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Report on BIS Meeting - October 13, 1975

In meetings and bilateral discussions, concern was expressed about the continued weakness of European economies. Some skepticism was voiced also concerning the strength of the American recovery, combined with concern about a rise in U.S. interest rates relative to European rates. The German representative defended his government's plans for financing a small part of the German budget deficit abroad, while the British representative expressed doubt about the need for throwing this burden on the international capital market, to the possible detriment of other potential borrowers. Questions were asked repeatedly about New York City.

In the discussion of the Interim Committee's gold agreement, which had left the working out of certain matters to the central banks, Zijlstra stated that he planned to render a report to the Committee at its next meeting in January. There was, in his opinion, two views. According to the first, central banks could deal in gold subject to the twofold constraint imposed by the Interim Committee -- no increase in official gold holdings and no pegging of the price of gold. The other view was that central bank dealing in gold would become possible only after amendment of the IMF agreement, which might take 18 months or more. The first view received some degree of support from almost all except the U.S. and the IMF representative. The German, French, Italian, and Netherlands representatives spoke with particular vigor. The IMF representative argued that inter-central bank operations would not be legal prior to amendment, but suggested that the BIS could act for the central banks by buying gold and reselling it to them later, a suggestion that was not accepted by Zijlstra. I argued for delaying gold dealings until after amendment but recognized that the alternative view might have some merit, and I suggested further discussion of the matter at the next BIS meeting.

A BIS representative expressed the view that, unless central banks bought the gold sold by the IMF for the benefit of developing countries, the IMF would be virtually unable to sell any gold at all. Even a few tons, in the present state of the market, would cause the price to collapse.

The IMF representative presented two alternative plans for the sale of one-sixth of the Fund's gold holdings over periods of alternatively three and eight years, the proceeds to be used principally to subsidize concessionary interest rates on loans from the IMF trust fund. Annual sales in case of the eight-year alternative, he pointed out, would amount to only 10 per cent of annual South African sales.

All in all, the discussion revealed very little support for the U.S. position, and even the IMF representative's support was predicated on a device for avoiding its consequences that was not acceptable. The desire for immediate implementation -- after the

January Interim Committee meeting -- does not imply that many or perhaps any central banks would buy. But there is a belief that the gold market would be stronger if it were known that central banks could buy. The ability of central banks to deal in gold seems to be regarded as a political decision rather than a legal matter. Some countries regard all parts of the gold agreement -- sales for the LDC's, restitution, and constraints on central banks' trading -- as a package. Some even say it would be useless to debate any of this if implentation had to await amendment of the IMF articles.

There was virtually no discussion of the many technical problems arising out of the IMF proposed sales. A meeting to deal with these is to be held during or immediately preceding the November BIS meeting.