

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

REC'D IN LECORDS SECTION JAN 27 1970

WASHINGTON, D. C. 20551

January 26, 1970

CONFIDENTIAL (FR)

Mr. Broida

FROM:

TO: Federal Open Market Committee

SUBJECT: Ireland as a

Candidate for the Swap

Network.

The attached memorandum is circulated as background for a matter that the Special Manager plans to raise at the next meeting.

> Arthur L. Broida, Deputy Secretary,

Federal Open Market Committee.

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Attachment

JARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Office Correspondence

Date	December	16,	1969.

ubject. Ireland as a Candidate for a
ubject: Ireland as a Candidate for a Reciprocal Currency Arrange-
ment with the Federal Reserve
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CONFIDENTIAL (FR)

In a recent telegram and letter, the Governor of the Central Bank of Ireland has indicated an interest in entering into a reciprocal currency arrangement with the Federal Reserve, and has requested detailed information about such arrangements. The reply attempted to give frank answers to the Governor's request for information but was noncommittal on whether the Federal Reserve would or would not welcome an arrangement with the Bank of Ireland. The pros and cons are set out below.

The criteria of 1967

A paper submitted to the Federal Open Market Committee in February 1967 suggested four criteria for membership in the swap network, as follows:

- "(1) The country should have a currency that is convertible within the meaning of Article VIII of the Articles of Agreement of the International Monetary Fund.
- "(2) The central bank, with its government's approval, should wish to enter into and maintain a reciprocal currency arrangement with the Federal Reserve on a banking basis, and should be prepared to treat swap drawings as short-term credits and to exchange relevant information freely and frankly, without diplomatic participation or intervention.
- "(3) The country's financial structure, including its exchange market, should be such that it is subject to the types of international flows with which the swap arrangements are designed to cope.

To: Mr. Robert Solomon - 2 -

"(4) The country should be of at least a certain size in international trade and finance. Size might appropriately be measured by official reserves, foreign trade, IMF quotas, or some other magnitude or combination of magnitudes."

It seems clear that the Central Bank of Ireland would meet the first three of the four criteria. Ireland's currency is convertible within the meaning of Article VIII of the Articles of Agreement of the IMF (criterion1). The Bank of Ireland would presumably be willing and able to enter into a reciprocal currency arrangement on the same basis and understandings as other participants in the network, although this may need to be ascertained in more detail (criterion 2). The financial structure of Ireland is probably as well developed, and as susceptible to disequilibrating international payments flows, as that of several present network members (Mexico, Norway, Denmark, Austria) (criterion 3).

On the criterion of size (Criterion 4), the conclusion is less clear. Ireland's reserves have recently been as large as, or larger than, those of several present members of the swap network (Sweden, Mexico, Norway, Denmark; see Table 1). But its foreign trade (Table 2) is much smaller -- less than two-thirds that of Mexico, which at present has the smaller trade of any member of the network, and less than half that of Austria. And its IMF quota (Table 3), which may be taken as a rough indicator of its weight in the world economy, is only \$80 million, compared to \$150 million or more for present network members. In population, too, Ireland, with 2.9 million, is smaller than the smallest present member (Norway with 3.8 million).

Other considerations

It was argued in the 1967 paper, and generally accepted by the Federal Open Market Committee, that the Federal Reserve should maintain reciprocal currency arrangements only with a relatively small number of central banks. The question arises whether admitting a country as small as Ireland to the network would form a precedent for admitting an undesirably large number of other small countries. Probably this would not be so. Most of the countries that outrank Ireland in at least two of Tables 1-3 also outrank one or more present swap network members (e.g., Australia, Argentina, Brazil, India, Malysia, Spain, South Africa, Venezuela). Lowering of quantitative standards to include Ireland would make

To: Mr. Robert Solomon - 3 -

potential candidates of only a few additional countries (e.g. Finland and Yugoslavia). Still, there might be some difficulty in explaining to ourselves and to the world why, in order to defend the dollar, the Federal Reserve should need a special arrangement with a country as small as Ireland.

Unlike all other swap network members except Mexico, Ireland is not generally classified as an "industrial" country, but it is generally regarded as a "developed" country, in contrast to "less developed" countries including Mexico. Ireland has made application, along with the United Kingdom, Denmark, and Norway, to join the European Common Market, and it might be argued that the Federal Reserve System should have arrangements with all such countries, rather than with all but one of them.

