



FEDERAL RESERVE

press release

For immediate release.

August 17, 1965.

Remarks of William McChesney Martin, Jr.,
Chairman, Board of Governors of the Federal
Reserve System, at a press conference on
August 17, 1965, with respect to balance of
payments developments in the second quarter.

Let me underline Secretary Fowler's concern about an overly optimistic assessment of the balance of payments for the second quarter. It should be kept in mind that the net reduction in outstanding bank credits to foreigners, which may be attributed to voluntary foreign credit restraint, was larger than the payments surplus in that quarter.

Thus far voluntary foreign credit restraint has clearly bolstered our international payments position. It has done so without harming our domestic economy, our export drive, or less developed and other countries dependent for their economic welfare on the inflow of U. S. funds.

At the end of June, total credits to foreigners of participating banks were nearly \$400 million below the suggested target ceiling for 1965. Earlier this year, the foreign credits of quite a few large banks were much in excess of their targets, not only because of unusually large credit extensions during the first six weeks of the year but also because of the need to honor previous loan commitments and to expand priority credits, even where such

extension entailed a temporary excess over the ceiling. By the end of June, most of these banks had managed to come back under, or at least very close to the ceiling. In part, this was accomplished by the sale of excess credits to foreign branches.

The performance of financial institutions other than banks has been equally satisfactory. Preliminary and as yet incomplete data would indicate that the rate of increase in foreign credits and investments of these institutions in the first half of this year was only a small fraction of last year's figure of \$1 billion.

A news release distributed today by the Board of Governors gives further information on the results of the voluntary foreign credit restraint efforts.

But just because the figures for the second quarter of this year were so good, we must expect some deterioration during the second half. It can hardly be expected, for instance, that reflows will continue to reduce outstanding bank credits to foreigners during the current half year. Hence, the success of voluntary foreign credit restraint thus far would not justify any relaxation in our efforts. On the contrary, it would indicate a need for maintaining our endeavor to correct the imbalance in our international payments.