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SWAPS AND STAND BY CREDITS' CONTRIBUTION TO INTERNATIONAL LIQUIDITY

Experience teaches us how difficult it is to secure the regular and continuous publication of scientific periodicals even when the charges incurred are carried by institutions. Difficulties are even greater when single individuals take over as editors. We are however now in the very agreeable position to celebrate the 50th anniversary of the publication of the Archives of Economic and Social Sciences by Professor Dimitrios Calitsounakis. The latter was very young when he created the Archives in 1921 and started its regular publication. No human being, no family, no country can avoid troubles in fifty years. Professor D. Calitsounakis, his family and his country had to face them and to suffer from them. The publication of the Archives has however never been interrupted. There have been only sode delays when the editor got seriously ill or when the conditions in Greece became chaotic. It has not been thus a minor achievement.

The articles, chroniques and reviews are mainly published in Greek but also those in foreign languages are welcome by the editor. He does his best to help not only welknown contributors but also those who belong to the younger generation. Many young economists have had the privilege to get their first articles published in the Archives. I present today as my modest contribution to the volume edited to honour the 50th anniversary of the publication of the Archives my views on the swaps and the standy credits from the point of international liquidity. It is not the first time an article or a review of mine is published in the Archives. On this occasion I express my warmest wish for the successful continuation of the Archives publication in the spirit of the tradition we owe to Dimitrios Calitsounakis and which we remember even more now.

A

Swaps allow the central banks involved to get more international liquidity whenever needed whilst stand by credits lead to the same result in favour of the central bank which got same. The difference between swaps and stand by credits lies in the fact that facilities are granted both ways in the first case and only one way in the second. It may be added that sometimes the difference is not a real one as the one of the two parties involved in the swap does not expect to need the facility involved but accepts the conclusion of the swap in order first not to hurt the susceptibility of the other country, second as the granting of the stand by credit may not be considered as a routine deal and may so require the consent of the government whilst the swap is considered as a routine deal, third as the facility which is not required now may be needed in the future without the materialization of the need which was foreseen and led to the conclusion of the swap.

Swaps and stand by credits are most needed for the smooth carrying out of international payments particularly when their conclusion is not considered as important or as leading to abnormal relations or situations. It has to be stressed that whilst both of them are very often arranged they pass usually unnoticed as it happens with the oiling of machinery which is noticed only when its omission brings so troubles.

International payments are carried out through compensation as far as possible but compensation is possible only when flows in both directions are more or less of equal strength and when the reversal of flows may be expected in the appropriate direction without delay. When this does not happen it becomes indispensable for the central bank whose debts abroad accumulate to get a loan or to proceed to the sale of bonds, of other investments or of gold. As all these deals are expensive independently of the time needed to realise same the central banks try to postpone these deals as long as possible inasmuch as they may be considered as signs of unfavourable developments of the balance of payments and of the monetary situation leading to capital transfers abroad. The postponement is secured by swap agreements or by stand by credits whose efficacy is increased when their conclusion has been achieved a long time ago so that they pass unnoticed when needed. In reality both swaps and stand by credits until the central bank in need of supplementary foreign balances to get same at once without paying excessive charges and interest rates whilst the other central bank is credited it her own currency. Of course these arrangements are useful only if the trend of flows changes quickly

and so intensively that the amounts involved are repaid. Otherwise the central bank which had recourse to these arrangements will be obliged to face a bigger deficit in the country's balance of payments by one of the measures which would have been indispensable. The suspension of payments has to be added when other possibilities have been exhausted. Of course the latter can never be general and the choice of debts whose service is to be continued is a political decision.

Whilst swaps have been and are always arranged by central banks stand by credits are much facilitated by the operation of the International Monetary Fund. As a matter of fact very seldom a central bank may grant a stand by credit with the certitude that the recourse to same will not materialize exactly when its own country's balance of payments will have developed most unfavourably. This explains why only central banks in very strong position or in exceptional cases are able to grant stand by credits as the Federal Reserve Bank of New York did in 1925 in favour of the Bank of England when the gold standard was reestablished in the United Kingdom. On the contrary the International Monetary Fund does not need to be afraid of getting in troubles by granting stand by credits as it has substantial balances in all its member countries, as it may get supplementary loans in all of them, as its daily turnover is rather substantial, last but not least as the granting of the stand by credit improves often so much prospects for the recipient country that the need of using the stand by credit granted by the International Monetary Fund diminishes.

In the old days the conclusion of swaps was interpreted as a sign of weakness of the country to whose initiative they were due. In the sixties this cannot be said as very often both countries involved want to increase their international reserves in a case of emergency. It also happens that the initiative comes from a country with huge gold reserves simply in order to avoid their diminution and in order to constitute supplementary international reserves in convertible currencies on a loan basis independently of the cost involved. It may be said that the great number of swaps and of stand by credits reduces the possibility for those unable to follow development from inside to know how much of both have been used and how much this has affected the gold stocks and the foreign balances shown in the central bank's statements. We all know that the latter show balances without giving any information on the turnover realised and we have not to forget that sometimes important results are hidden or compensated in the other items of both the assets and of the liabilities of the central bank involved.

