



National  
Foreign  
Assessment  
Center

~~Secret~~  
NOFORN

RELEASE IN PART  
EXEMPTIONS: (b)(1)  
(b)(3)  
DATE: OCT 2001

# OPEC Countries: Annual Report On Official Foreign Assets

A Research Paper

~~Secret~~

ER 80-10070  
February 1980

Copy

000

**Warning Notice**

**Intelligence Sources  
and Methods Involved  
(WNINTEL)**

**National Security  
Information**

**Unauthorized Disclosure  
Subject to Criminal Sanctions**

**Dissemination Control  
Abbreviations**

|                 |   |
|-----------------|---|
| NOFORN (NF)     | Not Releasable to Foreign Nationals                                     |
| NOCONTRACT (NC) | Not Releasable to Contractors or Contractor/Consultants                 |
| PROPIN (PP)     | Caution—Proprietary Information Involved                                |
| NFIBONLY (NO)   | NFIB Departments Only   |
| ORCON (OC)      | Dissemination and Extraction of Information<br>Controlled by Originator |
| REL...          | This Information Has Been Authorized for Release to...                  |
| FGI             | Foreign Government Information  |

All material on this page  
is unclassified.



National  
Foreign  
Assessment  
Center

~~Secret~~  
NOFORN

# OPEC Countries: Annual Report On Official Foreign Assets

A Research Paper

*Research for this report was completed  
on 16 November 1979.*



~~Secret~~  
ER 80-10070  
February 1980

**Preface**

The OPEC governments have accumulated massive financial assets outside their own countries since the large oil price increase of 1973/74. These assets grew more slowly in the period 1975-78, however, because after 1974 the current account surpluses of the oil producers diminished and in some cases disappeared as real oil prices declined and OPEC imports rose dramatically. The latest oil price rises are once again creating big surpluses for the OPEC countries and consequently another big increase in financial assets. One of the risks created by these assets is that an OPEC country could use them for political purposes in a way that would create instability for the dollar and other currencies. Iran's plan to remove its assets from US institutions, which was preempted by the US block on Iranian assets, is evidence of such a risk. [REDACTED]

In this fifth annual report on OPEC foreign official assets, we have examined trends in OPEC investment in 1978, noting the size, composition, and location of new and existing placements. The data establish a baseline from which developments in 1979 and 1980 can be judged. Interim reports on the status of OPEC assets will appear in the *Economic Intelligence Weekly Review*, published by the Office of Economic Research. [REDACTED]

## GPEC Countries: Annual Report On Official Foreign Assets

### Overview

The value of OPEC official foreign asset holdings\* rose in 1978 by only an estimated US \$4.5 billion, to \$161 billion—the smallest increase since the 1973/74 oil crisis. The stability of oil prices, the decline in oil export volume, and higher import prices were the main factors. Saudi Arabia, normally the largest net investor, liquidated assets to meet cash flow requirements. Meanwhile, private and quasi-official outflows from OPEC countries increased dramatically for the year. Capital flight from Iran was an important factor; incomplete data on private transactions make other causes a matter of speculation.

Reflecting their growing financial sophistication, official OPEC investors increased holdings of nonreserve assets, such as corporate securities and direct loans, by \$6.5 billion; at the same time, they reduced reserve assets, such as government securities and bank deposits, by \$2 billion. Dollars were shed in favor of yen and deutsche marks, and Japan and West Germany were the favored locations in placing new investments. OPEC countries reduced their nongold holdings in the United States and also drew down total assets in the United Kingdom and some other West European countries.

The net flow of OPEC official foreign investment increased dramatically in 1979 as the result of the steep rise in oil prices. While preliminary data suggest that OPEC foreign assets declined somewhat in the first quarter when oil receipts were steady, we estimate the amount available for foreign placement in 1979 at nearly \$40 billion. Most of the accumulation occurred in the second half, when the effects of oil price increases were most strongly felt. Large asset buildup will continue at least through the first half of 1980; the trend in the second half will depend on the OPEC countries' inclination to import as a result of higher income and on oil pricing policies during the year.

