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MINISTRY PAPER NO. 37

Basle Facility for Sterling and Jamaica's
Agreement with the Government of the U.K.

Following the devaluation of sterling in November 1967, and the subsequent recurrent crises in the international monetary system, sterling has continued to come under severe pressure. The British Government feared that another major crisis could be precipitated if holders of sterling, because of a lack of confidence in sterling, proceeded to convert their sterling into other currencies: a second devaluation would have been unavoidable in those circumstances.

2. The British Government has traditionally incurred substantial short-term debt in meeting claims by holders of sterling. It was impossible, therefore, for further short-term debt to be incurred to deal with any major increase in withdrawals. In addition, the incurring of further short-term debt was becoming, itself, a reason for the lack of confidence in sterling.

3. To cope with this situation the major industrial countries of the World,* together with the Bank for International Settlements at Basle in Switzerland decided that, in the interest of international monetary stability, they would provide Britain with a medium-term line of credit which would be available to meet a rundown of sterling, provided the British Government and Sterling Area countries could work out an arrangement that was satisfactory to the Sterling Area countries, to Britain, and to what is now called the Basle group of countries. The line of credit is \$2,000 million.

4. Backed up by this proposal, Britain proposed to Sterling Area members a two-pronged arrangement - the first involving an undertaking by Sterling Area members to keep a minimum proportion of their reserves in sterling: the second involving a guarantee by the British Government of a proportion of a country's sterling reserves in terms of U.S. dollars, should there be any devaluation of the British pound. The guarantee would apply to that part of each country's official sterling reserves which exceeded 10% of its total reserves.

5. The above/

* Austria, Belgium, Canada, Denmark, the Federal Republic of Germany, Italy, Japan, The Netherlands, Norway, Sweden, Switzerland, and the U.S.A.

5. The above proposals were the subject of negotiations between teams of U.K. officials, who visited all Sterling Area countries. A U.K. team visited Jamaica on two occasions between July and August, 1968 and, following detailed discussions, a number of modifications were made to the original proposals in the draft Agreement. A copy of the exchange of letters between the Prime Minister and Minister of External Affairs, Honourable Hugh Shearer, and the British High Commissioner, His Excellency J.D. Murray, C.M.G., which embodies the final Agreement between the Government of the U.K. and the Government of Jamaica is attached. During the discussions, the U.K. teams emphasised that the aim is to ensure a stabilisation of Sterling balances through agreement with all Sterling Area Countries to maintain a minimum proportion of their reserves in sterling. On this basis, hopefully, all the Basle facility would not be used. It is also the hope that during the period of availability of the Basle facility, the domestic measures in force in the U.K. would bring about an improvement in their balance of payments and this, coupled with the stable situation of sterling balances, would result in a strengthening of sterling and the restoration of confidence in sterling.

6. The position taken by Jamaica is that any proposal which results in the value of our foreign reserves being maintained is welcome. I have always been conscious of the need to manage our foreign reserves in such a way as to minimise the risks of significant losses due to changes in exchange rates. In fact, long before the devaluation of the pound sterling, I introduced a policy of balancing our assets and liabilities in foreign currencies, i.e. in U.S. dollars and pounds sterling. This policy of diversification was carried through without drawing down our Sterling balances, which, before diversification, stood at a proportionately high level in relation to our sterling liabilities. We have achieved a position of near equilibrium and this is reflected in our negotiated minimum sterling proportion under the Basle arrangements. The percentage cover of liabilities in pounds sterling and U.S. dollars in June, 1967, compared with August, 1968, was 126% and 101.1%, respectively, for sterling and 54% and 121.5% for U.S. dollars.

7. The Basle facility arrangements and the parallel agreements between the U.K. and Sterling Area countries, represent a major step in international monetary co-operation. By providing an underpinning for short term sterling liabilities, the Basle facility will, it is hoped, discourage speculation against sterling and result in greater

stability in/

stability in the value of sterling in the foreign exchange markets. The arrangements, however, are not a substitute for sound economic policies for the U.K. economy; but should give the U.K. a well-needed breathing spell to strengthen its economy and improve its balance of payments.

8. For the first time since the Sterling Area has been in existence, there are written agreements embodying obligations of member countries, and laying down rules regarding the holding of reserves. The old informal banker-customer relationship has therefore given way to more formalised arrangements. Because of this, I suggested at the Commonwealth Finance Ministers' Meeting in London recently, that there should be established a formal machinery for consultation on matters which are of mutual interest to Sterling Area countries. The proposal received support and it was agreed to consult further about it.

9. I am satisfied that the Agreement, which has been negotiated with Jamaica under the Basle facility arrangements, is in the interest of Jamaica and that the Sterling Area as a whole will benefit from the greater stability of sterling which is likely to result from the Basle arrangements.

EDWARD SEAGA
Minister of Finance and Planning
14th October, 1968

KINGSTON, JAMAICA

63/08

September 20, 1968

His Excellency J. D. Murray, C. M. G.,
British High Commissioner,
Kingston.

