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# Intelligence Report

*Distribution of OPEC Investment: September 1974*

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February 1975

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**Distribution  
of OPEC Investment:  
September 1974**

**KEY JUDGMENTS**

Boosted by higher oil earnings, the foreign official assets of OPEC members increased to US \$60 billion by 30 September 1974, nearly three times the level at the beginning of the year. The international investment pattern is quite similar among the members, despite their diversities. OPEC wealth is concentrated:

- In highly liquid assets – 65% in bank deposits and 20% in government securities. Less than 10% is in private bonds, loans, equities, and real estate, and only 5% in gold and IMF holdings.
- In the financial markets of the major developed countries – about 40% in London and 25% in New York. Less than 5% is located outside of Western Europe, the United States, and Japan.
- In dollar-denominated assets – about 70% is in dollars. Sterling accounts for another 10%, and other currencies, gold, and IMF holdings, for 20%.

OPEC's foreign assets probably totaled \$80 billion by the end of 1974 and will increase to about \$140 billion by the end of this year. No sharp shift in the existing investment pattern is expected, but the share in longer term assets will continue to grow slowly. The concentration of investment in dollars will persist. There is little prospect that changes in OPEC investment patterns will significantly ease the recycling problem.

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Note: Comments and queries regarding this report are welcomed. They may be directed to [redacted] of the Office of Economic Research, [redacted]

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## DISCUSSION

### Introduction

1. This report is the first in a series analyzing the distribution of the OPEC states' foreign official assets.\* Detailed estimates of OPEC foreign investment, by type of asset, location, and currency are presented. Prospects for 1975 and their implications are also considered.

2. The distribution of OPEC investment presented in this report is based on data for 30 September 1974. While OPEC foreign official assets increased some \$20 billion in the fourth quarter of 1974, the proportional distribution among assets, locations, and currencies probably did not change appreciably.

### Growing OPEC Wealth

3. The foreign official assets of the OPEC states nearly tripled from \$21 billion at the end of 1973 to \$60 billion by 30 September 1974 (see the chart and Table 1) as higher oil prices boosted producer earnings. These assets probably totaled about \$80 billion by the end of the year.

4. A few oil producers control the bulk of OPEC wealth. The two largest -- Iran and Saudi Arabia -- account for nearly 35% of the total, and the five largest -- Iran, Kuwait, Nigeria, Saudi Arabia, and Venezuela -- about 70%.

5. The bulk of OPEC's foreign assets consists of reserve assets -- gold, SDRs, IMF reserve position, bank deposits, and government securities. On 30 September 1974, these totaled \$51 billion -- an amount equivalent to the total foreign reserves of the rest of the world less West Germany. At the end of 1974, their international reserves probably approached \$70 billion.

6. This buildup is substantially greater than indicated in IMF statistics. The IMF data exclude Qatar and the United Arab Emirates, and assets held by official agencies other than the central monetary authority, such as the Kuwait Ministry of Finance and the Venezuelan Investment Fund.

7. Holdings of other foreign assets -- corporate bonds, loans, equities, and real estate -- also grew rapidly during the first nine months of 1974. They increased