\* Official foreign assets for purposes of this report are those held by the respective OPEC countries' central banks and, in some cases, other principal financial institutions. The bulk of the assets of Kuwait and Qatar, for example, are held by entities other than the central bank, or monetary authority; the United Arab Emirates (UAE) has no central monetary authority per se. The figures for official foreign investment in this report should be viewed as minimum amounts.

~~Secret~~  
~~NOFORN~~

OPEC countries are reviewing their foreign investment policies as a result of the US-Iranian confrontation. Calls by some members to reduce financial exposure in the United States will provide added push for asset diversification programs already evident in 1978. Rapid movement away from the dollar, however, will be difficult when surpluses are large.



~~Secret~~

## OPEC Countries: Annual Report On Official Foreign Assets

### Investment Levels

OPEC member states increased their official foreign assets by only US \$4.5 billion in 1978, compared with an average of \$27 billion annually in 1975-77. The funds available for all types of foreign investment were reduced to \$35.4 billion primarily because OPEC's trade surplus was slashed by \$18.0 billion from the 1977 level. OPEC's oil export volume declined 5.6 percent in 1978, while at the same time the contract price of benchmark oil held at \$12.70 per barrel. Oil imports by the major consuming countries declined in the wake of heavy stockpiling in late 1977 and the increase in output from Alaska and the North Sea. Some producers, in fact, offered small discounts during the year to improve their competitive position. As a result, oil revenues for the cartel fell a total of \$7 billion; only Algeria, Ecuador, Kuwait, and Qatar posted higher revenues than in 1977. OPEC imports, on the other hand, rose 13.6 percent because of price increases; import volume actually declined slightly. The consequent decline in the trade balance depressed the OPEC current account surplus to a post-1973 low of \$5.8 billion.

Although the current account surplus was supplemented by heavy borrowing and by oil company debt repayments, the bulk of investable funds went to repayment of the debts of the OPEC countries as well as to private and, perhaps, quasi-official holdings, rather than to additional official foreign assets. As a result of a substantial increase in our estimate of OPEC borrowing, quasi-official and private capital outflows—estimated as a residual along with errors and omissions—apparently are larger than previously thought and have increased substantially.

However, private capital flight from Iran on the order of \$4-5 billion undoubtedly contributed to the more than doubling of the residual from the preceding year's level; fears precipitated by the Iranian revolution may have encouraged similar action in other Middle Eastern

Table 1 Billion US \$

### OPEC Countries: Estimated Investable Surplus

|  | 1977        | 1978        |
|--|-------------|-------------|
| <b>Total</b>   | <b>49.5</b> | <b>35.4</b> |
| <b>Sources</b>   |             |             |
| Current account surplus  | 26.8        | 5.8         |
| Decrease in oil company indebtedness                               | 2.6         | 0.8         |
| Borrowing <sup>1</sup>   | 16.6        | 23.1        |
| Gain from official asset appreciation <sup>2</sup>                 | 3.5         | 5.7         |
| <b>Uses</b>  |             |             |
| Debt amortization  | 4.5         | 5.5         |
| Nationalization compensation payments                              | 0.8         | 0           |
| Net private investment in the United States and the United Kingdom | 3.5         | 2.0         |
| Subscriptions to multilateral aid institutions                     | 0.7         | 0.8         |
| Prepayments to the United States for imports                       | 0.8         | 0.5         |
| Official foreign asset accumulation                                | 28.3        | 4.5         |
| Other uses and errors and omissions                                | 10.9        | 22.1        |

<sup>1</sup> Medium- and long-term borrowing. These estimates are considerably higher than previously reported because new sources and analytical methods now permit better coverage of borrowing.

<sup>2</sup> Includes only gains due to changes in exchange rates and gold prices; other appreciation gains—on investment accounts, for example—are not identifiable because of data limitations. These other gains are included implicitly, however, in the uses of funds under "official foreign asset accumulation." As a result, the final line item—a residual—is understated by the amount of any other appreciation gains.

countries. The rapid growth of these outflows might also reflect an increasing saturation with luxury goods on the part of the principal domestic beneficiaries of the enormous sums of oil money spent on development by OPEC governments in recent years; a consequent greater preference for overseas assets, both real and financial, would be the natural result.

