



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

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101-0602

September 26, 1985

PAUL A. VOLCKER
CHAIRMAN

The Honorable George W. Crockett
House of Representatives
Washington, D.C. 20515

Dear Mr. Crockett:

On September 18, I received from you and a number of your Congressional colleagues a letter about the external financial and internal difficulties facing South Africa and what should and should not be done about them. In that connection, I can assure you that the Federal Reserve has not provided financial assistance to South Africa and has no intention of doing so.

With respect to the other specific points raised in your letter, I would like to offer a few observations. It is my understanding that the South African Government has not asked for financial assistance from the U.S. Government or any multilateral lending institution. Moreover, South African Government officials have stated that the country does not need new funds from abroad, and such a request seems to me very unlikely. I also have the sense that the responsible officials have come to recognize the connection between some progress in resolving internal political questions and an orderly resolution of their external financing difficulties.

So far as existing bank loans or other claims on South Africa are concerned, the great bulk of such claims relate to the private sector of South Africa. Our banks obviously have an interest in protecting their own financial interests, including repayment over time. In that context, it would appear to be appropriate to permit the banks to pursue those legitimate interests in such manner as they deem necessary and appropriate.

I am certain that the question of U.S. banks' exposure to South Africa will arise and be reviewed by the Interagency Country Exposure Review Committee in the routine workings of that process. As you may be aware, there are regular requirements that banks report in various ways on their international operations and, in particular, banks with any significant volume of international lending each month and quarter report changes in exposure to foreign countries. The President's recent Executive Order specifically prohibits new bank lending to the Government of South Africa. The existing reports, supplementing

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the regular examination process, appear adequate to monitor compliance with the Order.

I hope these observations are helpful to you.

Sincerely,

Paul Walker