Statement by J. L. Robertson, Vice Chairman, Board of Governors of the Federal Reserve System, at a press conference on May 18, 1966, with respect to balance of payments developments during the first quarter of 1966.

You will recall that on May 5 the Board of Governors issued a statement to the press which summarized the activities of the banking system under the Voluntary Foreign Credit Restraint Program during the first quarter of 1966, and those of the nonbank financial institutions through the end of 1965.

I think you will agree that the performance of the financial institutions in cooperating with the President's balance of payments program has been remarkable. Reportable foreign claims of the commercial banks have been reduced by $534 million from a high of $9,896 million on March 31, 1965. As previously announced, $290 million of this reduction occurred during the first quarter of 1966, leaving the banks on March 31, 1966, $138 million below the December 1964 base and $713 million below the target effective on that date. The addition of 1 per cent to the target ceiling on
April 1, in accordance with the previously announced schedule, raised the banks' leeway to $803 million, about where it was a month earlier, on February 28.

Data covering the nonbank financial institutions, also released on May 5, show that these institutions continue to operate in accord with the guidelines distributed to those institutions last year.

The success of the bank program has been aided by the fact that, for the first time since our balance of payments became an acute problem, a monetary policy appropriate for the domestic economy also helps to improve our balance of payments. The ability of the banks to make loans, including foreign loans, has been reduced by their tighter reserve and liquidity position.

The success scored by the voluntary program for financial institutions has not been at the expense of other important national objectives. There is no statistical evidence to present regarding the effect of the program on exports. However, the fact that the banking system remains considerably below the ceiling suggested by the guidelines indicates that the program has afforded, and still affords, ample room for all bankable export credits. This is not to say that export credits have not been affected by general monetary restraint—as have all types of credit.
In contrast to the general trend, credits to the developing countries increased in the twelve-month period ended March 31, 1966, although the amount of the increase was much less than in the preceding twelve-month period. The fact of an increase in credits to these countries during a period when total foreign credits were reduced by about $800 million (a figure which includes some claims not covered by the VFCR Program) indicates that the banks are observing the priority suggested for loans to less developed countries.

Data on nonbank financial institutions included in the Board's press release of May 5 indicate that these institutions also are following the priorities.