

Federal Open Market Committee
Conference Call
March 24, 1994

PRESENT: Mr. Greenspan, Chairman
Mr. McDonough, Vice Chairman
Mr. Broadus
Mr. Forrestal
Mr. Jordan
Mr. Kelley
Mr. Lindsey
Mr. Parry
Ms. Phillips

Messrs. Hoenig, Keehn, and Oltman, Alternate
Members of the Federal Open Market Committee

Messrs. Boehne, McTeer, and Stern, Presidents of
the Federal Reserve Banks of Philadelphia,
Dallas, and Minneapolis, respectively

Mr. Kohn, Secretary and Economist
Mr. Bernard, Deputy Secretary
Mr. Coyne, Assistant Secretary
Mr. Gillum, Assistant Secretary
Mr. Mattingly, General Counsel
Mr. Patrikis, Deputy General Counsel
Mr. Prell, Economist
Mr. Truman, Economist

Messrs. Goodfriend, Siegman, Stockton, and Ms.
Tschinkel, Associate Economists

Ms. Lovett, Manager for Domestic Operations,
System Open Market Account
Mr. Fisher, Manager for Foreign Operations,
System Open Market Account

Mr. Ettin, Deputy Director, Division of Research
and Statistics, Board of Governors
Mr. Slifman, Associate Director, Division of
Research and Statistics, Board of Governors
Mr. Madigan, Associate Director, Division of
Monetary Affairs, Board of Governors
Ms. Johnson, Deputy Secretary, Office of the
Secretary, Board of Governors
Ms. O'Day, Associate General Counsel, Legal
Division, Board of Governors
Ms. Misback, Managing Senior Counsel. Legal
Division, Board of Governors

Ms. Minehan, First Vice President, Federal Reserve Bank of Boston

Mr. Bennett, Ms. Browne, Messrs. T. Davis, Lang, Rolnick, Rosenblum, and Scheld, Senior Vice Presidents, Federal Reserve Banks of New York, Boston, Kansas City, Philadelphia, Minneapolis, Dallas, and Chicago, respectively

Mr. Judd, Vice President, Federal Reserve Bank of San Francisco

Mr. Coughlin, Assistant Vice President, Federal Reserve Bank of St. Louis

Transcript of Federal Open Market Committee Conference Call of
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Secretary's note: A few opening comments on the tape of this session were unintelligible.

MR. TRUMAN. ...elsewhere. As you probably are aware, the Mexican authorities closed their financial markets today, but they intend to open them tomorrow. There has been some limited trading of Mexican instruments outside of Mexico. After an initial dip of 7 to 10 percent, the prices of those instruments are now down only about 5 to 7 percent. The Mexican authorities have asked for a demonstration of our support under these difficult circumstances.

After consultations with the U.S. Treasury and the Bank of Mexico we have agreed to propose to the Committee an arrangement essentially of the same sort that was developed last November in the context of the NAFTA vote. Specifically, what is proposed is a \$6 billion temporary swap facility consisting of \$3 billion each from the Federal Reserve and the Treasury. In our case our existing \$700 million swap line would be absorbed into the \$3 billion line. The arrangement would be effective, essentially, on action. It would be available until the 29th of April. It would have to be repaid by the 29th of July. And for your information, the Mexican presidential election is on the 21st of August. Drawings would be collateralized by Mexican dollar assets at the Federal Reserve Bank of New York. If there were a drawing, there would also have to be an IMF letter of support for Mexico's economic policies.

My understanding is that when the Mexican authorities open their markets tomorrow they intend to defend their existing band. They have about 1 percent or a little more--about 1-1/4 percent--leeway in their band since the peso has depreciated 6 or 7 percent over the last several weeks. They would do so at least for a while. My impression--and I can only say it's my impression--is that there's not a lot of appetite to spend a great deal of money in this process, but they feel they should do it for a while under these circumstances and the uncertainties surrounding them. Their reserves are quite adequate, in fact close to \$30 billion I understand at the moment. Assuming the FOMC approves this temporary increase of the swap line, it would most likely be announced today or early tomorrow. A final comment: The arrangement proposed is separate from the permanent increase in the swap line discussed at the FOMC meeting on Tuesday and the associated consultation mechanism. I would expect that we would come back to the FOMC in April with that proposal, which would in effect supersede this action. Thank you, Mr. Chairman.

CHAIRMAN GREENSPAN. How does this differ if at all in the details from the proposal that we discussed the previous time, which was not implemented?

MR. TRUMAN. It is essentially the same.

CHAIRMAN GREENSPAN. You say "essentially."

MR. TRUMAN. The only differences are the dates.

CHAIRMAN GREENSPAN. Then it is identical.

MR. TRUMAN. It's identical except for the dates.

CHAIRMAN GREENSPAN. Okay. Any questions for Ted?

MR. BOEHNE. Ted, is this a unilateral action on the part of the United States or is it a part of a broad package of international support?

MR. TRUMAN. The request came from Mexico but they have only made their request to the United States at the moment. And I have no indication that they've asked for broader support at this time. I did consult with the Bank of Canada and they had not been contacted yet.