It may be argued that Ireland, as a member of the sterling area, committed for the next few years to hold at least 65 per cent of its reserves in sterling, should look to the United Kingdom rather than to the United States for short-term credit facilities. I would be inclined to resist this particular argument, noting that Ireland is an independent country which is attempting to broaden its contacts with the non-sterling world, as it has every right to do. The Central Bank of Ireland has been diversifying its reserves in recent years. It bought \$57 million of gold during the first three quarters of 1968, but has resold most of this during 1969. At the end of August, it held 74 per cent of its gold and foreign exchange reserves in sterling; the remainder was divided almost equally between gold and dollars. Since then, it has sold to the United States about half the gold (\$31 million) and presumably holds the proceeds in dollars.

Attachments 3.

Table 1. Countries having Official Reserves of \$340 Million or More in October 1969 1/ (In millions of dollars)

2./	Reserves					
Country and category2/	Dec. 1966	Dec. 1967	Dec. 1968	Oct. 1969		
United States	14,881	14,830	15,710	16,316		
Other countries whose central banks have reciprocal						
currency arrangements with the Fe	deral Reser	ve				
	0.000	0.150	0.040	10 700		
Germany	8,028	8,152	9,948	10,702		
Italy	4,910	5,4 6 3	5,342	5,189		
France	6,733	6,994	4,201	3,913		
Switzerland	3,324	3,555	3,932	3,312		
Japan	2,119	2,030	2,906	3,307		
Canada	2,693	2,709	3,041	3,043		
Netherlands	2,448	2,619	2,463	2,867		
United Kingdom	3,100	3,695	2,422	2,482		
Belgium	2,350	2,590	2,187	2,275		
Austria	1,333	1,484	1,510	1,544		
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Sweden	1,027	841	815	631		
Mexico	564	586	657	(617-Aug.)		
Norway	528	677	702	602		
Denmark	597	534	449	346		
Other countries with convertible	currencies 3	3_/				
Australia	1,568	1,429	1,536	1 / 21		
Kuwait 4/	1,096	1,026	(963-Sept	1,481 .) n.a.		
Argentina	216	727	760	(681-Sept.)		
Malaysia	470	457	515	(664-Aug.)		
Ireland	494	439	545	638		
Saudi Arabia	747	761	662	634		
Other countries with reserves of						
other desirerab with reserved or	42-10 militar	il or more				
South Africa	831	778	1,471	1,407		
Portugal	1,077	1,233	1,362	1,389		
Libya	339	385	539	1,000		
Spain	1,205	1,049	1,095	901		
Thailand	924	1,009	1,021	969		
India	608	662	682	(890-Sept.)		
Venezuela	776	872	922	(878-Cont)		
Korea	245	356	409	(878-Sept.) 526		
China (Taiwan)	337	416	381	(461-Sept.)		
Israel	621	715	663	454		
Iraq	324	368	453	442		
Brazil	409	199	257	(377-June)		
	•			(=		

^{1/} Excluding countries not members of the IMF, except Switzerland. Reserves comprise gold, reserve positions in the IMF, and foreign exchange.

^{2/} Within each category, countries are listed by size of reserves in October 1969.

³/ Within the meaning of Article VIII of the Articles of Agreement of the IMF.

^{4/} Includes holdings of Government. Source: IMF, International Financial Statistics, December 1969.

Table 2. Countries having Foreign Trade of \$1.9 Billion or More in $1968^{1/2}$ (In millions of dollars)

