

Official Journal

of the European Communities

ISSN 0378-6986

C 240

Volume 22

25 September 1979

English edition

Information and Notices

Contents

I *Information*

Council and Commission

Twentieth report on the activities of the Monetary Committee	1
Foreword	1
Introduction	1
Community action and the activities of the Committee	2
Working Parties of the Monetary Committee	4
List of members and alternates of the Monetary Committee	4
Annex I: Final report to the Council and the Commission on the European monetary system	6
Annex II: Report to the Council and the Commission on improving coordination of the national economic policies	14
Annex III: Opinion to the Commission on the proposal for a Third Council Directive	16

Commission

ECU — European unit of account	18
--------------------------------------	----

II *Preparatory Acts*

.....

III *Notices*

Commission

Notice of invitation to tender for the supply of common wheat pursuant to Commission Regulation (EEC) No 2062/79 of 21 September 1979	19
Notice of invitation to tender for the delivery of common wheat pursuant to Commission Regulation (EEC) No 2063/79 of 21 September 1979	21

I

(Information)

COUNCIL AND COMMISSION

TWENTIETH REPORT ON THE ACTIVITIES OF THE MONETARY COMMITTEE

FOREWORD

The purpose of this report is to give a brief account of the activities of the Monetary Committee in the course of 1978.

During the year, the Committee held 11 sessions and the working parties drawn from its own members or set up at its initiative met on many occasions.

At its session of 9 December 1977 it had elected its officers. It elected as chairman Mr J. van Ypersele de Strihou, Office of the Prime Minister, Brussels, and as vice-chairmen, Mr S. Andersen, Joint-Governor of Danmarks Nationalbank, Mr N. Jordan-Moss, HM Treasury, London and Mr P. Jaans, Banking Control Commission, Luxembourg. The terms of office of the new members will expire on 31 December 1979. A list of members as at 31 December 1978 is annexed.

At its meeting of 5 and 6 June it celebrated the twentieth anniversary of its first meeting, held on 4 June 1958. To celebrate this occasion, the present chairman, Mr van Ypersele, invited the Committee and its former chairmen and vice-chairmen to a reception held on 5 June 1978. The written contributions of the former chairmen, and the speech given by the present chairman are collected in a small brochure entitled 'Twenty years of the Monetary Committee', which is available on request from the Committee's Secretariat.

The report was adopted as at 31 December 1978.

INTRODUCTION

1. The expansion of world economic activity continued to be moderate in 1978. Growth rates both of production and world trade were similar to those of 1977. The structure of balances of payments altered greatly: on the one hand, the OPEC surplus fell markedly, and the deficit of the non-oil producing developing countries increased and, on the other hand, the OECD countries went back into

surplus. Among these latter, developments were not homogeneous: the United States' deficit worsened further, but was more than compensated by the improvement in the balances of other countries, particularly the Community and Japan.

2. The economic situation in the Community again presented rather a contrast in 1978. On the one hand,

the results for growth and employment were deceptive: growth of output remained mediocre, barely above the level of 1977, and unemployment continued to increase throughout most of the year. On the other hand, further progress was achieved on prices and external payments: the slow-down in the rate of inflation continued, and was particularly

marked in those countries where it has been highest; similarly, there was a substantial increase in the Community's current account surplus, and this movement, which is primarily due to the improvement in the terms of trade, was particularly marked in a number of countries which had been in a relatively weak position in previous years.

COMMUNITY ACTION AND THE ACTIVITIES OF THE COMMITTEE

3. 1978 was a significant year for the Committee, which played a vital role in the preparation and development of the European monetary system, and during the second half of the year devoted its time almost exclusively to this question.

4. On 17 November 1977 the Commission presented a communication to the European Council of 4 and 5 December 1977 on the prospects of economic and monetary union, and at its meeting of 19 December 1977, the Council had requested the Committee, along with the Economic Policy Committee and the Committee of Governors, to examine this communication. To this end, the alternates met on several occasions and submitted a report to the Committee at its meeting of 4 April 1978, who then held an exchange of views on this subject.

5. On 6 and 7 April 1978 the European Council met in Copenhagen, and the conclusions of the Presidency set out a list of objectives relating to the economic and social situation. In particular, it stated:

'2. The European Council has examined the need for increased monetary stability both in the Community and at world level.'

It requested the Council to take the necessary measures to achieve these objectives.

The Council therefore, at its meeting of 17 April 1978, requested the Monetary Committee and the Committee of Governors to continue their work on the monetary problems in the Community and to report back in May or June.

6. In response to this request, at its meeting of 11 and 12 May, the Committee held a wide-ranging and detailed exchange of views on ways of promoting greater stability in exchange rate relationships between EC member countries. This examination was based on the following assumptions about any new exchange rate system:

- (a) It would be applicable to all Community currencies.
- (b) It would be symmetrical with regard to the burden of adjustment.

- (c) It would be supported by substantial credit facilities.

The chairman presented an oral statement to the Council of 22 May which summarized the Committee's conclusions to date.

7. At its meeting of 5 and 6 June the Committee continued its examination and drew up a report to the Council and the Commission which contained the so-called 'three variants', which were in fact, sets of variants, for achieving exchange rate stability. These were, in essence:

- (a) The 'strict' variant, involving obligations to defend a nominal market rate *vis-à-vis* each partner currency. Two alternatives were envisaged here. Firstly, the re-entry of all member currencies into 'the snake', but with an element of flexibility in the form of a transitional period during which wider margins or a flexible procedure for changing central rates could be applied. Secondly, a similar new system could be created, but with additional features such as a simplified procedure for small changes in central rates, provision for temporary leave of absence and elements of a common attitude to major third currencies.
- (b) The 'weighted index' variant, whereby intervention obligations would be defined by reference to a weighted index, constructed either on the basis of the European unit of account (EUA) or effective exchange rates (weighted according to the geographical distribution of foreign trade). Participating countries would commit themselves to maintaining the index within a given margin.
- (c) The 'flexible' variant, involving a system of concerted fluctuations represented by a 'reference zone' for the three currencies which were floating individually and 'the snake' as a whole. There were no commitments to defend margins, the only obligations being: firstly, to abstain from

measures likely to cause the exchange rate to move out of its reference zone and, secondly, for countries to submit to a consultation procedure which would be triggered automatically if the reference zones were breached or abandoned.

8. On 6 and 7 July the European Council met in Bremen and examined a proposal for the creation of closer monetary cooperation (through the setting up of a European monetary system) leading to a zone of monetary stability in Europe. The main principles of the EMS were laid down in the Annex to the conclusions of the Presidency, known as 'the Bremen Annex'.

