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

July 30, 1975

CONFIDENTIAL (FR)
CLASS II FOMC

TO: Federal Open Market Committee

FROM: Arthur L. Broida

Attached is a copy of Governor Wallich's notes on the July Basle meeting.

Attachment

Henry C. Wallich
July 29, 1975

Notes on Meeting of Bank for International Settlements
Basle - July 7, 1975

At the Governors' meeting, the tone of the discussion of the economic outlook was more subdued than on past occasions. None of the other central banks believed that their respective economies were in a clear upturn as yet, and several -- including particularly the Germans and Japanese -- expressed disappointment over their latest indicators. The disappointment was general over the sluggishness of the German economy. Most expressed some hope for recovery later in the year, especially now that the U.S. picture is brightening, but the French and Canadians do not expect the upturn until next spring and the British are in no position to forecast a turnaround at all. The Bank of England expressed cautious optimism over the latest efforts to restrain wages in the United Kingdom, with more decisions forthcoming, but asked for forbearance of the others as major wage contracts are still to be negotiated beginning in September.

As can be expected, other members of the group warmly welcomed the improvement in the U.S. economy and questioned us closely on the outlook for interest rates here. Several also expressed satisfaction over the recent rise of the dollar in the exchange markets. The Germans and Swiss went so far as to indicate that they were hoping for a stimulus to their exports as a result. I argued that the others should not rely too much on foreign demand to stimulate their economies and that, in view of the lags involved, they could hardly expect a decline in their exchange rates to boost their exports this year.

In a separate meeting, the possibility of a contribution by the BIS to the IMF oil facility was discussed. The proposal was for a contribution of perhaps SDR 500 million, to be financed by deposits with the BIS denominated in SDR, by such central banks among the BIS group as might wish to participate. It was recognized that special arrangements would have to be made to provide liquidity to the BIS if a contributing central bank should have to withdraw its funds. These arrangements, it was understood, would involve a substantial interest penalty. Only two of the participating central banks expressed an interest in making contributions. Both objected to doing so in SDR, indicating they would prefer dollars. The terms offered in case of premature withdrawal were criticized as unattractive. Some governors said that it was a mistake for the BIS to get into this kind of operation. I noted that the U.S. Executive Director had not taken a formal position on the proposal in the IMF, but had raised certain questions. My impression is that this matter is likely to be dropped.