~~Secret~~

Table 2

Million US \$

OPEC Countries:  
Official Foreign Assets, Yearend <sup>1</sup>

|              | 1974          | 1975           | 1976           | 1977           | 1978           |
|--------------|---------------|----------------|----------------|----------------|----------------|
| <b>Total</b> | <b>74,010</b> | <b>101,790</b> | <b>127,820</b> | <b>156,140</b> | <b>160,630</b> |
| Algeria      | 2,490         | 1,930          | 2,600          | 2,910          | 3,590          |
| Ecuador      | 410           | 330            | 560            | 720            | 760            |
| Gabon        | 0             | 150            | 120            | 20             | 10             |
| Indonesia    | 1,540         | 630            | 1,550          | 2,570          | 2,720          |
| Iran         | 9,880         | 12,560         | 14,410         | 18,770         | 18,710         |
| Iraq         | 3,870         | 3,180          | 5,130          | 7,870          | 10,000         |
| Kuwait       | 9,700         | 14,900         | 18,710         | 23,490         | 26,880         |
| Libya        | 4,010         | 2,880          | 4,330          | 6,590          | 6,170          |
| Nigeria      | 5,730         | 5,880          | 5,280          | 4,340          | 2,050          |
| Qatar        | 1,300         | 2,110          | 3,460          | 3,940          | 4,790          |
| Saudi Arabia | 21,700        | 39,220         | 50,230         | 60,570         | 58,980         |
| UAE          | 4,820         | 7,550          | 11,070         | 14,060         | 16,700         |
| Venezuela    | 8,550         | 10,480         | 10,390         | 10,290         | 9,280          |

<sup>1</sup> Because of rounding to the nearest \$10 million, components may not add to the totals shown.

*Investment Distribution*

The pattern of official foreign asset accumulation among OPEC countries during 1978 took an unusual turn when Saudi Arabia became a net seller. In 1976-77, the Saudis had accounted for about 40 percent of total OPEC net official foreign investment. In 1978 they liquidated \$1.6 billion in assets to meet cash flow requirements; a 31-percent increase in import purchases together with a decline in oil revenues produced a current account surplus of only \$4.6 billion, compared with an average of \$14 billion annually in 1975-77. Nigeria and Venezuela dipped into assets to help finance current account deficits.

Kuwait, the UAE, and Iraq were the largest net investors in 1978, their combined accumulation of assets totaling \$8.2 billion. Iran's official foreign assets dropped slightly last year despite a \$3 billion current account surplus as the revolution precipitated \$4.5-5.0 billion in other capital outflows. These other outflows were up substantially over 1977 but not out of line with earlier years.

*Type of Investment*

Continuing their attempt to increase the yield on foreign financial holdings, OPEC official investors liquidated some \$2 billion in reserve assets and built up \$6.5 billion in nonreserve assets—corporate securities, investment accounts, and direct loans.

The drop in reserve assets resulted from selling off government securities and closing out long-term bank deposits; the dramatic surge in the price of gold and an increase in short-term bank deposits—principally by Iraq, Kuwait, Qatar, and the UAE—only partially offset the liquidations. Despite the weak oil market and lower revenues, the OPEC members increased only slightly the proportion of assets held in cash and highly liquid accounts.

Saudi Arabia liquidated almost \$5 billion in reserve assets in 1978 while increasing its estimated holdings of nonreserve assets by almost \$3.5 billion. Saudi Arabia, Kuwait, and the UAE were almost entirely responsible for the increase in nonreserve assets,