9. The Committee was requested by the Finance Council of 24 July 1978 to examine the system set out in the Bremen Annex and report back to the Council of 18 September. After three meetings of the alternates and two meetings of the Committee, on 7 September 1978 it adopted an interim report on the European monetary system, which dealt essentially with the problems linked to the *numéraire* — such as the definition of central rates and margins, the characteristics of the various systems (parity grid and basket systems) and changes in central rates — and interventions — such as intervention currencies, width of margins, and symmetry of intervention obligations — and which also contained preliminary considerations on the European Monetary Fund (EMF).

10. This report was considered by the Council at its meeting of 18 September, which requested the relevant Committees to continue their work in the light of the discussions which had taken place in the Council. Following preparation by the alternates, on 12 October 1978, the Committee adopted a report on the European monetary system, which carried further the examination in its interim report, in particular, on the assumption that the EMS would be based on a combined use of the 'parity-grid' formula and the 'ECU basket' formula, the latter being used to determine the 'degree of divergence' of participating currencies.

11. This report was examined by the Council at its meeting of 16 October, which concentrated its discussion on the intervention rules and the strengthening of credit mechanisms and requested the Committees to continue their work and clarify certain outstanding matters.

12. On 7 November the Committee adopted its final report to the Council and the Commission on the European monetary system (Annex I) after a long discussion of the questions still pending.

This report was examined by the Council on 20 November and on the basis of this report, that of the Committee of Governors and that of the Economic Policy Committee, the Presidency of the Council prepared an overall report to the European Council.

13. The European Council met on 4 and 5 December and adopted a resolution on the establishment of the European monetary system (EMS), which was to begin on 1 January 1979.

The Committee is aware that the lasting success of the EMS requires an improvement in coordination of national economic policies and it is prepared to make, within the existing framework, its contribution to secure an improved convergence of economic policies between Member States as set out in its report to Council and the Commission of 28 February 1978 (Annex II).

14. As in previous years the Committee carried out regular examinations of the economic situations in Member States, with particular reference to monetary and exchange rate policy, and the use of monetary targets as stated in its report of November 1976 (see nineteenth annual report, paragraphs 8 to 10). In the framework of these examinations, the Committee discussed in particular the policies pursued by France, Germany and the United Kingdom.

15. In addition, as required by the Council Decisions granting financial aid by the Community to Italy and Ireland, the Committee was consulted on the situation of these countries. In January the Committee took note of a report prepared by the *ad hoc* Working Party chaired by Mr de la Genière, which presented an analysis of the economic situation in Italy in 1977. In May the *ad hoc* Working Party again presented a report to the Committee, and the Committee adopted a report to the Council and the Commission. Finally, another report to the Council and the Commission was approved by the Committee at its meeting of 18 and 19 July 1978 fixing the fundamental and 'instrumental' objectives for 1978 and the fundamental objectives for 1979.

16. In February the Committee adopted a report drafted by the *ad hoc* Working Party chaired by Mr Andersen on the economic situation in Ireland, prospects for 1978 and the respect of the economic

policy conditions in 1977, which was submitted to the Commission for information.

17. The Committee also devoted a significant proportion of its time to international monetary questions, in preparation for the interim Committee meetings in April and September and the annual meeting of the International Monetary Fund in September.

The two principal questions with which the Committee had to deal this year were the SDR (new allocation, improvement of the characteristics — valuation, interest rate, reconstitution obligation — substitution account) and the review of quotas.

18. The Committee also examined various other matters, such as a proposal to amend the Community loan mechanism, a proposal for a draft Third Directive implementing Article 67 of the EEC Treaty (Annex III), a proposal for refinancing by the Bank

for International Settlements of claims arising from the medium-term financial assistance mechanism, and several proposals to change the conversion rates for national currencies into units of account for the purposes of the common agricultural policy.

19. Finally, in the framework of the setting up of the EMS, the Committee considered the Commission proposals for Council Regulations changing the value of the unit of account used by the European Monetary Cooperation Fund; on the European monetary system; and on the impact of the European monetary system on the common agricultural policy, as well as a proposal for a Council Decision amending Decision 71/143/EEC setting up machinery for medium-term financial assistance. It also examined legal problems involved in the implementation of the EMS, on the basis of a report prepared by an *ad hoc* Working Party set up for this purpose.

WORKING PARTIES OF THE MONETARY COMMITTEE

20. The Working Party on Securities Markets met five times in 1978 and continued to examine developments in the capital markets of the Member States and in the international bond markets, and also discussed capital market policies.

At the request of the Monetary Committee it prepared a draft opinion on the proposal for a draft Third Directive for the implementation of Article 67 of the EEC Treaty, which the Monetary Committee adopted at its meeting of 5 and 6 June 1978 (see paragraph 18).

21. The Working Party on the Harmonization of Monetary Policy Instruments, a joint group of the Committee and the Committee of Governors, met several times in 1978. It continued its work on intermediate objectives, with a detailed study of the possible obstacles to their harmonization, and had almost completed this by the end of the year. This work should provide the corpus of a report which the Working Party intends to present to its parent Committees at the very beginning of 1979.

LIST OF MEMBERS AND ALTERNATES OF THE MONETARY COMMITTEE

Chairman

Mr J. van Ypersele de Strihou

Chef de Cabinet du Premier ministre (Brussels)

Vice-Chairmen

Mr S. Andersen

Gouverneur — Danmarks Nationalbank (Copenhagen)

Mr N. Jordan-Moss

HM Treasury (London)

Mr P. Jaans

Commissaire au contrôle des banques (Luxembourg)

Members

Mr M. J. Balfour	Bank of England (London)
Mr F. Boyer de la Giroday	Director in the Directorate-General for Economic and Financial Affairs — Commission of the European Communities (Brussels)
Mr J.-M. Camdessus (since 1 September 1978)	Chef du service des affaires internationales à la direction du trésor, ministère de l'économie et des finances (Paris)
Mr R. de la Genière	Premier sous-gouverneur de la Banque de France (Paris)
Mr J.-Y. Haberer (until 31 August 1978)	Chef du service des affaires internationales à la direction du trésor, ministère de l'économie et des finances (Paris)
Mr K. Hansen	Director general — Det Okonomiske Sekretariat (Copenhagen)
Mr M. Horgan	Department of Finance (Dublin)
Mr G. Janson	Directeur de la Banque nationale de Belgique (Brussels)
Mr R. Kirsch	Conseiller de gouvernement, ministère des finances (Luxembourg)
Prof. G. Magnifico	Banca d'Italia (Rome)
Dott. U. Mosca	Director-General for Economic and Financial Affairs — Commission of the European Communities (Brussels)
Mr T. O'Grady Walshe	Central Bank of Ireland (Dublin)
Dott. S. Palumbo	Dirigente generale al ministero del tesoro (Rome)
Mr K. O. Poehl	Vizepräsident der Deutschen Bundesbank (Frankfurt am Main)
Drs. A. Szasz	Directeur van de Nederlandsche Bank NV (Amsterdam)
Dr H. H. Weber	Ministerialdirektor — Bundesministerium der Finanzen (Bonn)
Dr A. H. E. M. Wellink	Thesaurier-generaal bij het Ministerie van Financiën (The Hague)