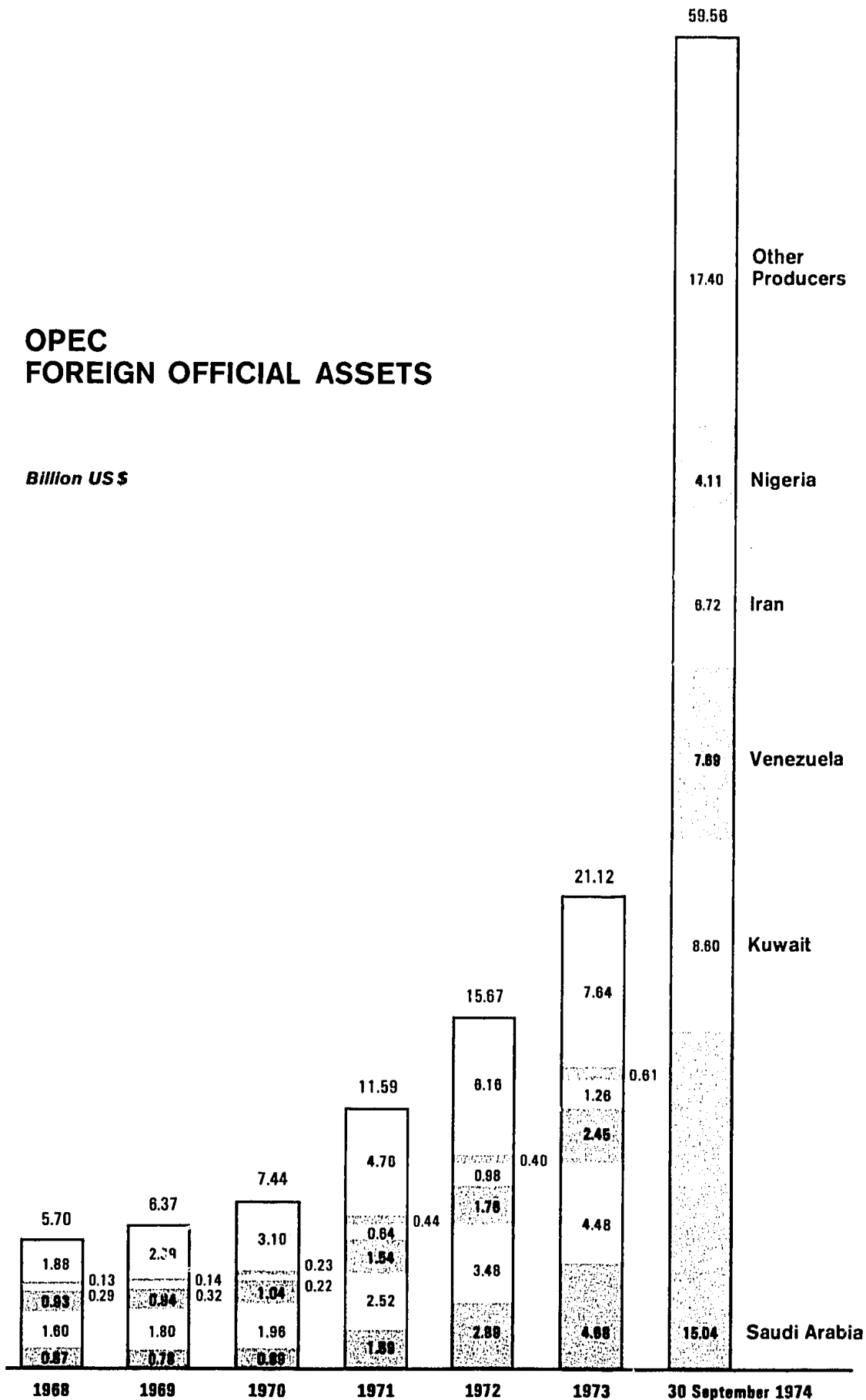
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\* The members of OPEC (the Organization of Petroleum Exporting Countries) are Algeria, Ecuador, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates, and Venezuela.

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# OPEC FOREIGN OFFICIAL ASSETS

Billion US\$



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Table I

OPEC

Foreign Official Assets

	Million US \$					
	31 December 1973			30 September 1974		
	Reserve Assets	Other Assets	Total Assets	Reserve Assets	Other Assets	Total Assets
<b>Total</b>	18,755	2,352	21,107	51,364	8,189	59,553
Algeria	1,143	14	1,157	1,987	14	2,001
Ecuador	241	3	244	343	3	346
Indonesia	807	41	848	1,589	41	1,630
Iran	1,237	25	1,262	6,577	138	6,715
Iraq	1,553	9	1,562	3,623	709	4,332
Kuwait	3,700	775	4,475	6,694	1,906	8,600
Libya	2,127	4	2,131	3,682	4	3,686
Nigeria	592	19	611	4,087	19	4,106
Qatar	360	38	398	1,000	100	1,100
Saudi Arabia	3,875	800	4,675	12,134	2,910	15,044
United Arab Emirates	700	600	1,300	2,322	1,978	4,300
Venezuela	2,420	24	2,444	7,326	367	7,693

from \$2 billion at the end of 1973 to \$8 billion by the end of September. Saudi Arabia has the largest non-reserve assets, consisting primarily of government-guaranteed loans to public utilities. Those of Kuwait and the United Arab Emirates are primarily equities and real estate.

**Investment Policy**

8. The international investment pattern of individual OPEC states is quite similar despite political, religious, and geographic diversity and sharp differences in the size of holdings. Their wealth is concentrated in liquid assets, primarily dollar denominated, located in the financial markets of the major developed countries, particularly London and New York (see Table 2).

