

out major dislocation of trade and investment. Here again, the rapidly growing international capital market has proved an effective alternative source of both bank loans and long-term investment funds.

In view of the necessity to preserve the savings achieved in 1968, the Federal Reserve Board has announced a continuation of the voluntary credit restraint program for the coming year. The basic ceilings on foreign lending will be maintained, and the guidelines will continue:

- to encourage lending institutions to give priority to export credits and loans to less developed countries in the use of any leeway;
- to ask banks not to renew or replace maturing term loans to continental Western Europe; and
- to provide leeway for banks to participate in export credits supported by agencies of the United States Government.

Interest Equalization Tax

In July, 1967, the IET was extended for two years with discretionary authority for the President to vary the rate of tax. In 1968, the rate was maintained at the level of $1\frac{1}{4}$ percent per annum, less than the permissible maximum. It served effectively to place a premium for American investors on portfolio investments and term loans to developed countries. This effective deterrent continued when interest rates in the United States and in other major capital markets gradually declined from the excessively high levels brought about by the crisis in international financial markets in late 1967 and early 1968.