Chairman of the alternates of the Monetary Committee

Mr H. Baquiast	Sous-directeur à la direction du trésor, ministère de l'économie et des finances (Paris)
----------------	------------------------------------------------------------------------------------------

Alternates

Drs. D. H. Boot	Onderdirecteur van de Nederlandsche Bank NV (Amsterdam)
Mr P. J. Bull	Bank of England (London)
Mr H. Dalgaard	Kontorchef — Danmarks Nationalbank (Copenhagen)
Drs. F. A. Engering (since 1 June 1978)	Ministerie van Financiën (The Hague)
Dr W. Flandorffer	Ministerialrat, Bundesministerium für Wirtschaft (Bonn)
Mr M. Emerson (since 15 February 1978)	Director in the Directorate-General for Economic and Financial Affairs — Commission of the European Communities (Brussels)
Mrs M. Hedley-Miller	HM Treasury (London)
Mr G. Jennemann (until 3 January 1978)	Bankdirektor, Deutsche Bundesbank (Frankfurt am Main)

Mr G. Lefort	Directeur général des services étrangers de la Banque de France (Paris)
Dott. S. Masera	Banca d'Italia (Rome)
Mr D. McCutcheon (since 1 July 1978)	Department of Finance (Dublin)
Mr G. Reynolds	Central Bank of Ireland (Dublin)
Dr. W. Rieke (since 1 February 1978)	Deutsche Bundesbank (Frankfurt-am-Main)
Mr M. Schmit	Inspecteur des finances (Luxembourg)
Mr B. Scully (until 30 June 1978)	Department of Finance (Dublin)
Mr N. Ussing	Kommitteret — Det Okonomiske Sekretariat (Copenhagen)
Drs. R. van Boven (until 30 May 1978)	Ministerie van Financiën (The Hague)
Mr R. Vanden Branden (since 1 January 1978)	Chef du Service des accords internationaux de la Banque Nationale de Belgique (Brussels)
Mr J. Vanormelingen	Administration de la Trésorie (Brussels)
Dr M. Wegner (until 14 February 1978)	Director in the Directorate-General for Economic and Financial Affairs — Commission of the European Communities (Brussels)
Mr P. Zimmer	Commissariat au contrôle des banques (Luxembourg)
Dott. A. Zodda	Ministero del Tesoro (Rome)

Secretariat

Mr G. Morelli (until 30 May 1978)
Mr A. Kees (since 28 November 1978)
Mr G. Lermen
Mr A. Chapman

ANNEX I

FINAL REPORT TO THE COUNCIL AND THE COMMISSION ON THE EUROPEAN MONETARY SYSTEM

I. INTRODUCTION

1. In accordance with the request from the Council at its session of 16 October 1978, the Monetary Committee hereby submits its final report on the system, outlined in the summary of conclusions of the Presidency of the European Council on 6 and 7 July 1978 and the Annex thereto relating to the creation of closer monetary cooperation between all Member States.

2. The European Council envisaged a durable and effective scheme with a European currency unit (ECU) at its centre and with all the basic features of the system outlined from the outset. The Committee has examined a wide range of issues in the perspective of the final stage of a European monetary system (EMS), viz., the *numéraire*, intervention and the European Monetary Fund. As a period of up to two years has been provided for the establishment of the Fund in its final form, the examination of this was preliminary and only the transitional period has been treated in detail. It was

considered essential that as implied in the Bremen Annex, the exchange rate system and the appropriate credit facilities should come into being at the same time. The Committee draws attention to the fact that legal measures at Community, and possibly at national level, will be necessary before the entry into force of the system.

3. The EMS must be seen in the context of the range of policies needed to achieve a greater amount of convergence between the economies of the Member States and equally it cannot be durable and effective unless it is backed by complementary policies. As there are still important divergences in the situations of Member States it will need great effort on the part of all, both surplus and deficit countries, and in all areas of policy if the system is to be durable and effective. Countries must as a matter of principle give a high priority to internal policy measures rather than to exchange rate charges, otherwise the effectiveness of the system would be jeopardized. The associated questions of economic policy coordination have been dealt with by the Economic Policy Committee.

4. The functioning of the system outlined in the following paragraphs will require regular consultations between the competent authorities, including the Monetary Committee.

II. NUMÉRAIRE

A. DEFINITION AND USE OF ECU

5. The Annex to the Bremen Communiqué states that the ECU will be at the centre of the system.

6. The ECU, like the EUA, will be defined as a basket containing specific quantities of the Member States' currencies; but there will be a procedure for re-examining the weights. Some members suggested that the weights of the currencies in the ECU be examined before the start of the system. Others pointed out that this would create problems for its use in other Community sectors.

7.1. The Committee is of the opinion that a re-examination should take place every five years, or when the weight of any currency has changed by a significant amount, for example 25 %, either of which examination may or may not result in a revision.

7.2. It is agreed that any revisions must be mutually accepted, would be made in line with the underlying economic criteria and in such a way as not to change the external value of the ECU at the moment of revision. Also the process of revision should be carried out in such a way as to minimize any interference with decisions to change central rates.

8. The ECU will be used:

- as the *numéraire*, i.e. each currency will have a central rate against the ECU,

- as a divergence indicator,
- as a denominator of claims and liabilities arising from the intervention system,
- as a means of settlement between monetary authorities of the EEC.

B. CHANGES IN CENTRAL RATES

9. While the EMS itself ought to contribute to reducing divergences in economic performance, it should not prevent remaining real disparities from being reflected in exchange rates. There should therefore be sufficient flexibility in the system, and, in addition to an appropriate range of credit facilities (which would not themselves be a sufficient remedy in all circumstances), there should be arrangements for adjusting central rates by mutual agreement.

10. The credibility of the new system depends upon progressive convergence of economic performance, making reliance on exchange rate changes gradually less important. In the meantime, however, if they do become necessary, they should not be delayed to the point at which heavy speculative pressure builds up. They should be implemented as far as possible while the exchange markets are calm.

11. As regards the procedures to be established, it was observed that a set of economic and technical criteria implying automatic rules for central rate changes would have the advantage of rendering the decisions formally objective. But it would be impossible to devise a set of rules which removed the need for applying judgement, and even if it were possible, they would involve the risk of becoming known and of inviting speculation on the prospective realignment. Since this would not be a tenable course of action, changes in central rates should therefore be made by mutual agreement rather than fixed rules.

III. INTERVENTIONS

A. INTERVENTION OBLIGATIONS

12. The ECU central rates would be used to establish a grid of bilateral exchange rates around which fluctuation margins would be fixed by applying a given percentage margin. The resulting bilateral limits define the obligatory intervention points. These would be announced to the market.

13. The envisaged system would be based on a combined use of the parity grid and the ECU basket formula, the latter being used to determine 'the degree of divergence' of participating currencies in order to draw certain consequences for intervention rules, and/or other policies.