~~Secret~~

Table 3

Million US \$

**OPEC Countries:  
Change in Official Foreign Assets, 1978<sup>1</sup>**

|  | Total        | Gold, SDRs,<br>IMF Position <sup>2</sup> | Bank<br>Deposits | Government<br>Securities | Nonreserve<br>Assets |
|--|--------------|--|------------------|--------------------------|----------------------|
| <b>Total</b>                             | <b>4,490</b> | <b>3,410</b>                             |                  | <b>-5,430</b>            | <b>6,500</b>         |
| United States                            | -440         | 620                                      | -270             | -2,380                   | 1,580                |
| United Kingdom                           | -2,900       | 0  | -3,040           | -470                     | 600                  |
| US dollars                               | -3,570       | 0  | -3,110           | 30                       | -490                 |
| Sterling                                 | -790         | 0  | -220             | -500                     | -70                  |
| Other currencies                         | 1,460        | 0  | 290              | 0                        | 1,160                |
| Continental Europe,<br>Japan, and Canada | 3,980        | 0  | 1,920            | 900                      | 1,160                |
| US dollars                               | -700         | 0  | -380             | 130                      | -450                 |
| Other currencies                         | 4,680        | 0  | 2,300            | 770                      | 1,610                |
| IMF                                      | -460         | 460                                      | 0                | -920                     | 0                    |
| World Bank                               | 230          | 0  | 0                | 60                       | 170                  |
| Other                                    | 1,430        | 0  | -1,200           | 240                      | 2,380                |
| <b>Unlocated</b>                         | <b>2,660</b> | <b>2,330</b>                             |                  | <b>-270</b>              | <b>600</b>           |

<sup>1</sup> Because of rounding to the nearest \$10 million, components may not add to the totals shown.

<sup>2</sup> Gold is valued at yearend market prices. SDR: Special Drawing Rights. IMF: International Monetary Fund.

purchasing nearly \$6 billion in corporate securities and whole bond issues. While US corporate securities and West German investment accounts were favorite placements, both Saudi Arabia and the UAE spread their new investment among many of the major developed countries.

**Currency Composition of Investment**

Prompted by uneasiness about the US dollar, OPEC reduced assets denominated in dollars by about \$5 billion in 1978. Saudi Arabia and Venezuela were the largest dollar disinvestors, shedding \$7.3 billion worldwide. Kuwait, on the other hand, increased its dollar holdings by \$2.5 billion; 75 percent of new Kuwaiti investment was placed in dollars compared with only 60 percent in 1977. Kuwaiti officials continued to believe that dollar investments yield the best return in the medium to long term.

West German marks and Japanese yen were the most attractive currencies to OPEC investors in 1978. The increase in deutsche-mark-denominated investment was reflected primarily in short-term bank deposits and nonreserve assets on a fairly wide geographic basis. Iraq accounted for a large share of the bank deposits, while Kuwait, the UAE, and Saudi Arabia were primarily responsible for the increase in mark-denominated nonreserve assets. Investors in the yen—chiefly Iran, Saudi Arabia, and Iraq—placed funds almost exclusively in short-term bank deposits because of Japanese restrictions on other types of foreign investment.

The value of official OPEC gold holdings increased by \$2.5 billion in 1978 primarily because gold prices soared by \$61, to \$226 an ounce, at yearend. The Saudis increased their official gold holdings by

~~Secret~~

**Table 4** Percent of Total

**OPEC Countries: Official Foreign Assets, by Type<sup>1</sup>  
31 December 1978**

|              | Gold, SDRs,<br>IMF Position | Bank<br>Deposits | Government<br>Securities | Nonreserve<br>Assets |
|--------------|-----------------------------|------------------|--------------------------|----------------------|
| <b>Total</b> | <b>5</b>                    |                  | <b>60</b>                | <b>35</b>            |
| Algeria      | 40                          |                  | 50                       | 10                   |
| Ecuador      | 15                          |                  | 85                       | 0                    |
| Gabon        | 75                          | 0                | 0                        | 25                   |
| Indonesia    | 10                          |                  | 90                       | 0                    |
| Iran         | 5                           | 50               | 15                       | 30                   |
| Iraq         | 10                          | 85               | 0                        | 5                    |
| Kuwait       | 5                           | 25               | 10                       | 60                   |
| Libya        | 10                          |                  | 65                       | 25                   |
| Nigeria      | 20                          |                  | 80                       | 0                    |
| Qatar        | 0                           | 85               | 0                        | 15                   |
| Saudi Arabia | 0                           | 30               | 30                       | 40                   |
| UAE          | 0                           | 55               | 5                        | 40                   |
| Venezuela    | 35                          | 45               | 20                       | 0                    |

<sup>1</sup> Because of rounding to the nearest 5 percent, components may not add to the totals shown.

1.5 million ounces, and five other OPEC countries together made net purchases of 315,000 ounces.