9. The similarity in investment pattern is due to shared investment goals and a common external environment. The investment objectives of the OPEC states include:

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Table 2

OPEC

Foreign Official Assets as a Percent of Total  
30 September 1974

Percent of Total<sup>1</sup> (US \$60 Billion)

	Total	Reserve Assets				Non-Reserve Assets
		Total	Gold/SDR <sup>a</sup> /IMF Position	Bank Deposits	Government Securities	
Total	100	90	5	85		10
Amount in US dollars	70	60	...	60		10
United States	25	25	Negl.	15	10	Negl.
United Kingdom						
Dollars	30	25	...	25	0	5
Sterling	10	10	...	10		Negl.
Other currencies	Negl.	Negl.	...	Negl.	0	Negl.
Continental Europe and Japan						
Dollars	15	10	...	10		5
Other currencies	10	10	...	10		Negl.
IMF	5	5	Negl.	...	Negl.	...
World Bank	Negl.	Negl.	...	...	Negl.	Negl.
Other	5	5	Negl.	5		Negl.

<sup>1</sup> All data are rounded to the nearest 5%.

<sup>2</sup> An ellipsis indicates that no investment is likely.

- Insuring their holdings against political seizure;
- Maintaining – or increasing – the real value of their assets; and
- Retaining effective control over their investments.

These goals are pursued in a setting in which London and New York are the dominant international financial centers, and the dollar is the principal medium in international trade and investment. About three-fourths of the developed countries' financial assets are dollar denominated, and less than 10% are denominated in currencies other than the dollar or sterling.

*Asset Composition*

10. Almost all of OPEC's wealth is in highly liquid assets (see Table 3). Bank deposits – predominantly with maturities of less than 90 days and often overnight or on demand – account for about 65% of the total. On 30 September, OPEC's bank holdings approached \$40 billion. This is far in excess of short-term requirements, but bank deposits are relatively safe, easily managed, and can be channeled through intermediaries to make seizure unlikely. Moreover, in 1974 the return on short-term instruments was higher than that on many longer maturity assets.

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Table 3

OPEC

Foreign Official Assets, by Type  
30 September 1974

	Percent of Total <sup>1</sup>				
	Total	Gold/SDRs/ IMF Position	Bank Deposits	Government Securities	Non- Reserve Assets
OPEC.....	100	5	85		10
Algeria.....	100	15	85		Negl.
Ecuador.....	100	10	90		Negl.
Indonesia.....	100	5	90		5
Iran.....	100	5	80	15	Negl.
Iraq.....	100	5	75	5	15
Kuwait.....	100	Negl.	75		25
Libya.....	100	5	95		Negl.
Nigeria.....	100	5	95		Negl.
Saudi Arabia.....	100	Negl.	65	15	20
Venezuela.....	100	15	75	10	Negl.

<sup>1</sup> All data are rounded to the nearest 5%.

11. Another 20% of OPEC foreign wealth is in government securities, largely US Government issues. While subject to greater risk of seizure, government securities are financially secure and easily managed.

12. The type of asset held varies little among producers. Countries with higher-than-average absorptive capacities for imported goods, such as Indonesia, Iran, and Venezuela, have a somewhat larger share of their holdings in the most liquid assets -- bank deposits and government securities. Even Kuwait and Saudi Arabia, however, with very large foreign balances relative to foreseeable exchange requirements, maintain more than 75% of their holdings in such assets.

*Asset Location*

13. OPEC's wealth is located predominantly in financial markets of major developed countries (see Table 4). Holdings in London, including the Eurocurrency market, and New York account for about 65% of the total. At the end of September, OPEC had invested about \$25 billion in the United Kingdom and about \$15 billion in the United States. Most bank holdings are in London because of generally higher interest rates there, particularly on short-maturity deposits. The share of assets in the United States declined during the oil embargo, but has since grown considerably.

14. About 25% of OPEC's foreign assets are located in continental Europe and Japan -- half in Switzerland. About 5% are held through the International Monetary Fund and the World Bank.

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Table 4

OPEC

Foreign Official Assets, by Location  
30 September 1974

		Percent of Total <sup>1</sup>				
	Total	United States	United Kingdom	Continental Europe and Japan	IMF/World Bank	Other
OPEC.....	100	25	40	25	5	5
Algeria.....	100	10	35	50	5	Negl.
Ecuador.....	100	25	10	5	5	55
Indonesia.....	100	50	15	15	5	15
Iran.....	100	15	65	10	10	Negl.
Iraq.....	100	10	Negl.	50	Negl.	40
Kuwait.....	100	25	60	10	Negl.	5
Libya.....	100	20	5	65	Negl.	10
Nigeria.....	100	40	55	Negl.	5	Negl.
Saudi Arabia.....	100	15	55	25	5	Negl.
Venezuela.....	100	65	5	10	10	10

<sup>1</sup> All data are rounded to the nearest 5%.