14.1. In this system, obligatory intervention would occur when the bilateral limits were attained. Action would also be

taken by the monetary authorities as soon as a certain spread, measured in terms of ECU had been exceeded.

14.2. The use of the ECU mentioned above would be triggered by the attainment of a minimum spread (referred to as 'the threshold of divergence') between the central rate expressed in ECU and the rate of the day expressed in the same terms. This divergence threshold would be calculated for each currency in such a way as to eliminate the influence of disparities of weight on the probability of reaching the threshold. It would be established in such a manner that a currency could attain its divergence threshold before reaching its bilateral limit, but would not necessarily do so. The divergence threshold in ECU could be fixed at 75 % of its maximum spread for each currency.

14.3. If a currency crossed its divergence threshold, there is a presumption that action must be undertaken by the monetary authorities of the country concerned.

14.4. This action would initially consist of diversified interventions on the exchange market. The object of these diversified interventions would be both to check divergent trends and to alleviate the burden on currencies furthest removed from a divergent currency; this would allow a better distribution of intervention burdens. In the case of persistent divergence other more basic measures would have to be envisaged, in consultation.

More specifically, when a currency exceeded its divergence threshold, the central bank concerned would, in principle, be obliged to diversify its intervention practices:

- (a) if the bilateral limit had not been reached, it would have to commence intervention, either in Community currencies (see (c) below) and/or in dollars, to check the divergent trend;
- (b) if the bilateral limit had been reached, the obligation to intervene would be not only in the currency furthest removed from it but also, to alleviate the situation of that currency, in dollars or in other Community currencies close to their bilateral limit in the opposite direction (see (c) below);
- (c) in order to facilitate the diversification of intervention, a central bank should not oppose stabilizing interventions in its currency, when its currency was relatively close to a bilateral intervention limit.

14.5. If a central bank did not take action in the manner indicated under (a) or (b) above, it would have to give reasons for failing to do so in the context of concertation arrangements; it would be required to indicate the whole range of monetary policy measures it intended to take. If a central bank as referred to under (c) above wanted to oppose intervention in its currency, then it would have to give reasons for doing so.

14.6. If, notwithstanding action under 14.4 (a) or (b) above, a currency still remained beyond its divergence threshold, the monetary authorities of the country concerned would be required to give an account of measures it intended to adopt to overcome this divergence. A common assessment of the situation would be made in the framework

of consultations in the Monetary Committee. These consultation procedures should be reviewed periodically to ensure that they are operating effectively.

15.1. All members indicated that the arrangements outlined in paragraph 14 above could provide a basis for agreement, although this was subject to certain qualifications.

15.2. Firstly, since this system is in some respects more strict than the present 'snake', certain members indicated that they could agree as long as crossing the divergence threshold involved not only intervention by the divergent currency but also greater symmetry of obligations by deficit and surplus countries alike in general adjustment policies. They believe that if the currency of a creditor diverged, the credits resulting from the interventions of this central bank should be governed by special rules, more favourable to the debtor, in so far as the currency of this latter was in itself not divergent. Similarly, in cases where the consultation procedures set in train by the divergence of the currency of a deficit country had not led to satisfactory adjustment measures, that country's access to the short-term facility, at least in respect of the portion in excess of a specified amount, could be limited.

Some of these members also believe that, for the system to work, it would be necessary, at least in a transitional phase, to allow for wider bilateral margins for countries presently floating independently.

15.3. Secondly, other members, who are of the opinion that there should not be intervention obligations as soon as the divergence threshold is crossed, and who are not inclined to consider any necessity to disprove the presumption to intervene, are prepared to envisage the following procedure:

- The crossing of the divergence constitute a presumption to act to correct the situation. The actions to be taken will be discussed in the normal concertation procedure among central banks.
- If, after more than five days, the divergence remains, central banks will consult formally with each other to form a judgement whether one or several of the following measures appropriate to the situation should be taken:
 - further intervention,
 - monetary measures,
 - drawing on the credit facilities,
 - other external and domestic policy measures.

Measures beyond the competence of central banks concerned have to be referred to the appropriate authorities for immediate action.

16. Whatever the solution adopted for the role of the ECU as a divergence indicator it may be that intervention in third currencies is carried out even before bilateral intervention points are reached. A situation might also arise in which such interventions in third currencies would also be desirable to supplement obligatory interventions within the

EMS when the mandatory intervention points have been attained for instance so as to avoid imposing on the currency in opposition an excessive burden. Regardless of the currency chosen, these interventions should, in principle, be subject to prior consultation. There should be no automatic or binding rules for interventions in third currencies; in particular, any having the effect of pegging these currencies' exchange rates should be avoided.

B. WIDTH OF MARGINS

17. The present 'snake' margins of 2.25 % would in all cases remain unchanged for the currencies presently in that system.

More generally, there was broad support that the maximum spot margin between two currencies should be fixed at 2.25 % if the proposals of paragraph 14 were adopted.

18.1. However, certain members considered that the maximum spot margin should exceed 2.25 %. This would still be in conformity with the Bremen principle as interventions would normally take place before the bilateral margins are reached, because of the divergence indicator.

18.2. More specifically, according to these members, the Bremen principle could be satisfied by a combination of narrow ECU margins for all Community currencies and wide general bilateral spreads. The present 'snake' limits would remain fully intact for 'snake' members, but the ECU margins would be set in such a way as to be met, in general, before attainment of all bilateral limits, including those in 'the snake'. There would thus be two possible bands of fluctuation in the EMS.

19. Temporary suspension of defence of margins is to be seen as an emergency provision. It is a possibility of last resort. For a country to be able to have recourse to this procedure, there must be the assumption that the determining factors are of a temporary nature. A situation could arise, however, in which these factors were not reversed in which case a country would re-enter with a different central rate. There would be technical consequences if any currency temporarily ceased to defend its margins. One possible solution for dealing with such consequences might be to freeze the rate of that currency in the ECU.

C. RELATIONSHIPS WITH THE IMF

20. The system of intervention and the type of intervention obligations set up within the EMS would have to comply with the IMF Articles of Agreement, in particular as regards the new Article IV. The Community will supply the IMF with the appropriate information on the workings of the EMS.

IV. RELATIONS WITH THE ASSOCIATED COUNTRIES

21. The Annex to the Bremen Communiqué states that non-member States with particular close economic and financial ties with the Community may become associated members to the system. The central banks of these countries should be given the opportunity of participating in the European exchange rate system. Details of their participation would be negotiated with the central banks of the interested countries. In principle, they would be required to intervene in the same way, and would participate in coordination mechanisms. They would also have access to very short-term financing. Transactions between the associated central banks and the EMS could be recorded in accounts in the name of these banks, to be kept by the Fund. However, the associated central banks would not participate in short- and medium-term credit mechanisms, nor could their currencies be included in the composition of the ECU basket.

