 \) all positive in the normal case.
Condition (5) can be viewed as
\[ GDM - EDM = DIFF_{PR} + DIFF_{CC}, \]
where
\[ DIFF_{PR} = c_0 + c_1 B - c_2 W_G - c_3 W_{NR} - c_4 \varphi \]
represent the interest differential due to the political risk associated with prospective capital controls, and
\[ DIFF_{CC} = c_5 CC \]
is the interest differential due to the effective tax imposed by capital controls already in place.\(^8\)

Condition (6) reveals that the interest differential due to political risk is negatively related to the exchange risk premium. The latter is not an exogenous variable, and we have argued in Dooley and Isard (1979) that the exchange risk premium that portfolio managers must expect to earn on their uncovered holdings of mark-denominated assets is an increasing function of the stock of outside mark-denominated assets and a decreasing function of wealth variables, \textit{ceteris paribus}. If we represent \( \varphi \) as a linear function of \( B, W_G, \) and \( W_{NR}, \) we can substitute into (6) to obtain
\[ DIFF_{PR} = d_0 + d_1 B + d_2 W_G + d_3 W_{NR}. \]
By the arguments above we do not have prior information about the signs of the parameters in condition (6a). Note, however, that the interest differential due to political risk depends on the stock of gross

\(^8\) This separation relies on our assumption that the probability of prospective capital controls was perceived to be constant throughout the sample period and was therefore uncorrelated with the level of existing capital controls. The assumption is strong and could be avoided by constructing a proxy variable to represent the probability of prospective capital controls. Allowing this probability to vary, however, would complicate the analysis by requiring us to separate the anticipatory encouragement to capital inflows from the discouragement that would ultimately result from an increase in the perceived probability of prospective controls.
claims against the German government and the distribution of world wealth between the German private sector and nonresidents.\(^9\)

For the purposes of constructing measures of the independent variables and of interpreting the regression results, it is useful to note that \(B\), \(W_G\), and \(W_{NR}\) are each linear combinations of the cumulative German budget deficit (DEBT), official German holdings of foreign exchange reserves (RES), and the net stock of German claims on nonresidents that have been acquired through the accumulation of German current account surpluses (\(\Sigma\)CAS). In particular, claims against the German government are issued either to finance budget deficits or to acquire foreign exchange reserves; thus (if changes in the valuation of reserves are neglected)

\[
B = \text{DEBT} + \text{RES}.
\]

(8)

German private wealth is accumulated either as savings that are the counterpart of government deficits or as savings that are lent to nonresidents as the counterpart of current account surpluses; hence (again ignoring changes in valuation)

\[
W_G = \text{DEBT} + \Sigma\text{CAS}.
\]

(9)

Finally, the wealth concept on which we are focusing excludes claims on real assets, so global net worth must add to zero; and since \(B - \text{RES}\) represents the net debt of the German government, this implies

\[
W_{NR} + W_G = B - \text{RES}.
\]

(10)

Thus, after substitution from (8) and (9),

\[
W_{NR} = -\Sigma\text{CAS}.
\]

(11)

When it is recalled that nonresidents include official as well as private nonresidents, so that private nonresidents' claims on official nonresidents are netted out in \(W_{NR}\), conditions (9) and (11) are seen to be symmetric.

**Data Sources and the Representation of Capital Controls**

Our estimates are based on the following data. The 3-month Frankfurt interbank loan rate at or near the end of the month is GDM, as published by Morgan Guaranty Trust Company in *World Financial Markets*. The EDM is the 3-month Euro-DM deposit rate in Zurich, at or near the end of the month, from *London Financial Times*.

\(^9\) This conclusion is insensitive to the currency composition of gross claims against the German government, insofar as nonresidents perceive that prospective capital controls would apply equally to all nonresident claims against Germany, independent of their currency composition.
and internal records of the Swiss Bank Corporation. The DEBT is the cumulative sum, from an estimated end-of-1969 initial value, of the flow of German federal government indebtedness. The RES is measured as German official holdings of gold and external assets. The quantities DEBT, RES, and CAS are taken from various issues of the Monthly Report of the Bundesbank, tables VII.8, IX.6a, and IX.1, respectively. The variables \( B \), \( W_G \), and \( W_{SR} \) are constructed according to definitions (8), (9), and (11). The initial values of these variables are not important to the regression results, since errors in these initial values affect only the estimated intercept parameter and not the estimate of the interest differential due to political risk.

As described in the Appendix, controls on capital inflows were imposed or tightened in five major doses and a number of subsequent modifications. For three of these doses it is impossible to compute from microeconomic principles the effective tax that controls imposed, and for the other two doses the computation is difficult. Accordingly, we have chosen to estimate the effects of capital controls from macroeconomic data under two somewhat arbitrary representations of the capital controls variable CC.