B

I will try now to explain why the importance of both swaps and stand by credits has increased in the sixties¹. This period is characterized by the external convertibility which has been reestablished by most industrial countries and by some others in the late fifties, by the weakening of the external position of both the U.S. dollar and the pound sterling which of course started on different levels and still lie on different levels, as far as their external equilibrium is concerned, by the difficulties in this connection of many developing countries without however having the slightest tendency to reduce their rate of development even if the unfavourable repercussions on their external equilibrium of this policy have not to be denied nor to be underestimated.

The reestablishment of convertibility, even only of external convertibility, led to a substantial increase of capital transfers either in order to increase incomes, or in order to secure capital appreciation, or for reasons of security. The latter may become substantial whenever a confidence crisis develops or whenever the devaluation or the revaluation of a currency is not excluded. As in these cases substantial fluctuations of the gold stocks and of the foreign balances may produce panic the central banks involved prefer to counter these developments with swaps and stand by credits and even to apply the classical measures of monetary policy whose enforcement would draw attention to unfavourable developments in the balance of payments. Since the end of the fifties two important currency underwent devaluation and two West european currencies were revaluated 5% each of them. These conditions caused frequent rumours about the change of parities and the Radcliffe report was perfectly right in stressing the unfavourable repercussions of any change of parities either downwards or upwards². It is so easy to understand why the conclusion of so many swaps and stand by credits was carried out. Whilst this evolution is easily explained from the angle of the countries in need of support we may wonder why the countries granting same were and are willing to do so. The explanation has to be found in the latters' belief that the difficulties involved or foreseen will not materialize and even if they do will be easily overcome as long as the world inflation goes on, as long as serious price falls have not to be expected, as long as the demand of the world markets has not

1. Cf. D. J. Delivanis, *Die internationale Liquidität*, Berlin 1965, pp. 53-62.

2. Cf. D. J. Delivanis, *La contribution du rapport Radcliffe à la théorie de la politique monétaire*, *Revue d'Économie Politique* 1961, pp. 145-163.

been saturated in many cases. These considerations are strengthened by the belief that the smooth working and even the maintenance of the international monetary system may be jeopardised by the announcement of the inability of one or of more of its members to continue paying abroad. The experience of the thirties tells us that the beginning of very unfavourable developments affecting the most developed countries of the world may begin in the antipodes or at least in countries whose international importance has not to be overestimated.

The weakening of the external position of both the United States dollar and of the pound sterling led to increased swaps and stand by credits. As a matter of fact the dollar was and is much stronger than the pound sterling but the position of both is weaker than it was say ten years ago as shown by the frequent transformation of dollar balances into gold as it nearly never happened in the fifties.

It has to be added that the pound sterling's position became the weakest in 1964-5 and has somewhat improved in the meantime owing to the deflationary policy applied in the United Kingdom with increasing intensity. The latter improved the balance of payments of the United Kingdom and led to a continuous reduction of its short term debts to the International Monetary Fund.

The difference in this connection between the United States and the United Kingdom lies in the possibility for the first to rely on stand by credits and swaps whilst the latter needed cash credits which practically reached the maximum the International Monetary Fund could grant. As far the United Kingdom is concerned the only important swap was concluded with the United States and may be considered as a part of the network of swaps concluded by the last named country with the other members of the 10 countries club to which Switzerland has also adhered. The United States were of course able to get also loans from the countries mentioned before by the issue of non marketable bonds payable in their respective currencies. Thus the net future position of the United States was not improved, it even deteriorated when the interest to be transferred abroad is added but until the redemption of these bonds their position has been strengthened. Of course the United States did not require these loans and swaps any time after 1914. This shows of course a deterioration of the United States external position which however may also be characterised as the so to say normalisation of their status. As a matter of fact the United Kingdom never had this particular position despite the domination of the world economy it had secured until 1914.

Whilst swaps do not help substantially the developing countries stand by credits are very useful for them. It may be said that in their case these credits of the International Monetary Fund have helped a lot. Of course in some cases the stand by credits had to be replaced by cash credits and in other cases they had to be extended for longer periods than originally intended. The stand by credits are very useful when the negotiations in view of loans with the International Bank, with the International Finance Corporation and with the International Development Association take longer time than foreseen. As a rule the developing countries prefer to negotiate with the International Monetary Fund than with the central banks of industrialised countries as the disagreeable feeling of domination is not felt in the first case.

CONCLUSION

The swaps and stand by credits are very useful in order to prevent a crisis in the international monetary system. Continuous efforts are needed to take the greatest advantage of them before having recourse to radical changes of the international monetary system.