22. The precise nature of the links interested countries having close economic and financial ties with the Community would have to be considered by the appropriate Community bodies.

V. THE FUND (1)

23. The Committee has considered the Fund in the light of the following principles:

- An initial supply of ECU will be created against the deposit of US dollars and gold (for example, 20 % of the stock currently held by member central banks);
- A credit system based on a comparable sum of member currencies should be established.
- Not later than two years after the start of the scheme these arrangements will be consolidated in a single Fund.

24. The Committee has examined the problems of the transitional period with a view to the rapid implementation of the system.

Transitional period

A. CREDITS

25. During the transitional period before the setting up of the EMF in its final form, the credit mechanisms could be extended in the following way:

1. *The very short-term credit mechanism*

26. For settling balances within the Community it has been suggested by some members that it might be useful that

(1) In order to take account of the monetary situation of Luxembourg, when setting up the EMF, it will be necessary to adopt a formula, which assigns a separate quota to Luxembourg.

the very short-term financing of an unlimited amount be extended to 90 days from the end of the month. In this way, there would be a greater probability for a reversal in the debtor country's position. Among these members some maintain that the period should be unlimited for a 'persistently divergent' creditor. This prolongation would allow the existing 'snake' facilities of automatic renewal and renewal by mutual agreement to be abolished, especially as the extension of short-term credit would be complementary.

2. Short- and medium-term credit

27. According to the Bremen Annex, the credit facilities should be an amount of a comparable order of magnitude to the deposit of US dollars and gold (e.g. 20 % of the stock currently held by member central banks, which amounts to about 25 000 million ECU). The use of ECU created against member currencies will be subject to conditions varying with the amount and the maturity; due account will be given to the need for substantial short-term facilities up to one year.

28. It has been suggested that one way to achieve the necessary increase in short-term credit would be a system of drawing rights without conditionality divided among the member central banks according to a key which could be that of the present STMS. Each central bank would be able to obtain a non-automatic credit in excess of its drawing right.

If all or part of these drawing rights were activated, the drawing country would be credited with the agreed amount of ECU within the EMS. These ECU would be usable for the same purposes as the ECU created against reserve instruments. These operations would be done through the EMCF.

The volume of drawing rights which could be effectively drawn under this system, would amount, as long as the credit facilities offered by the MTFA were not increased, to a total of 20 000 million ECU, of which about 45 % would result from an increase in quotas and the rest from an increase in extensions. Any Member State could semi-automatically draw on its extension up to 150 % of its quota. This proposal would involve an increase in the quotas and extensions by a factor of about 3.3. As soon as the MTFA were increased there would be a corresponding reduction in the volume of these drawing rights.

29.1. This proposal which is in line with the Bremen Annex met with broad support, but certain Member States have serious objections for financial, technical and legal reasons.

29.2. If, for any of these reasons, agreement could not be reached on the remaining issues before the start of the system, it would therefore be necessary to consider how the existing STMS and MTFA could be extended. In that event the credit arrangements would not be directly based on the

ECU. The table shows the present situation and two solutions.

30. The first (German solution) concentrates on the total of the financial obligations of the Member States. The creditor quotas and extensions would be increased as shown in columns (a) and (b) in the left-hand side of the table. The MTFA would also be increased. The resulting maximum of credit available is given on the right-hand side of the table.

31. The second solution, for which the right-hand side of the table is most relevant, is based on the assumption that 25 000 million ECU of credit should be available on 1 January 1979. In so far as the MTFA is not increased within the time available, this necessarily implies that the whole increase will provisionally be borne by the STMS. It will at least temporarily (until the MTFA can be increased) have to be increased up to 20 700 million ECU from the current total of 5 800 million. This can be achieved through a combination of increases to debtor quotas and extensions, one example of which is given in the table.

32. There was broad agreement that short-term unconditional credit should be extended to one year, but some members thought that the present duration of the STMS (three months with the possibility of one prolongation) could in specific cases be prolonged for another period of three months.

33. If it proved necessary to resort to solutions of the type outlined in paragraphs 30 and 31, this should be without prejudice to the adoption of a system fully conforming to paragraph 2 of the Bremen Annex, for example based on the supply of ECU as in paragraph 27. Work should continue and action be taken so that such a system can be set up as soon as possible and, in any case, within two years from the inception of the EMS.

34. Whereas the Committee had devoted considerable attention to the working of the Fund, the considerations which follow and those in the Annex concerning the Fund in its final form are only of a preliminary nature. Although they are not an agreed position of the Committee to the same extent as the preceding sections they are nevertheless presented here so as to indicate the extent of the problems.

B. AN ECU SETTLEMENT MECHANISM

35. A fund of ECU will be set up.

During the transitional period and without prejudice to definitive solutions it could be decided that each country would deposit in the form of swaps 20 % of its gold and reserves in third country currencies. This arrangement would have the advantage of avoiding the questions of exchange risk (see Appendix).

There will have to be a periodic procedure for ensuring that each central bank maintains a deposit of at least 20 % of these reserves with the system.

Possible formulae for extending Community credit to an amount of 25 000 million ECU

(1 000 million ECU ⁽¹⁾)

	Total financial obligations of Member States						Maximum available credit			
	Short-term monetary support (STMS)		Medium-term financial assistance (MTFA)	Total STMS + MTFA (d) = (a) + (b) + (c)	Short-term monetary support (STMS) ⁽²⁾		Total STMS (e) = (a) + (b)	Medium-term financial assistance ⁽³⁾	Total STMS + MTFA (e) = (c) + (d)	
	Quotas (a)	Extensions (b)			Quotas (a)	Extensions (b)				
Present situation	6.5	3.6	5.5	15.6	2.2	3.6	5.8	4.3	10.0	
German solution ⁽²⁾	10.6	5.8	8.6	25.0	3.5	5.8	9.3	6.7 ⁽⁴⁾	16.0 ⁽⁴⁾	
Other solution	29.4	11.0	5.5	45.9	9.7	11.0	20.7	4.3	25.0	

⁽¹⁾ 1 EMUA = 1.20 ECU.

⁽²⁾ Optimal equilibrium creditors/debtors (= creditors, one large country + NL or Bel./Lux. + DK + Irl and debtors, two large countries + Italy + Bel./Lux. or NL) + complete activation of creditor and debtor extensions.

⁽³⁾ Total commitment ceilings less that of a large country.

⁽⁴⁾ Only available after increase in MTFA.