Besides the increased value of gold holdings and new investment in nondollar assets, OPEC holdings in dollar terms also rose because the dollar depreciated against other hard currencies. In 1978, dollar depreciation boosted the value of OPEC nondollar assets (excluding gold) by \$3.6 billion. This appreciation of nondollar foreign assets more than compensated OPEC members for declines in purchasing power attributable to dollar depreciation.

**Location of Investment**

In 1978 OPEC countries withdrew about \$4 billion (net) from the United States, the United Kingdom, and a few West European countries in favor of new investments in Japan, West Germany, and in less developed countries. The drawdowns, led by Venezuela and Saudi Arabia, occurred chiefly in dollar-denominated bank accounts in the United Kingdom

**Table 5** Percent of Total

**OPEC Countries: Official Foreign  
Assets, by Currency<sup>1</sup>, 31 December 1978**

|              | Gold, SDRs,<br>IMF Position | US<br>Dollars | Other     | Unlocated |
|--------------|-----------------------------|---------------|-----------|-----------|
| <b>Total</b> | <b>5</b>                    | <b>65</b>     | <b>20</b> | <b>10</b> |
| Algeria      | 35                          | 40            | 15        | 10        |
| Ecuador      | 15                          | 75            | 10        | 0         |
| Gabon        | 75                          | 0             | 25        | 0         |
| Indonesia    | 5                           | 80            | 15        | 0         |
| Iran         | 10                          | 70            | 10        | 10        |
| Iraq         | 10                          | 35            | 50        | 5         |
| Kuwait       | 0                           | 70            | 30        | 0         |
| Libya        | 10                          | 50            | 30        | 10        |
| Nigeria      | 15                          | 65            | 20        | 0         |
| Qatar        | 0                           | 20            | 0         | 80        |
| Saudi Arabia | 0                           | 75            | 15        | 10        |
| UAE          | 0                           | 45            | 10        | 45        |
| Venezuela    | 35                          | 40            | 25        | 0         |

<sup>1</sup> Because of rounding to the nearest 5 percent, components may not add to the totals shown.

and in holdings of government securities in the United States. The decline in such assets in the United States was not quite offset by the appreciation of OPEC gold holdings located here and by new investment in nonreserve assets, primarily US corporate securities. Nigeria and Libya were the only OPEC countries making net withdrawals from continental Europe as a whole; Nigeria faced cash flow problems in the wake of reduced oil export earnings and rapid import growth.

Despite Tokyo's restrictions, Japan received the biggest chunk of OPEC official investment in 1978. The net increase in OPEC holdings in Japan—more than \$2.5 billion—was more than twice the flow in 1977. West Germany attracted \$850 million, mostly for corporate securities and other nonreserve assets. Other West European countries received \$1.2 billion in official OPEC investment, about 75 percent in bank accounts and government securities.

~~Secret~~

~~Secret~~

Table 6

Million US \$

**OPEC Countries: Location of Official Foreign Assets, Yearend 1978<sup>1</sup>**

|                                       | Total          | Gold, SDRs, IMF Position <sup>1</sup> | Bank Deposits | Government Securities | Nonreserve Assets |
|---------------------------------------|----------------|---------------------------------------|---------------|-----------------------|-------------------|
| <b>Total</b>                          | <b>160,633</b> | <b>10,354</b>                         |               | <b>95,396</b>         | <b>54,883</b>     |
| United States                         | 35,578         | 2,070                                 | 5,292         | 16,680                | 11,536            |
| United Kingdom                        | 29,105         | 0                                     | 23,749        | 928                   | 4,428             |
| US dollars                            | 24,459         | 0                                     | 21,687        | 55                    | 2,717             |
| Sterling                              | 2,091          | 0                                     | 755           | 863                   | 473               |
| Other currencies                      | 2,555          | 0                                     | 1,307         | 10                    | 1,238             |
| Continental Europe, Japan, and Canada | 34,071         | 0                                     | 16,483        | 3,076                 | 14,512            |
| US Dollars                            | 15,123         | 0                                     | 9,037         | 438                   | 5,648             |
| Other currencies                      | 18,948         | 0                                     | 7,446         | 2,638                 | 8,864             |
| IMF                                   | 6,442          | 1,758                                 | 0             | 4,684                 | 0                 |
| World Bank                            | 4,009          | 0                                     | 0             | 3,632                 | 377               |
| Other                                 | 20,352         | 0                                     | 3,581         | 746                   | 16,025            |
| Unlocated                             | 31,076         | 6,526                                 |               | 16,545                | 8,005             |

<sup>1</sup> Gold is valued at the yearend London market price.

