European Communities

EUROPEAN PARLIAMENT

Working Documents

1980 - 1981

15 December 1980 DOCUMENT 1-707/80

REPORT

drawn up on behalf of the Committee on Budgets
on the proposal from the Commission of the
European Communities to the Council (Doc.1-582/80)

for a regulation adjusting the Community loan
mechanism designed to support the balances of
payments of Community Member States

Rapporteur: Mr J.M. TAYLOR

English Edition

PE 69.653/fin.

By letter of 12 November 1980 the Council requested the European Parliament to deliver an opinion on the proposal for a Council regulation adjusting the Community loan mechanism designed to support the balances of payments of Community Member States.

The President of the European Parliament referred this proposal to the Committee on Budgets as the committee responsible and to the Committee on Economic and Monetary Affairs for its opinion.

On 24 November 1980 the Committee on Budgets appointed Mr J.M. Taylor rapporteur.

It considered the proposal at its meetings of 3/4 and 10 December.

At its meeting of 10 December the Committee on Budgets adopted the motion for a resolution and the proposed amendments that follow by 21 votes for, 1 against and 1 abstention.

Present: Mr Lange, chairman; Mr Notenboom and Mr Spinelli, vice-chairmen; Mr J.M. Taylor, rapporteur; Mr Aigner, Mr Arndt, Mrs Boserup, Mr Brok (deputizing for Mr Ryan), Mr Colla, Mr Dankert, Mr Forth, Mr Gouthier, Mrs Hoff, Mr R. Jackson, Mr Langes, Mr Lega, Mr Nord, Mr O'Leary, Mr Orlandi, Mr Pfennig, Mr Konrad Schön, Mr Simonnet and Mr Tuckman.

The opinion of the Committee on Economic and Monetary Affairs is attached.

<u>C O N T E N T S</u>

A

The Committee on Budgets hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement:

MOTION FOR A RESOLUTION

embodying the opinion of the European Parliament on the proposal from the Commission of the European Communities to the Council for a regulation adjusting the Community loan mechanism designed to support the balances of payments of Community Member States

The European Parliament,

- having regard to the proposal from the Commission of the European Communities to the Council[1],
- having been consulted by the Council (Doc. 1-582/80),
- having regard to the regulation setting up a Community loan mechanism designed to support the balances of payments of the Member States[2],
- having regard to the report of the Committee on Budgets and the opinion of the Committee on Economic and Monetary Affairs (Doc. 1-707/80),

1. Agrees that the original Community loan mechanism should be extended and made more flexible in order to strengthen the Member States' financial solidarity in the face of balance of payments difficulties;

2. Approves the decision-making procedures proposed as regards both the Council and Commission on the one hand and Parliament on the other; requests, however, that provision be made for a procedure whereby Parliament would be informed on every occasion by the institutions concerned before the Council takes a decision on a loan;

3. Requests the Commission to keep under close review the development of the Community's external indebtedness as well as the implications of that indebtedness for the guarantee provided by the Community budget;

4. Points out that Community loans are subject to the same requirements of budgetization as the other loan mechanisms (Euratom and NCI).

---

1 OJ No C 308, 26.11.1980, p.10

2 Regulations (EEC) 397/75 and 398/75 of 17 February 1975 (OJ No L 46, 20.2.1975, p.1)

5. Instructs the Committee on Budgets, the Committee on Budgetary Control and the Committee on Economic and Monetary Affairs to follow the progress of the transactions arranged in the context of this reformed mechanism through the means of periodic reports by the Commission and a general annual report; in the light of this information the Council and Parliament will be in a position to assess the general operation of the mechanism established by the present decision;

6. Hopes that the Commission will make every effort to foster the technical conditions to be met in order to issue loans in ECU;

7. Stresses that the granting of loans to support balances of payments must under no circumstances be regarded as an easy way out but must help to improve the situation in the recipient states; requests the Commission to ensure compliance with the economic policy conditions laid down when the loans are granted;

8. Proposes two amendments to the proposal for a Council regulation;

9. Reserves the right to invoke the conciliation procedure if the Council should intend to depart from this opinion.

Amendments proposed by Parliament to the proposal for a Council regulation adjusting the Community loan mechanism

Proposal for a Council regulation	Amendment proposed by Parliament
- Having regard to the Treaty establishing the European Economic Community and in particular Article 235 thereof,	(unchanged)
- Having regard to the proposal from the Commission,	(unchanged)
- Having regard to the opinion of the European Parliament,	- Having regard to the <u>favourable</u> opinion of the European Parliament

Recitals and Articles 1 - 6 unchanged

Article 7	Article 7
No later than five years after the adoption of this regulation, the Council shall examine, on the basis of a report from the Commission, whether the mechanism established in its principle, its arrangements, and its ceiling still meets the needs which led to its creation.	No later than five years after the adoption of this regulation, the Council <u>and Parliament</u> shall examine, on the basis of a report from the Commission, whether the mechanism established in its principle, its arrangements, and its ceiling still meets the needs which led to its creation.

Articles 8 and 9 unchanged

B

EXPLANATORY STATEMENT

1. On 11 November 1980 the Council consulted Parliament on a proposal for a regulation adjusting the Community loan mechanism designed to support the balances of payments of Community Member States.

The mechanism was set up by Council regulation of 17 February 1975.

Since its entry into force the mechanism has permitted loans to be granted to two Member States on the terms set out in the attached Annex II.

The aim of the present Commission proposal is to change a number of important aspects of the original regulation in order to strengthen its operation and make it more flexible.

I. THE ORIGINAL MECHANISM

2. The purpose of the mechanism was to enable the Community to come to the assistance of Member States experiencing balance of payments difficulties, as a result of the increase in the price of petroleum products.