*Appendix***THE FUND IN ITS FINAL FORM****A. THE USE OF THE RESOURCES****The use of ECU created against reserve assets**

1. Given that these ECU are the counterpart of freely available or employable reserve assets, their use will be free and unconditional. They will specifically serve as instruments for settlements within the EMS by transfer between debtor and creditor central banks. It is understood that a central bank should not use its ECU to diversify its exchange reserves.
2. For settling balances within the Community, it has been suggested by some members that it might be useful that very short-term financing of an unlimited amount be extended to 60 or 90 days from the end of the month. In this way there would be a greater probability for a reversal in the debtor country's position.
3. Technically, the deposit of reserve assets by central banks as a counterpart to the creation of ECU does not fundamentally alter the procedures for intra-Community settlements. However, this mechanism would have three main possibilities for development: to facilitate, for certain countries, the activation of reserve assets such as gold; to constitute a Community asset guaranteed by the reserves made available to the Community by the Member States; or, possibly, to guarantee loans issued by the Fund outside the Community.
4. The above interpretation given to the deposits of reserve assets is considered too limited by some members, but others think that it is an important first step leading to a development of the Fund.

The use of ECU created against national currencies

5. The EMS will also have at its disposal credit facilities based on ECU created against national currencies. The ECU so created would be indistinguishable from the ECU created against reserve assets; they would be used as means of settlement within the Community and would be convertible into other currencies, including non-Community currencies. In this connection, a liquidity or 'scarce currency' problem could arise within the EMS to the extent that the distribution of the financing provided by the Fund would differ systematically from that of contributions.

B. CONSTITUTION OF RESOURCES**By the deposit of reserve assets**

- 6.1. There are four elements here: the basis for calculation, the instruments, the amount and the legal nature of the deposits.
- 6.2. *The basis for calculation:* considering the very different composition of monetary reserves in the various Member States, the basis for calculating reserves to be deposited in the Fund could include all reserve elements, including SDR and reserve positions in the IMF. A practical formula to determine this basis could be to refer to figures for official gross reserves published by national monetary authorities. Another possible solution could be that the basis for calculation be the same as the elements to be deposited, i.e. at the beginning and provisionally, only third country currencies and gold. Gold assets would naturally have to be valued at the same price for all countries and, as there is no obvious price, any method chosen could be considered arbitrary. Deriving the price from the market price would however avoid anything that might be interpreted as the setting of a new official price for gold and the central banks would still, of course, be free to value their gold at any price they chose in their balance-sheets.

According to one proposal, the basis for calculation should be determined individually for each country in the measure, for example, of 20 % of the relevant reserve assets. This proposal has the advantage of being simple, but is not unanimously shared. Another proposal is that the basis for calculation be determined generally for the Community as a whole. This second proposal would require a key of distribution for which different solutions are conceivable (e.g. quotas in short-term monetary support, weight in the ECU basket, GNP, shares in intra-Community trade), which would all mean that the various countries would each contribute a different fraction of their reserves.

- 6.3. *Instruments:* According to the Bremen Communiqué the reserve instruments to be deposited should include third country currencies and gold. The depositing of gold does however raise certain problems. Besides the evaluation difficulties already mentioned, the fact that gold earns no interest implies certain problems for the remuneration of ECU. Finally, according to some there could be the risk of creating the impression of restoring a monetary role to gold. The question of the respective proportions in which gold and dollars are to be deposited could be solved by setting them, for example, at 20 % of the stock of each instrument currently held by individual member central banks (though this solution would not be applicable if the chosen basis for calculation included all reserve assets); a more complex solution would be to determine the amounts individually for each instrument and each country. Reserve positions in the IMF cannot be deposited with the EMF, nor, at least in the

immediate future, can SDR. It has, however, been emphasized that the Community should take the necessary steps to obtain for the EMF the status of 'other holder', so that it may receive deposits in SDR.

6.4. *Amount:* If 20 % of the relevant reserves are deposited initially in the Fund (the figure given as an example in the Bremen Annex), then according to some members:

- under normal circumstances the requirements for possible settlements could be accommodated, even though precise calculations on the amounts effectively necessary are not available and there furthermore is no precise relationship between the amount of reserves of a country and its financing requirements,
- public opinion will be shown that this step towards European monetary unification has real significance. Indeed, 20 % of the Community's reserves at present means 25 000 million EUA ⁽¹⁾.

There will furthermore have to be a procedure for periodically adjusting the amounts of ECU held by the various central banks as the reserves of the Member States change and possibly as ECU are created within the system of credit mechanisms.

There are two possible systems that might be considered:

Either:

- the amount to be held in ECU would be adjusted solely on the basis of variations in the amounts of reserve instruments originally deposited. This would mean creating or returning ECU worth 20 % of the amount of any increase or decrease in a country's holdings of these instruments. The ECU created within the system of credit mechanisms would be distributed among member countries according to rules governing the use of these ECU;

or:

- each central bank would be required to hold at least 20 % of its reserves in the form of ECU, which could be the counterpart either of reserve instruments or of credit operations.

6.5. *Legal questions:* These will largely depend on the powers conferred on the Fund, particularly its powers over the use of the assets deposited.

By deposit of national currency

7. The national currency element of the Fund constitutes the credit facilities in the system, which, as stated in the Bremen Annex, should be of a comparable size to deposits of reserve instruments.

C. THE WORKING OF THE FUND

8. The following problems should be distinguished and studied:

The Fund's administrative infrastructure

9. It has been suggested that the present administrative structure of the EMCF should be used for the Fund. For some members however it will be necessary either to make major changes to the EMCF's administrative structure or else to create a special new permanent organization, depending on the functions of the Fund.

The exchange risk and interest rates

10. Three Community solutions to the exchange risk problem have been examined.

The first would be to ignore the consequences of any fluctuations between national currency and the ECU, and to make all conversions on the basis of the ECU rate of the day.

The second would be to allocate shares of gains and losses among the participants according to an apportionment formula — for example, that used for budgetary contributions, if exchange gains and losses were included in the Community budget. If the exchange gains and losses were put in a special account to be kept by the Fund, another formula might be used.

The third solution, which would apply as long as deposits of reserves were considered deposits in the strict sense, would involve each country individually bearing the consequences of all its deposits and transactions with the Fund, which would keep accounts for each country with settlement of balances at regular intervals.

11. On the matter of interest, rates on ECU created by deposits of reserves should be distinguished from rates on ECU created as a counterpart of deposits in national currency.

12. For rates on ECU created by deposits of reserves, it has been suggested that there should be only one rate of interest, and also that contributing reserves to the Fund against ECU should not result in member countries foregoing gains that could have been realized elsewhere. In the case of gold deposited with the Fund, the problems could be solved by stipulating that all countries should deposit gold and third country currencies as reserve instruments in the same proportions. Another solution might be to pay the same rate on all reserve ECU, with the member countries paying a 'commission' to the Fund on the basis of the amount of gold deposited.

Relations with other Community bodies

13. The extent to which independence is judged necessary for the Fund's operations will determine whether the EMS, and in particular the EMF, can be set up within the framework of the EEC Treaty. It shall be studied how the EMCF might manage the system in the initial stages, taking on such tasks as the creation of ECU and the surveillance of

⁽¹⁾ Calculated by applying the dollar/EUA conversion rate as of 7 July 1978 (US\$ 1 = 0.80047 EUA).

their use under its present powers or with wider responsibilities conferred on it by an amendment to Regulation (EEC) No 907/73 of 3 April 1973. In any case, the

legal problems of setting up and of organizing the Fund's relations with other Community bodies will have to be examined in detail.