OPEC assets in LDCs, most of which consist of bilateral loans, rose \$1.9 billion in 1978. New loans amounted to more than \$2.0 billion, but some bank deposits were drawn down. The new loan placements, as might be expected, were below historical levels, amounting to about 60 percent of the amount placed in 1977.

**OPEC Assets at Yearend 1978**

The small amount of new foreign investment in 1978 increased the value of the official OPEC portfolio to an estimated \$161 billion as of 31 December. Despite the continuing increase in nonreserve assets, approximately \$106 billion were held in reserve assets—gold, bank deposits, and government securities. OPEC international reserves amounted to \$168 billion less than the combined reserves of the seven major non-Communist industrial nations—the United States, Japan, West Germany, France, the United Kingdom, Italy, and Canada.

The top four asset holders—Saudi Arabia, Kuwait, Iran, and the UAE—increased their share of total OPEC holdings ever so slightly as gains in the Kuwaiti and UAE holdings more than offset liquidations in the Saudi and Iranian portfolios. As of 31 December 1978 these four countries held 75 percent of all OPEC foreign official assets.

**Type of Assets**

The nonreserve share of total assets has climbed steadily from 25 percent at yearend 1975 to nearly 35 percent by yearend 1978. Saudi Arabia and Kuwait continued to diversify their portfolios by increasing the share of nonreserve assets; corporate securities and direct loans generally yield higher returns than those offered by bank accounts and government securities. Kuwait, considered the most sophisticated OPEC investor, is the only cartel member with more than

~~Secret~~

~~Secret~~

one-half—about 60 percent—of its portfolio in nonreserve assets. Of the nine OPEC members with official foreign assets of \$10 billion or less, only Libya has consistently increased the share of nonreserve assets in its holdings, from 15 percent in 1975 to 25 percent in 1978.

At the end of 1978:

- The five OPEC countries with current account deficits—Algeria, Ecuador, Indonesia, Nigeria, and Venezuela—held an average of 60 percent of their reserve assets in short-term bank deposits and government securities; the average for the surplus countries was 57 percent.
- Official OPEC holdings of foreign corporate securities amounted to \$15.7 billion, compared with \$13.4 billion at yearend 1977.
- Other nonreserve assets—direct bond placements, investment accounts, and loans—increased more than any other portion of the OPEC portfolio last year; they totaled \$38 billion by yearend, up from \$34 billion a year earlier.

#### *Location of Assets*

The share of OPEC assets held in developed countries dropped slightly, from an average of two-thirds in 1975-77 to 64 percent in 1978:

- An estimated 22 percent of total OPEC assets were invested in the United States at yearend 1978, the same relative share as in 1975-77.
- The share of assets held in the United Kingdom—many of which are Eurodollar bank deposits—declined steadily from 33 percent in 1974 to 18 percent at the end of 1978. This trend reflects the movement into nonreserve assets and the decline in the use of sterling for oil payments.
- OPEC continued to hold almost 11 percent of its assets in LDCs, almost entirely in the form of bilateral loans.
- The cartel's assets in Communist countries declined by \$435 million in 1978, to \$3 billion or only 2 percent of the total.

#### *Currency Composition of Assets*

The share of total OPEC assets denominated in dollars, which hit a peak of 70 percent in 1976, declined to 63 percent—\$101 billion—by yearend 1978. Dollar holdings in the United States accounted for 35 percent of total dollar-denominated assets at the end of last year; dollar holdings in Great Britain accounted for 24 percent:

- Assets denominated in West German marks and Japanese yen accounted for 7.4 percent of yearend 1978 holdings, compared with 5.5 percent in 1977.
- Gold, Special Drawing Rights (SDR), and reserve positions in the International Monetary Fund made up 6.4 percent of the OPEC portfolio at the end of 1978.
- Assets denominated in British sterling have declined steadily in recent years, claiming only 1.3 percent of OPEC's foreign official assets at yearend 1978.