15. Most OPEC states hold more than half their assets in London and New York; the exceptions are Algeria, Ecuador, Iraq, and Libya. Algeria, because of its ties to France, keeps a large share of its holdings in Paris. Ecuador, with relatively few foreign assets, is believed to rely on the Caribbean and Central American dollar markets. Iraq is unique among the OPEC states, having substantial investments in Communist countries, as well as in Switzerland and West Germany. Libya, which for political reasons sold off most of its sterling in 1972, is believed to concentrate its investment in Switzerland and other continental European countries.

*Currency Composition*

16. About 70% of OPEC's foreign assets are dollar denominated (see Table 5). Dollar holdings totaled more than \$40 billion on 30 September. Producers apparently prefer greater diversity, but a number of factors have discouraged investment in assets denominated in other currencies. German mark and Swiss franc investment has been inhibited by capital controls and limited market size. Investment in most other currencies, including sterling, has been limited by concern over their future value. The dollar market is presently the only market of sufficient size, depth, and openness to satisfy investment objectives.

17. Sterling, the other major reserve currency, accounts for another 10% of OPEC wealth. Sterling's share declined through the first nine months of 1974 as British economic conditions deteriorated and uncertainty about the pound grew. On 30 September, OPEC sterling investment totaled about \$6 billion.

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Table 5

OPEC

Foreign Official Assets, by Currency  
30 September 1974

Percent of Total<sup>1</sup>

	Total	Gold/SDRs/ IMF			Other
		Position	Dollars	Sterling	
OPEC.....	100	5	70	10	15
Algeria.....	100	15	70	Negl.	15
Ecuador.....	100	10	85	Negl.	5
Indonesia.....	100	5	80	Negl.	15
Iran.....	100	5	90	Negl.	5
Iraq.....	100	5	35	Negl.	60
Kuwait.....	100	Negl.	60	25	15
Libya.....	100	5	60	Negl.	35
Nigeria.....	100	5	40	55	Negl.
Saudi Arabia.....	100	Negl.	80	10	10
Venezuela.....	100	15	80	Negl.	5

<sup>1</sup> All data are rounded to the nearest 5%.

18. About 15% of OPEC wealth is in other currencies, largely German marks and Swiss and French francs. Only 5% is in gold and IMF assets, including the IMF Oil Facility. No OPEC state has sought to significantly increase its gold holdings.

19. Most OPEC states hold at least 70% of their wealth in dollars and 10% or less in sterling. The sterling area countries -- Kuwait and Nigeria -- keep a larger share of their holdings in sterling. The radical Arab states -- Iraq and Libya -- hold more of their wealth in assets denominated in currencies other than the dollar or sterling.

Prospects and Implications

20. During 1975, OPEC's wealth will increase about \$60 billion, to \$140 billion, assuming oil prices and production remain near present levels. Barring a new Middle East war, major shifts in the distribution of existing OPEC assets are highly unlikely.

21. The share of longer maturity assets will probably increase in 1975 as short-term interest rates continue to decline and OPEC countries gain investment experience. Purchases of government securities should rise, and a number of countries may establish investment funds or offices designed to invest more heavily in loans, equities, and real estate.

22. The United States, because of the size and depth of its financial market, will continue to attract OPEC investors unless a new Arab-Israeli war increases the perceived risk of seizure. Direct loans, particularly in return for technology and other development assistance, will absorb a larger share of the OPEC surplus than in 1974 -- likely recipients include France and Italy. OPEC investment through international organizations will also grow as a number of multilateral recycling proposals now under discussion are implemented.

23. Changes in the currency denomination of OPEC holdings will reflect decisions about the composition of new investment rather than a change in present holdings. Size and depth of the market will continue to be a primary criterion. This assures that most OPEC assets will be dollar denominated. However, interest rates and expectations about exchange rate movements will also be considered. Dollar holdings will probably total nearly \$100 billion by the end of 1975. The share of OPEC investment in sterling should decline so long as the pound continues to appear overvalued. The potential for shifts away from the dollar and sterling is limited by the fact that countries such as West Germany and Switzerland would tighten capital controls rather than allow a major influx of OPEC funds.

24. There is little prospect that changes in OPEC investment patterns will significantly ease the recycling problem. A shift to longer term assets by OPEC members will not increase private lending to needy countries because such loans are mainly limited by their high risk. Direct lending to importing countries will contribute to recycling but is likely to cover only a fraction of the deficits of hard-hit countries such as Italy.