ANNEX II

REPORT TO THE COUNCIL AND THE COMMISSION ON IMPROVING COORDINATION OF THE NATIONAL ECONOMIC POLICIES

As requested by the Council, the Monetary Committee has studied the Commission communication entitled 'Improving coordination of the national economic policies' (COM(77) 443 final of 5 October 1977). It has confined its study to the proposals falling within its terms of reference, which are to be found:

- (a) in the first indent of paragraph 3 (a) 'Indications with figures showing how the budget surplus or deficit for the coming financial year is to be used or financed';
- (b) in paragraph 3 (b) 'The fixing of quantitative guidelines ... relating to changes in a significant monetary aggregate';
- (c) in paragraph 3 (c) 'Discussions about "exchange rate guidelines"'.

In this report, the Monetary Committee summarizes the main remarks of its members, and puts forward a compromise solution which might be the basis for an agreement in the Council.

I. REMARKS ON COMMISSION PROPOSALS

Members' reactions to the Commission proposals were of two types:

1. General reactions to the spirit of the document;
2. Specific reactions to each of the three concrete suggestions.

1. General reactions

General reactions may be summarized under three headings:

(a) *Generally favourable*: the Monetary Committee were unanimous in sharing the concerns motivating the Commission's proposals. They approved of the general economic motives for the proposals as well as the precise aim of strengthening the coordination of short-term policies so as to reduce the divergences that are hindering economic and monetary union, and improve the convergence of economic policies in the present situation.

(b) *An observation*: the members of the Monetary Committee insisted as does the Commission document that progress in monetary cooperation or coordination should go in step with progress in general economic cooperation, both when analysing the situation and when adopting a strategy to deal with the actual situations of the different Member States. If this was not taken into account, the attempt at harmonization on the monetary level alone might well turn out to be an empty formality, or even nuisance if it introduced constraints that were ill-adapted to the actual situation in each State.

(c) *A suggestion*: the Monetary Committee cannot recommend that the mechanism proposed by the Commission be adopted unconditionally as described in the reference document and the attached draft conclusion of the Council; the Committee has reservations about some of the components of this mechanism, although it fully endorses by a very large majority the general policy that inspired the Commission, and suggests that the Council adopt an alternative, less precise, less ambitious in its essence and less binding project which the Committee thinks should win the approval of the Member States and answer the Commission's main preoccupations. This is the point of the compromise described below.

2. The specific reactions

The reactions to each of the Commission's three monetary proposals were as follows:

(a) *On the budget surplus or deficit*: almost all the members of the Committee thought it was impossible to give detailed figures on the various ways the budget surplus or deficit might be used or financed. They gave the following main reasons for this:

- government loans cannot be announced before issue without seriously disturbing the financial market,
- government securities are often the main instrument in open market operations, so the net volume of issues cannot be set beforehand,
- the other methods (monetary or not) of financing the budget deficit (Treasury bills, Treasury deposits of State

agencies, calls on saving, recourse to the central bank) cannot be the subject of set predictions, and must be managed with as much flexibility as possible to take account of the situation, the reactions of agents other than general government, etc.

However, all members agree (although with varying degrees of insistence) that it might be useful to indicate beforehand, and to make an effort to coordinate within the Community, how far monetary financing is intended to be used for any budget deficit.

(b) *The fixing of quantitative monetary targets*

In 1976 the Monetary Committee considered the problem of fixing quantitative monetary targets for monetary policy, and submitted a report to the Council and the Commission, the main conclusions of which were approved by the Council of 8 November 1976. The members of the Committee would like to reiterate these conclusions. They expressed diverse opinions on the proposals now submitted by the Commission:

- (i) For some members, who do not apply such targets, it would seem neither possible nor desirable to contemplate extending the use of such targets throughout the Community. Within this group, however, there are some who take the view that no form of coordination between themselves and the countries with such targets is realistically feasible whereas others advocate the use of special reference indicators aimed at promoting joint action with the countries applying such quantitative targets.
- (ii) For yet another group of members, the divergences in question ought not to be exaggerated. Harmonization of monetary policy instruments could not be regarded as a *sine qua non* for harmonization of monetary policy. It is possible to pursue common policy objectives by applying different instruments each of which would be tailored to the circumstances obtaining in the country of application.
- (iii) For others, whose countries apply quantitative monetary targets, the difficulty is still one of comparing elements the bases and significance of which are quite different. These members believe that a prerequisite to a concrete effort towards harmonization and coordination of monetary policies would be a willingness on the part of member countries which adopt different types of targets to make available the implicit counterpart projections in terms of a common reference aggregate, with respect to internal and external components.
- (iv) Finally, some members consider that since economic policy in Member States should increasingly aim at achieving the objectives of growth in economic activity and employment, monetary policy should now play a greater role in assisting the recovery and that interest rate manipulation and controls over the channels of liquidity creation should be the main instruments used.

Moving on from this general discussion, the Monetary Committee has examined various technical aspects of the Commission's proposal:

- Should the quantitative guidelines chosen take the form of a bracket or a single reference indicator? Many of the Committee's members feel that a bracket would afford greater flexibility than a single reference indicator, even

if coupled with a margin of tolerance either way. Some members, however, emphasized the drawback of a bracket, namely that it cast an aura of inviolability over the limits to the margin of fluctuation authorized under it. The general feeling is that this technical matter can be dealt with differently in each of the countries concerned so as to avoid any form of rigidity.

- Should the Council of Ministers or the Committee of Governors be the Community body responsible for joint action and coordination? Monetary policy is a matter for the central banks in most Member States but it must also be seen in the context of general economic policy.
- Should the Community body chosen act by way of decision or merely recognition of the situation? The second procedure would be more acceptable as regards the constitutional set-up in all Member States.
- Could the movement towards alignment of national monetary targets or of the indicators that would be introduced instead result in the choices made at national level being challenged at the end of the concertation procedure? All the members take the view that such a development would be a logical consequence of the coordination exercise, but do not pretend that something which can only be the result of strong political determination and improved convergence of economic situations could be achieved overnight. They consider that, for the time being, substantial headway could be made by exchanging information and highlighting any inconsistencies. Some even feel that more decisive steps should be taken now.
- Should the targets be published? A majority of members on the Committee is hesitant on this score. Once a target is decided on, it is published at national level. To require, on top of that, its publication at Community level would not serve any great purpose even if it were achieved and would underscore the futility of the exercise if it were not achieved. Publication at Community level would, therefore, be a pointless constraint that could, without making any positive contribution, prove to be a sensitive and controversial issue.

