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

January 26, 1970

CONFIDENTIAL (FR)

TO: Federal Open Market Committee

FROM: Mr. Broida

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
Arthur L. Broida,
Deputy Secretary,
Federal Open Market Committee.

Attachment

ᴊARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date December 16, 1969.

To Mr. Robert Solomon

From John E. Reynolds

Subject: Ireland as a Candidate for a Reciprocal Currency Arrangement with the Federal Reserve

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.

"(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, South Africa, Venezuela). Lowering of quantitative standards to include Ireland would make 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)

Country and category 2/	Reserves			
	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 Federal Reserve				
Germany	8,028	8,152	9,948	10,702
Italy	4,910	5,463	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
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/				
Australia	1,568	1,429	1,536	1,481
Kuwait 4/	1,096	1,026	(963-Sept.)	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 $340 million 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-Sept.)
Korea	245	356	409	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/
(In millions of dollars)

Country and category 2/	Exports (fob)	Imports (cif)	Total
United States	34,660	35,546	70,206
Other countries whose central banks have reciprocal currency arrangements with the Federal Reserve			
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
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	3,223	5,861
Norway	1,938	2,706	4,644
Austria	1,989	2,496	4,485
Mexico	1,254	1,960	3,214
Other countries with convertible currencies 3/			
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	4/2,008
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
Venezuela	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)

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	2/10,980
Other countries whose central banks have reciprocal currency arrangements with the Federal Reserve				
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	3/	3/200	3/200	600
Austria	175	--	175	200
Denmark	163	--	163	200
Norway	150	--	150	200
Other countries with convertible currencies 4/				
Australia	500	--	500	--
Argentina	350	--	350	--
Malaysia	120	--	120	--
Saudi Arabia	90	--	90	--
Peru	85	--	85	--
Ireland	80	--	80	--
Other countries with IMF quotas of $80 million or more				
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.