

(The article referred to follows:)

[From the Federal Reserve Bulletin, December 1965]

**BALANCE OF PAYMENTS PROGRAM—REVISED GUIDELINES FOR BANKS AND
NONBANK FINANCIAL INSTITUTIONS**

Since the inception of the voluntary foreign credit restraint effort, immediately following announcement by the President of his balance of payments program in February 1965, commercial banks and other financial institutions have contributed substantially to the improvement in the nation's payments position. This has been accomplished by the high degree of cooperation and statesmanship exhibited by the financial community in restraining the growth of (and in some instances reducing) claims on foreigners in accordance with guidelines issued by the Board of Governors of the Federal Reserve System.

Although considerable progress has been made and although the voluntary restraint program is temporary in nature, perseverance by financial institutions in the program through 1966 is necessary to attain the goal of equilibrium in the nation's balance of payments and represents the appropriate response to the President's message of February 10, 1965, in which he issued a personal "call on American businessmen and bankers to enter a constructive partnership with their Government to protect and strengthen the position of the dollar in the world today."

The main feature of the guidelines for 1965 has been a percentage limitation on increases in foreign credits from the base date of December 31, 1964. In general, each bank was requested to restrict its foreign credits outstanding to an amount not in excess of 105 per cent of the amount outstanding at the end of 1964, and each nonbank financial institution was requested to operate within a framework roughly similar to that suggested for banks.

For the year 1966 the guidelines for both banks and nonbank financial institutions have been revised to suggest limitations on expansion of foreign credits that are comparable to the limitations suggested for 1965. These will permit some further expansion in such credits, and provide for variations to remove certain inequities inherent in the 1965 program.

Notwithstanding the fact that the banking system as a whole is presently well below the suggested target for 1965, this additional expansion has been allowed for two reasons: (1) it is believed that banks will continue to cooperate with the spirit as well as the letter of the program and will utilize the expansion suggested only to the extent needed to meet priority credit requirements; and (2) it is intended to make certain that export financing is available in adequate amounts, and that the bona fide credit needs of less developed countries will continue to be met.

Continued restraint on the increase in foreign credits is the basic objective of the bank program for 1966. Generally speaking, commercial banks are requested to restrain any expansion in foreign credits to such an extent that the amount outstanding at year-end will not exceed 109 per cent of the amount outstanding on December 31, 1964. Further, in order to spread throughout the year any outflow necessary to meet priority credit requirements, it is requested that the amount outstanding not exceed 106 per cent of the 1964 base during the first quarter, 107 per cent during the second, and 108 per cent during the third quarter. Special consideration for banks with small bases will add 1 per cent or less to the total, bringing the potential amount outstanding at the end of 1966 for the banking system as a whole to about 110 per cent of the 1964 base as compared with the 105 per cent target for 1965.

The guidelines for 1966 for nonbank financial institutions have been revised to reflect provisions broadly comparable with those of the bank guidelines. Investments of liquid funds abroad are to be held to minimum practicable levels and ordinarily should not be permitted to exceed the reduced September 30, 1965, total. Investments in credits maturing in 10 years or less and in foreign branches and financial subsidiaries are subject to the same ceiling as suggested for the banks. Long-term investments in developed countries other than Canada and Japan are subject to a ceiling of 105 per cent of the September 30, 1965, amounts during 1966; this base was selected because retroactive use of a 1964 year-end base might have been inequitable for some institutions.

As in 1965, financial institutions are requested to give priority to export credits and credits to less developed countries. In instances where the special base and