(c) *Exchange rate guidelines*

When it examined the Dutch proposals for establishing target zones for Community currencies, the Council, on 14 March 1977, invited both Committees to continue their work and report regularly to it. The present Commission proposal aims at a regular discussion in Council of the exchange rate guidelines of Member States.

All the members of the Monetary Committee have emphasized the key role played by external factors in market developments and in Member States' exchange rate policies. Coupled with the differences between Member States' approaches to exchange rates, this does not make it easier to adopt, at the present stage or within the foreseeable future, a common stance on exchange rates. Under the circumstances, any requirement incumbent upon the Council to discuss exchange rate matters regularly would be of little use, not to say dangerous, considering the possible repercussions on foreign exchange markets that Ministerial meetings devoted to these matters might have.

It would, in practice, be useful to draw a distinction between coordination and information. Coordination of exchange rate policies is already discussed by the Governors of the Central Banks either at their regular meetings or, should the need arise, by telephone. As this arrangement worked well, it would not be wise to tamper with it. Where information is concerned, market developments are known to all concerned. Nevertheless, the economic context within which market developments take place is discussed both by the Committee of Governors and by the Monetary Committee, with the members of both Committees being themselves quite free to inform their governments of the matters discussed.

Lastly, a majority of the members of the Committee take the view that the Commission's wish that it be regularly brought into discussions held by the Member States belonging to 'the snake' could be examined informally by the ministers of these countries but should not be referred to the Council as a whole through official channels.

II. A PROPOSAL FOR A COMPROMISE

The Monetary Committee proposes that the Council, in its consideration of the convergence of the overall objectives of economic policy, should approach the question of coordination of monetary policy in the light of the three following propositions:

1. When fixing their annual budget guidelines, Member States would give indications — where possible, backed up by figures relating at least to the order of magnitude involved — showing how the methods envisaged for financing the budget deficit, or the use of the budget surplus for the coming financial year, are related to their monetary objectives.
2. Member States in a position to do so would set quantitative guidelines, in the form of a bracket or a target which may or may not incorporate a margin of tolerance, relating to changes in a significant monetary aggregate for each Member State concerned. The other Member States would fix guidelines — where possible, quantitative guidelines — relating to alternative reference indicators having general monetary implications, such as the interest rate or exchange rate constraints. These objectives of monetary policy would be analyzed and discussed annually in the Committee of Central Bank Governors and in the Monetary Committee who would report to the Council on the compatibility of the monetary objectives of Member States with each other and with the wider economic objectives adopted by the Council for member countries and for the Community. The Council would consider the development of monetary policies to assist the convergence of the economies of member countries, taking cognizance of the commitments entered into by Member States. Separate publication of these commitments would not be envisaged. Developments in the position of member countries with respect to the objectives fixed according to the procedure outlined above, will be examined periodically by the two Committees and by the Council.
3. As for exchange rates, the Committee of Governors of the Central Banks and the Monetary Committee should extend their consultations on exchange rate trends, taking account, in particular, of the incidence on these trends of monetary, budgetary, credit and interest rate policies.

ANNEX III

OPINION TO THE COMMISSION ON THE PROPOSAL FOR A THIRD COUNCIL DIRECTIVE

1. At the request of the members appointed by the Commission, the Monetary Committee at its session of 5 and 6 June 1978 examined a proposal for a Third Council Directive amending the First Directive implementing Article 67 of the EEC Treaty. The conclusions of this examination, which were prepared by the Working Party on Securities Markets, are presented in this report.

2. According to the representative of the Commission, the proposed Third Directive is an integral part of the work currently being done in the Council on the proposal for a Directive for the coordination of laws, regulations and administrative provisions regarding collective investment undertakings for transferable securities (CIUTS)⁽¹⁾. This

latter Directive is designed to coordinate national legislation on CIUTS which still varies widely within the Community. It is because of these variations that the First Directive for the implementation of Article 67 of the EEC Treaty dated 11 May 1960 (added to and amended on 18 December 1962) had excluded the liberalization of securities issued by the majority of CIUTS, i.e. units of unit trusts whether or not dealt in on stock exchanges and shares of investment companies not dealt in on stock exchanges⁽²⁾. So that the envisaged coordination of national legislation on CIUTS has real meaning it is essential, that in parallel with the implementation of the coordination Directive, the necessary measures to abolish exchange control restrictions on the free circulation of securities issued by CIUTS be taken. The

⁽¹⁾ By CIUTS should be understood unit trusts and investment companies who satisfy the conditions laid down in Article 2 of the proposed coordination Directive (Doc. COM(76) 152 final).

⁽²⁾ Operations in these securities which are currently in List C have been unconditionally liberalized by Germany, Belgium and Luxembourg, while the other Member State have maintained exchange control restrictions invoking Article 3 (2) of the First Directive of 11 May 1960.

liberalization of these operations which is the objective of the proposed Third Directive would make a significant step towards greater inter-penetration of national securities markets. The Commission therefore emphasizes that without such parallelism, the progress and outcome of the work being done on coordination could very well be adversely influenced.

3. Members emphasize their attachment to the objective of developing a European capital market which was recently reaffirmed by the Commission in its communication to the European Council on the prospects of economic and monetary union.

4. Despite this unanimity, opinion was divided on the practical measures regarding CIUTS which could be taken immediately.

5. Some members support the proposals contained in the proposed Third Directive without reservation. The proposed liberalization would have particular significance given that it would be a concrete expression of the Community's willingness not to further delay the implementation of Article 67 of the Treaty, following the numerous checks which the Community has suffered in this field. In addition, according to these members, the liberalization Directive constitutes an indispensable complement to the coordination Directive given that the coordination of national legislation on CIUTS would only be meaningful if the free circulation of securities issued by these organizations occur simultaneously or within a very short period: in particular they note that the maintenance of existing restrictions would

render the provisions of the coordination Directive on the marketing of shares of CIUTS in the other Member States inoperative. For this reason, these members consider that without the prospect of a parallel liberalization, some of these provisions would no longer be acceptable, especially those of a particularly binding nature.

6. The other members consider that coordination can be useful in itself but also recognize the existence of links between the two Directives. Because of this they share the opinion that as far as possible the coordination Directive and liberalization Directive should be implemented in parallel. It was noted that on the one hand the coordination Directive contains a number of definitions and rules which will affect the Third Directive, but that on the other hand the work on the coordination Directive is far from being completed. Some of these members also think that the liberalization Directive raises a number of problems and uncertainties, particularly with regard to balances of payments and capital markets. Under these circumstances, all these members feel that it would be premature to pronounce upon the proposed Third Directive until work on the coordination Directive is further advanced.

7. All members, although recognizing the divergences which arose, emphasize the importance they attach to the objective of liberalizing capital movements. The majority of members, however, consider that a definitive solution to the specific problem submitted to them can only be found in the light of the progress in the work on the coordination of laws, regulations and administrative provisions governing CIUTS.