Our less sophisticated representation of CC is a step function constructed with five zero-one dummy variables, corresponding to the five major doses in which controls were imposed. Our other representation of CC assumes that the effective tax imposed by controls increased continuously between the first dose of controls in April 1970 and the last dose in February 1973. Here we follow Wilton's (1975) technique for representing structural shifts, as modified by Reid (1977), which allows us to specify CC as a polynomial of any degree \( m \). We have chosen \( m = 3 \) as the minimum value that allows for an inflection point. Given that the capital controls applied only to increases in nonresident claims on Germans, we assume in both representations that the effective tax imposed by controls dropped to zero when capital began to flow strongly out of Germany in the fourth quarter of 1973.12

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10 Because GDM – EDM is constructed as the difference between a loan rate and a deposit rate, our measure of the interest differential includes transactions costs (i.e., the natural spread between loan rates and deposit rates), and our estimates of the constant term (\( d_{0} \)) will be biased upward. This size of this bias, however, is fairly small relative to the estimated constant terms that we report in table 1. Accordingly, the empirical conclusions that we draw are not substantially affected when the bias is ignored.

11 Not all of the doses were directed at bank deposits, but interest rates on bank deposits clearly responded to controls that directly affected interest rates payable on alternative assets.

12 Official German tabulations of the overall balance of capital transactions (see the Monthly Report of the Bundesbank, table IX.1) show net inflows of DM 14.0, 0.6, and 4.2 billion during the first three quarters of 1973, followed by successive quarterly net outflows of DM 6.1, 10.4, 2.4, 7.4, and 5.2 billion.
Empirical Results

Table 1 presents our regression results. The parameters were estimated by the ordinary least-squares technique using the Cochrane-Orcutt correction. The parameter estimates associated with each set of capital control variables are appropriate, with the exception of the equation (2) estimate that the effect of capital controls declined insignificantly in March 1972. Figure 1 compares the observed and fitted time paths of the dependent variable with the time paths of the interest differential that equations (1) and (2) attribute to existing capital controls. The two equations respectively attribute interest differentials of 5.6 (= 12.9 - 38.5 + 31.2) and 6.03 percent per annum to capital controls in place during their tightest interval between February and October 1973. These estimates represent 71 and 77 percent, respectively, of the average interest differential observed during this period and about the same percentages of the average interest differentials that the equations explain for this period.

The remainder of the explained interest differential can be attributed to political risk. The estimates presented in table 1 tell an interesting story about how the political risk premium responds to changes in wealth variables or asset stocks. Bearing in mind that asset stocks and wealth variables cannot shift in isolation but, rather, are constrained by condition (10), we can note the following.

First, when mark-denominated claims on the German government are increased without intervention and holding constant private German wealth, therefore implying an increase in nonresident wealth, the political risk premium is estimated to increase. Nonresidents will not allocate the entire increment in their portfolios to additional claims on German residents unless the premium for bearing political risk is increased.

Second, even when the increase in mark-denominated claims on the German government is matched entirely by an increase in private German wealth, with no change in nonresident wealth and no intervention, the political risk premium will increase to accommodate the desires of private Germans to diversify the increase in their wealth between mark-denominated and dollar-denominated assets. Such diversification can be accomplished only by inducing nonresidents to increase their mark-denominated claims on Germany and their dollar-denominated liabilities to Germans.

Third, for the general case in which the stock of mark-denominated claims on the German government is increased without intervention, the estimated increase in the political risk premium depends positively on the extent to which nonresident wealth increases relative to private German wealth as the counterpart of the increase in official German debt.
## Table 1
Regression Results*

1. \( \text{GDM - EDM} = -14.0 + .0235 B + .123 W_G + .258 W_{NR} + 12.9 Z - 38.5 Z^2 + 31.2 Z^3, \quad \tilde{R}^2 = .895 \quad \rho = .43 \)
   \( (-.904) (1.23) \quad (.857) (1.25) \quad (2.07) (-2.62) (3.43) \quad D-W = 1.90 (3.65) \)
   where \( Z \) increases linearly from zero in March 1970 to one in February 1973, remains at one between February and October 1973, and is zero prior to March 1970 and after October 1973.†

\[
\begin{align*}
\tilde{R}^2 & = .919 \quad \rho = .318 \\
D-W & = 1.95 \quad (2.58)
\end{align*}
\]

\[
\begin{align*}
.0725 \text{ from April 1970 through April 1971} \\
(.111) \\
.904 \text{ from May 1971 through February 1972} \\
(1.40) \\
.395 \text{ from March 1972 through May 1972} \\
(.528) \\
2.02 \text{ from June 1972 through January 1973} \\
(3.01) \\
6.03 \text{ from February 1973 through October 1973} \\
(9.18)
\end{align*}
\]

* The dependent variable is measured in percent per annum. \( B, W_G, \) and \( W_{NR} \) are in billions of DM. The Cochrane-Orcutt procedure was used to correct for first-order serial correlation. Numbers in parentheses are \( t \)-values. The sample period consists of 60 monthly observations from January 1970 through December 1974.