#### *Current and Capital Accounts*

Reconciliation of current and capital accounts for OPEC countries requires examination of private transactions as well as official transactions other than asset accumulation. The task is complicated by (1) definitional problems, (2) timing problems, and (3) gaps in the availability of data. Since some inconsistencies cannot be resolved, an errors and omissions category is necessary.

In 1978, net capital outflows from OPEC countries, other than additions to official foreign asset holdings, reached \$32.5 billion (see table 1). Many different types of capital movements make up this total.

**Debt Repayment.** OPEC countries repaid \$5.5 billion in principal on outstanding debts during 1978. Algeria, Indonesia, Iran, and Venezuela accounted for over 85 percent of the total.

**Net Private Investment in the United States and the United Kingdom.** Private citizens and nongovernment institutions from OPEC nations invested \$2.0 billion in the United States and the United Kingdom.

~~Secret~~

**Subscriptions to Multilateral Aid Institutions.** Disbursements of \$0.8 billion were made to aid institutions, such as the Islamic Development Bank, the International Fund for Agricultural Development, the Arab Bank for Economic Development in Africa, and the OPEC Special Fund. The primary contributors were Saudi Arabia and Iran, accounting for 45 percent of the total.

**Prepayments to the United States for Imports.** Prepayments for US goods, primarily military goods and services, amounted to \$0.5 billion; Saudi Arabia accounted for almost the entire amount.

**Other Capital Outflows and Errors and Omissions.** The \$22.1 billion in other uses is a residual, calculated by deducting the known uses of funds from the total sources. Included in the residual are (1) all government placements other than official foreign asset accumulation attributed to central banks or principal financial institutions (for example, funds placed by state-owned companies contribute to the residual); (2) overseas private investment in countries other than the United States and the United Kingdom by individuals, firms, and commercial banks; and (3) errors and omissions. Since our information on official transactions doubtless is not all inclusive, our official uses figure must be considered a minimum. To the extent that official investment is actually higher than our estimate, the residual outflow figure is overstated.

***Trends in 1979***

We estimate that the OPEC countries had about \$70 billion of investable surplus available in 1979 (net of gain from asset appreciation). Oil price trends and development policies in OPEC countries indicate that the current account surplus for the cartel reached about \$70 billion. Oil export volume was about the same as in 1978, but price increases pushed revenues up by about 50 percent. The 1979 import bill, on the other hand, probably was only moderately higher in nominal terms because of massive spending cuts in Iran and slower paced development plans in other major OPEC countries. Partly offsetting the larger trade surplus and continued borrowing was an increase in oil company indebtedness to OPEC states of possibly

\$8 billion. This dramatic change from the \$0.8 billion reduction of 1978 was a result of rapid price increases, which pushed the accrued value of oil liftings above cash receipts. Assuming a moderate further increase in private and quasi-official holdings and in other uses of investable funds, our preliminary estimate is that OPEC official foreign assets in 1979 increased by some \$38 billion.

[REDACTED] The dollar market— because of its size—almost certainly was used extensively, even though some OPEC countries probably tried to reduce their share of new investment placed in dollar-denominated assets because of their concern about US inflation and the strength of the dollar. The US block on Iranian assets in mid-November caused additional concern among the oil exporters about the safety of assets in general. Oil ministers in some of the OPEC governments have used the crisis to strengthen the recurrent argument that oil in the ground is the safest of all assets.

Available information indicates that OPEC governments continued the trend toward diversification in the types of assets purchased. Movement into nonreserve assets takes time, however, and we suspect there was a surge in bank deposits and government securities, raising the proportion of short-term reserve assets at least for a while. Interest and exchange rates remained key factors determining where funds were placed and in what currencies they were denominated. The US block on Iran's assets will undoubtedly provide added push to continue the asset diversification already evident in 1978.

The large accumulation of OPEC assets in late 1979 should continue well into 1980. Present oil price levels portend growing surpluses available for investment; receipts will be mounting much more rapidly than import expenditures, at least in the first half of 1980. Trends in asset accumulation for the latter half of the new year will depend upon OPEC's willingness to spend its increased income, import price inflation, and OPEC's desire to protect the real value of oil.

~~Secret~~

~~Secret~~

END OF

FICHE

DATE FILMED

29 Feb 80

RRB