Country and category2/	Exports (fob)	Imports (cif)	<u>Total</u>		
United States	34,660	35,546	70,206		
Other countries whose central banks have reciprocal					
currency arrangements with th					
Germany	24,853	20,235	45,088		
United Kingdom	15,346	18,959	34,305		
France	12,682	13,939	26,621		
Japan	12,973	12,988	25,961		
Canada	13,134	12,482	25,616		
	13, 231	12,402	25,010		
Italy	10,183	10,253	20,436		
Netherlands	8,341	9,291	17,632		
Belgium-Luxembourg	8,164	8,333	16,497		
Sweden	4,937	5,182	10,119		
Switzerland	3,968	4,513	8,481		
Denmark	2,638	2 222	E 041		
Norway	1,938	3,223 2,706	5,861 4,644		
Austria	1,989	2,496	4,485		
Mexico	1,254	1,960	3,214		
MEXICO	1,234	1,500	3,214		
Other countries with converti	ble currencies3/				
Australia	3,526	4,382	7,908		
Argentina	1,368	1,169	2,537		
Malaysia	1,343	1,159	2,502		
Kuwait	1,397	4/611	<u>4</u> /2,008		
Saudi Arabia	1,945	n.a.	n.a.		
Ireland	798	1,175	1,973		
Other countries with trade of \$1.9 billion or more					
					
Spain	1,590	3,498	5,088		
South Africa	2,158	2,891	5,049		
Venezuel a	2,857	1,697	4,554		
India	1,753	2,509	4,262		
Brazil	1,881	2,132	4,013		
Hong Kong	1,744	2,058	3,802		
Iran	1,879	1,386	3,265		
Finland	1,637	1,598	3,235		
Yugoslavia	1,264	1,797	3,061		
Singapore	1,271	1,661	2,932		
		-	•		
Libya	1,876	645	2,521		
Philippines	848	1,280	2,128		
Korea	455	1,468	1,923		

^{1/} Excluding countries not members of the IMF, except Switzerland.
2/ Within each category, countries are listed by total of exports and imports.

^{3/} Within the meaning of Article VIII of the Articles of Agreement of the IMF.

^{4/} Exclusive of oil company imports.
Source: IMF, International Financial Statistics, December 1969.

Table 3. Countries having IMF Quotas plus GAB Commitments
of \$80 million or More on November 30, 1969
(in millions of dollars)

(in millions of dollars)							
Country and category 1/	IMF quota	GAB commitment	IMF quota plus GAB commitment	Reciprocal Currency Arrangement with F.R.			
United States	5,160	2,000	7,160	<u>2</u> /10,980			
Other countries whose centricurrency arrangements with							
Currency arrangements with	the reactar	Kegerve					
United Kingdom	2,440	857	3,297	2,000			
Germany	1,200	1,093	2,293	1,000			
France	985	489	1,474	1,000			
Italy	625	550	1,175	1,000			
Japan	725	250	975	1,000			
Canada	740	200	940	1,000			
Netherlands	520	200	720	300			
Belgium	422	150	572	500			
Sweden	225	100	325	250			
Mexico	270		270	130			
Switzerland	<u>3</u> /	<u>3</u> /200	<u>3</u> /200	600			
Austria	175		175	200			
Denmark	163		163	200			
Norway	150		150	200			
Other countries with conver	Other countries with convertible currencies4/						
Australia	500		500				
Argentina	350	~ =	350	~~			
Malaysia	120		120				
Saudi Arabia	90		90				
Peru	85		85	~ ~			
Ireland	80	~ ~	80	==			
Other countries with IMF qu	otas of \$80	million or mo	re				
India	750		750				
China (Taiwan)	550	~-	550				
Brazil	350		350				
Spain	250		250	~~			
Venezuela	250		250				
Indonesia	207	~ -	207				
South Africa	200	~-	200	~ ~			
Pakistan	188		188				
New Zealand	157	~-	157				
United Arab Republic	150		150	~~			
Yugoslavia	150		150				
Finland	125	~-	125	~~			
Chile	125		125				
Colombia	125		125				
Iran	125	~ #	125	~~			
Philippines	110		110	~~			
Turkey	108		108				
Greece	100		100	~ ~			
Nigeria	100		100				
Thailand	95		95	~~			
Israel	90		90	~ =			
Morocco	86		86	~ ~			
Iraq	80		80	~~			

^{1/} Within each category, countries are listed by size of IMF quota plus GAB commitment.

^{2/} Total of Federal Reserve arrangements, including \$1,600 million with BIS not shown separately.

^{3/} Switzerland is not a member of the IMF, but is associated with the Fund's General Arrangements to Borrow in the amount indicated.

^{4/} Within the meaning of Article VIII of the Articles of Agreement of the IMF. Source: IMF, International Financial Statistics, December 1969.