



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

August 10, 1979

STRICTLY CONFIDENTIAL (FR)
CLASS I - FOMC

TO: Federal Open Market Committee

FROM: Murray Altmann *M. A.*

Attached is a memorandum from Mr. Pardee, dated today, and entitled "Proposed Increase in Swap Arrangement with the Bank of Mexico". It is contemplated that this memorandum will be discussed at next Tuesday's meeting.

Attachment

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Proposed Increase in the Swap Arrangement
with the Bank of Mexico

Scott E. Pardee
Deputy Manager for Foreign Operations

Following further discussions with officials of the Bank of Mexico since the last FOMC meeting, I recommend that the swap arrangement between the Federal Reserve and the Bank of Mexico be raised from \$360 million to \$700 million. This is the amount they are requesting with the object of raising their total credit lines from the System and the Treasury to an even \$1 billion. In my latest conversation, Bank of Mexico's officials reiterated their case for such an increase on economic and financial grounds. But they continued to lay greater stress on the argument that, at a time when the U.S. and Mexican political authorities are discussing ways of improving relations between the two countries, a separate agreement demonstrating cooperation between the two central banks would be helpful.

They are eager to have a definite answer from us this month, before Lopez Portillo gives his annual September 1 speech. They agree that the increase could be announced immediately upon action by the FOMC and that it need not be linked to any other policy statement or action by either side.

State Department and Treasury officials who are involved in the broader discussions have expressed the view that whereas they would not urge the Federal Reserve to agree to the increase for the sake of furthering the other negotiations such action by the System would on balance be helpful.