† The specification of \( Z \) conforms with the Wilton-Keil technique for allowing the estimated interest differential due to capital controls to shift continuously (along a third-degree polynomial path) between March 1970 and February 1973.
The coefficient on $B$ is insignificant in both regressions, suggesting that the political risk premium does not increase in response to an intervention purchase of exchange reserves (dollars) that increases the stock of mark-denominated claims on the German government. Net claims on the German government are not changed by the intervention. But the increased political risk that nonresidents bear by holding an increased stock of gross claims on Germany cannot be presumed to be offset by the increased political risk that Germans assume by holding an increased stock of reserves, since during the sample period there was virtually no prospect that these reserve holdings would be discouraged by imposing capital controls (through either isolated or retaliatory policy actions).

The failure of the regression results to show a change in the political risk premium in response to exchange market intervention can be explained, however, by recalling from condition (6) that the political risk premium is negatively related to the exchange risk premium. The increase in the gross stock of mark-denominated claims on the German government not only pushes up the political risk premium directly by increasing the stock of claims subject to political risk but also pushes down the political risk premium indirectly by raising the exchange risk premium that portfolio managers can expect to earn on
their increased stock of mark-denominated assets. The regression results suggest that these opposite effects on the political risk premium are largely offsetting.

Finally, as shown in figure 2, both regressions estimate that the political risk premium peaked at roughly 2 percent per annum. Equation (1) puts the peak at 2.0 percent at the end of July 1973; equation (2) puts the peak at 2.1 percent at the end of March 1973. The interest differential peaked at more than 10 percent at the end of April 1973.

Summary and Conclusions

This paper has explored Aliber’s (1973) notion that political risk associated with prospective capital controls can lead to deviations from interest-rate parity. Using a simple model of portfolio behavior, we have established the theoretical point that, given the prospect of controls on capital flows into a particular country, the interest differential due to political risk depends essentially on the gross stock of outside claims against residents of that country and on the distribution of world wealth between residents and nonresidents.
Our empirical focus is on the differential between Euromark rates and interest rates on mark-denominated loans in Germany during the early 1970s, when Germany imposed a series of controls on capital inflows. The empirical problem is to separate the interest differential due to the political risk associated with prospective controls from the differential due to the effective tax imposed by existing controls. This effective tax cannot be computed from microeconomic principles in the German case, so we are forced to be somewhat arbitrary in modeling and estimating it.

Our reading of the empirical evidence suggests that most of the swing in the interest differential during the 1970–74 period was due to changes in the effective tax imposed by the series of capital controls that were put in place. At times, however, an estimated differential of as much as 2 percent per annum was required, in the context of political risk, to induce nonresidents to hold the excess supply of German outside debt, given the distribution of wealth between the German private sector and nonresidents.

Appendix

A Chronology of German Capital Controls

I. On April 1, 1970, the Bundesbank reintroduced a special reserve ratio on the growth of banks' liabilities to nonresidents. With the exception of the 4-month period from September through December 1971, when liabilities of both residents and nonresidents carried equal special reserve ratios, bank liabilities to nonresidents were subject to higher reserve requirements than bank liabilities to residents. This program served two purposes. First, it induced German banks to pay lower deposit rates to nonresidents than to residents. (This effect of the program probably was less important after May 1971, when controls were tightened to make payment of interest on deposits held by nonresidents subject to prior approval by the Bundesbank.) Second, it absorbed reserves and thereby "sterilized" the increase in the monetary base resulting from bank-reported capital inflows.

II. On May 10, 1971, interest payments on nonresident bank deposits exceeding DM 50,000 were made subject to the prior approval of the Bundesbank, which was not normally granted.

III. On March 1, 1972, the federal government introduced a cash deposit requirement (Bardepot) of 40 percent on most types of new credits by nonresidents to German nonbanks that exceeded DM 2 million per individual. The cash deposit, held by the Bundesbank, did not bear interest. The deposit was increased to 50 percent effective on July 1, 1972, and the exempt amount was simultaneously reduced to DM 0.5 million. The exemption was further reduced to DM 0.05 million on January 1, 1973. On January 30, 1974, the cash deposit requirement was reduced to 20 percent and the exemption raised to DM 0.1 million. In mid-September 1974 the cash requirement was eliminated retroactively from August 1, 1974.

13 Based on various issues of the Monthly Report of the German Bundesbank.
IV. On June 29, 1972, the federal government decreed that purchases of fixed-interest securities by nonresidents would require prior authorization. Fixed-interest securities included all maturities of bonds: for example, all bank bonds, mortgage bonds, communal bonds, industrial bonds, and public authority bonds. In practice, the authorization requirement was equivalent to the prohibition of such purchases. The authorization requirement for all but short-term securities (with fewer than 4 years to maturity) was terminated on January 30, 1974.

V. On February 5, 1973, the federal government extended its prior authorization requirement to the acquisition of domestic shares and mutual funds by nonresidents and to the raising of loans abroad by residents, including trade credits. Controls now applied to almost all capital transactions with nonresidents and no longer just to transactions in fixed-interest securities. These additional measures were terminated on January 30, 1974.

References