MR. BROADDUS. This is Al Broaddus. Has there been any discussion or is there any possibility that this extension of credit could be done entirely by the Treasury with perhaps backup from us in the form of warehousing or something along those lines?

MR. TRUMAN. Well, that's certainly technically possible. My sense is that the Treasury would prefer this to be a joint operation.

CHAIRMAN GREENSPAN. Are there other questions for Ted? Does anyone have any strong objections to the implementation of this?

MR. BOEHNE. On the contrary, Mr. Chairman, I think this is the sort of thing that we need to do. I don't think we ought to do it reluctantly. This is a legitimate request and a very unfortunate set of circumstances and I think we ought to be accommodative to Mexico. I believe the safeguards from our point of view are more than reasonable. And I think this ought to be a cooperative arrangement with the Treasury and we ought to go forward and do it. I think this is part of our role and I view it as a positive development in a situation that's most unfortunate.

MR. FORRESTAL. This is Bob Forrestal. I entirely agree with the sentiments just expressed by Ed Boehne.

VICE CHAIRMAN MCDONOUGH. This is Bill McDonough. I certainly support this proposal. The details of it are identical, as has been pointed out, to those we spent a great deal of time working on last fall, and I think are completely acceptable. In the broader philosophical area we discussed last Tuesday, it seems to me that this is a very appropriate responsibility of our country's central bank. We also discussed the fact that Mexico was close enough to us that it could have a destabilizing effect on our financial market if things should go wrong there, and we had a very good indication of that today. There's no question that the events in Mexico had an adverse effect on both the stock and the bond markets in our country. I think both to support Mexico and to carry out our responsibilities to our own country we should definitely take part in this operation.

MR. HOENIG. This is Tom Hoenig. I support this. I have a question. When you say this program is identical to the last one, will our relationship be with the central bank or will it now be with the Ministry of Finance until the central bank--

MR. TRUMAN. In the past, President Hoenig, our relationship has been exclusively with the central bank; the central bank's status

just has been different than it will be. And this will be a swap arrangement executed by the Federal Reserve Bank of New York on behalf of the FOMC with the Bank of Mexico.

MR. HOENIG. And the fact that the status of the Bank of Mexico will change April 1 will not affect it?

MR. TRUMAN. I don't think so. I would defer to the lawyers, but I don't think that's a problem.

MR. HOENIG. Okay, thank you.

MS. MINEHAN. Ted, this is Cathy. You would expect then that whenever they would draw on this facility they would do so working directly with the Federal Reserve Bank of New York and there would be no further involvement of the Open Market Committee?

MR. TRUMAN. That's right, but there are several conditions for drawings on the facility, one of which is that they would have to have a letter from the managing director of the International Monetary Fund saying that the IMF supports their economic policies. And the other--the principal one--would be that they would have to have assets on deposit at the Federal Reserve Bank of New York of \$2 billion.

MS. MINEHAN. Right.

MR. TRUMAN. The way it's set up, the initial drawing would be \$2 billion and then we would have to subsequently negotiate any further drawings.

MS. MINEHAN. Okay. I'm very much in favor, in accordance with the logic that Ed Boehne discussed on this matter.

MR. BROADDUS. Mr. Chairman, this is Al Broaddus. I'm afraid I'm going to be in a minority here. I understand the seriousness of the situation and the commitment the President has made but I have the same fundamental reservations about this as I had on Tuesday. It seems to me that this will ultimately be a permanent increase in our swap line with Mexico. And I have a very strong preference for limiting our participation, if we need to participate at all on this, to the current \$700 million swap line. I recognize the short-run issues but I believe, especially in the current context in which the System and its role are under intense scrutiny in the country generally and in the Congress, that ultimately this will do us more harm than good.

MR. STERN. Mr. Chairman, this is Gary Stern. I support the action as proposed. In light of our discussion on Tuesday about disorderly markets and the potential for disorderly markets when Mexico opens its market tomorrow, it seems to me that this is an appropriate action and I strongly support it.

MR. PARRY. Mr. Chairman, this is Bob Parry. I support the action as well.

MR. KEEHN. This is Si Keehn. I certainly support the action. I think Ed Boehne has phrased it very, very well. This is

exactly the way we ought to use this kind of facility under these particular circumstances.

CHAIRMAN GREENSPAN. Any further comments?

MR. KELLEY. Mr. Chairman, if there are no further comments, I assume that a motion is necessary because a vote is to follow. It is my pleasure to support the proposal and I so move it.

MR. LINDSEY. I'll second.

CHAIRMAN GREENSPAN. Would you call the roll.

MR. BERNARD.

Chairman Greenspan	Yes
Vice Chairman McDonough	Yes
President Broaddus	No
President Forrestal	Yes
President Jordan	Yes
Governor Kelley	Yes
Governor Lindsey	Yes
President Parry	Yes
Governor Phillips	Yes

CHAIRMAN GREENSPAN. Thank you very much and we wish you a pleasant evening.

MR. TRUMAN. If we put out a press release, we'll make sure it is faxed to the Reserve Banks.

CHAIRMAN GREENSPAN. Okay.

END OF SESSION