Your Excellency,

I have the honour to acknowledge the receipt of your letter of today's date which reads as follows:

"(5/26)

20 September 1968

Sir,

I have the honour to refer to discussions which have taken place between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of Jamaica and to record below the points which have been agreed between the two Governments on the guarantee by the Government of the United Kingdom and the maintenance of the minimum sterling proportion by Jamaica.

1. Definitions

Unless otherwise agreed:-

(a) "Total official external reserves" shall mean:-

- (i) gold;
- (ii) super-gold tranche in the International Monetary Fund, i.e. the extent to which the Fund's holdings of Jamaican pounds fall short of seventy-five per cent of Jamaica's quota;
- (iii) cash, bank balances, money at call, time deposits, certificates of deposit, bank acceptances, bills of exchange, and promissory notes, denominated in freely transferable currencies other than the currency of Jamaica;
- (iv) Treasury bills and other obligations issued or guaranteed by governments or their agencies, states, provinces, municipalities and international organisations, denominated in freely transferable currencies other than the currency of Jamaica but excluding all obligations of the Government of Jamaica or its territorial sub-divisions or agencies;

(v) common or...../

The Hon. Hugh Shearer, MP,
Prime Minister and Minister of External Affairs.

- (v) common or ordinary stock and shares, preferred stock and shares, redeemable and irredeemable interest-bearing securities issued by companies or corporations which are quoted on a recognised security market, and units in unit trusts and shares in mutual funds wherever such companies, corporations, trusts or funds may be domiciled other than in Jamaica,

which are held in the name or to the order of the Bank of Jamaica, the Government of Jamaica, its agencies and other official institutions.

- (b) "Official sterling reserves" shall mean:-

- (i) cash, bank balances, money at call, time deposits, certificates of deposit, bank acceptances, bills of exchange, promissory notes;
- (ii) Treasury bills and other obligations issued or guaranteed by governments or their agencies, states, provinces and municipalities and international organisations but excluding all obligations of the Government of Jamaica or its territorial sub-divisions or agencies;
- (iii) the following securities issued by companies having their registered office and head office in the United Kingdom and quoted on a stock exchange in the United Kingdom, and units in United Kingdom unit trusts:
- (a) common or ordinary stock and shares and preferred stock and shares on which capital moneys and dividends are payable solely in sterling,
- (b) units in unit trusts on which, under the terms of issue, capital moneys are payable solely in sterling on liquidation or realisation,
- (c) redeemable interest-bearing securities on which capital moneys are payable solely in sterling,
- (d) irredeemable interest-bearing securities on which interest is payable solely in sterling,

which are denominated in sterling and which are held in the name or to the order of the Bank of Jamaica, the Government of Jamaica, its agencies and other official institutions with banks or other depositaries in the United Kingdom and which are included in total official external reserves.

2. The Guarantee

The Government of the United Kingdom undertake to maintain the sterling value in terms of the United States Dollar of the balances eligible for guarantee, provided that the minimum sterling proportion referred to below has been maintained by Jamaica up to and including the date of implementation of the guarantee. The circumstances in which the guarantee would be implemented and the terms of implementation shall be defined in consultation between the two Governments.

3. Balances Eligible for Guarantee

The balances eligible for guarantee shall be that portion of official sterling reserves by which those official sterling reserves exceed ten per cent of total official external reserves as defined in paragraph 1(a) above, except that no part of official sterling reserves falling under or bearing a right to conversion into a security covered by (a) and (b) of paragraph 1(b)(iii) above shall be eligible for guarantee.

4. The Minimum Sterling Proportion

Jamaica shall throughout the period covered by the Agreement maintain official sterling reserves in such proportion to total official external reserves as may be fixed by consultation between the two Governments. This proportion shall be known as the minimum sterling proportion.

5. Review

- (a) the provisions of the Agreement may be reviewed at any time by agreement between both parties;
- (b) the provisions of the Agreement shall be reviewed within six months prior to the expiry of a period of three years from the date of entry into force of the Agreement.

6. Entry into Force and Duration

The Agreement shall enter into force on the 25th of September 1968 and shall remain in force for a period of three years and may be extended for a further two years by agreement between both parties.

If the Government of Jamaica agree that the foregoing correctly sets out the points agreed between the two Governments, I have the honour to propose that this letter and your reply to that effect shall constitute an Agreement between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of Jamaica.

I have the honour to be,
Sir,
Your obedient Servant,

(J. D. Murray)¹⁷

I have pleasure in confirming that the Government of Jamaica are in agreement with the points set out in your letter of today's date and that Your Excellency's letter and this reply will constitute an agreement between the Government of Great Britain and Northern Ireland and the Government of Jamaica.

I have the honour to be, with the highest consideration,
Your Excellency's obedient servant,

(sgd.) H. L. Shearer

(H. L. Shearer)
Prime Minister and
Minister of External Affairs