

Basle time-bomb

Bang on time Britain has wrapped up a two-year renewal of the Basle agreement, originally fixed up in 1968 to stop the post-devaluation rundown of sterling balances. Those relating to 35 official holders of sterling were due to expire on Friday; Britain has made a new deal with 33 of them, and only Libya among large sterling-holders is holding out for it does not know quite what. Another 29 sterling area countries made five-year agreements in 1968, with the result that all 64 sterling area countries are now on agreements which last until September, 1973. Separate and parallel arrangements have been made with Kuwait.

The main feature of the new deal is that the proportion of sterling which countries undertake to hold in their reserves is reduced by one-tenth from that agreed in 1968. This is a first gesture by Britain towards honouring its agreement with the Six to run down the reserve role of sterling, a role which has proved increasingly embarrassing to Britain at times of sterling weakness like 1967-68, and which had become a totem pole of opposition to British entry in the eyes of the French. Thus Australia and Malaysia are now only committed to holding 36 per cent of their total reserves in sterling, New Zealand only 63 per cent, in return for continuation of a dollar value guarantee on their holdings (above a

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certain level) which must now be considered of dubious value.

For the moment the new agreements are a nonsense, since, unlike in 1967, the sterling area countries are in heavy surplus and happy to hold even more than they are required to in sterling. Thus, as we suggested last month might happen, the latest figures show that the official sterling balances have shot up to \$2.7 billion, a cool \$1 billion more than when things were at rock bottom in 1968. Most of the increase seems to have come from Australia, New Zealand (thriving on better butter prices) and from the Opec-rich Middle East.

Sterling should look less happy after the monetary system is put back on its feet and when Mr Barber's reflation starts to work. Sterling area holders will then start to unload down to the lower sterling levels they have now agreed to, and the force of M. Pompidou's insistence that Britain run down its reserve-country role could start to hurt unless something is done meanwhile. Britain should make sure that, when the world finally decides what to do with the dollar, some preliminary plan is drawn up to deal with international funding of the sterling balances, or to replace them with other non-British reserve assets.