3. Originally, it worked as follows:

- in response to a request by a Member State, the Council takes a unanimous decision that the negotiations necessary for the loan transactions be opened,
- the Commission is instructed to borrow, from third countries, financial institutions or on the capital markets, the sums necessary for the loans envisaged,
- the Council then takes a unanimous decision on the principle and terms of the loan, in particular as regards the economic policy conditions to be observed by the debtor Member State,
- the overall ceiling on the borrowing/lending operations is set at US$ 3,000 million (principal and interest),
- the guarantees to lenders are accepted by the Member States in accordance with fixed percentages.

4. An implementing regulation of 17 February 1975 laid down the guarantee terms and made the European Monetary Cooperation Fund responsible for the administration of the loans.

5. On 18 October 1974 Parliament approved these provisions without reserve or comment. However, it had not been consulted on the implementing regulations.

II. NEW COMMISSION PROPOSALS

6. The Commission accepted the Monetary Committee's conclusions on the amendment of the original regulation relating to Community loans. The Committee's report has already been agreed in principle by the Council. The - very succinct - explanatory memorandum to the Commission's proposal for a regulation refers the reader explicitly to the Monetary Committee's report, which has not been forwarded to Parliament.

7. The arguments in favour of amending the original regulation are as follows:

- since 1975 the risk of deterioration in the Member States' balances of payment have increased, so that there is a greater need for recycling of petro-dollars; the initial ceiling of US$ 3,000 million has almost been reached (see annexed attached)[1];
- it is therefore necessary to raise the ceiling on Community loans and at the same time to simplify the procedures employed in the past so as to make it possible to utilize the sums borrowed more rapidly and flexibly.

8. The Commission therefore proposes a number of amendments to the basic regulation of 17 February 1975. These amendments concern the following points:

1. Overall amount

9. The amount has been increased substantially since the authorized ceiling for borrowing/lending is raised from 3,000 million dollars (principal and interest) to 7,000 million ECU (principal alone). The overall volume of the transactions permitted has thus been increased approximately fivefold.

10. Furthermore, this new ceiling is not an absolute limit but an amount outstanding, in other words a volume of borrowing/lending that can be reconstituted as repayments are made.

[1]This extension of the Community loan mechanism is distinct from but complementary to the system of medium and short-term support set up under the EMS. On 13 March 1979 the Council decided to increase to 25,000 million ECU the short-term (14,000 million) and medium-term (11,000 million) support capacities of the Member States' central banks.

It should also be noted that the Commission is requesting that the ceiling be expressed in ECU in place of dollars.

2. More flexible intervention conditions

11. The balance of payments difficulties of a Member State requesting a loan may be only indirectly related with the problem of rising oil prices.

12. A loan may be made to a Member State before a balance of payments crisis occurs; the Community loan mechanism may thus be used to prevent such a crisis.

13. Lastly, loans may be paid to a Member State in instalments in accordance with its actual needs and, if its financial situation improves, provision may be made for early repayment.

3. Decision-making procedure and administration

14. Henceforth a single Council decision will be needed to authorize the loan and set its amount, lay down the economic policy conditions to be observed by the Member State and the manner in which the loan is to be paid.

15. The Commission proposes that the Council act by a majority decision, in contrast to the previous regulation, which required a unanimous decision.

16. It should be noted that, contrary to the decision-making procedure applicable to the NCI (New Community Instrument), Parliament will not be consulted on these Council decisions.

17. It is stipulated in the new proposal that the Commission is formally responsible for borrowing the necessary funds; it will probably also be responsible for the administration of the loans, since the previous provision under which this responsibility was vested in the European Monetary Cooperation Fund no longer appears in the new Commission text.

4. Guarantee to lenders

18. Under the previous arrangements it was the Member States themselves which guaranteed repayment to lenders of Community funds, in accordance with an ad hoc scale. This provision no longer figures in the new Commission proposal.

19. This means that lenders will henceforth have a guarantee through the Community budget, in which these loans are entered (in the form of token entries) in the expenditure section (Chapter 42).

5. Duration of the mechanism

20. The application of the mechanism is not restricted in time but it is proposed that a review of the principle, the arrangements and the ceiling for Community loans be undertaken after five years.

- o -

III. COMMENTS OF THE COMMITTEE ON BUDGETS

21. Since the Commission's proposal is designed to extend one of the Community's borrowing and lending mechanisms and make it much more flexible, Parliament - and its Committee on Budgets - are particularly interested in it.

22. It must be pointed out, however, that the financial mechanism in question is a very specific one since it concerns exclusively monetary transactions connected with the external financial situation of Member States. It is therefore very different from the other Community loan systems set up in the context of the EEC (Euratom and NCI), ECSC (ECSC loans) or the EIB, in other words systems whose essential purpose is to finance investments connected with established common policies.

23. It should also be noted that the financial characteristics of these 'Community loans' lend the opinion of the Committee on Economic and Monetary Affairs special importance.

General comments

24. The Commission quite rightly points out that present economic and monetary circumstances argue in favour of extending the possibilities of capital loans to Member States through the Community and of making the system more flexible.

25. The possibilities existing under the EMS might prove inadequate if a majority of the Member States were to find themselves simultaneously in balance of payments difficulties and the Community should therefore have at its disposal an effective instrument whereby capital can be borrowed on the external markets for onward lending to Member States.

26. For this reason - and subject to any comments made by the Committee on Economic and Monetary Affairs - <u>the Committee on Budgets approves</u> the principle of extending 'Community loans' and making them more flexible.

Specific comments

27. The Committee on Budgets nevertheless feels bound to make the following comments on various aspects of the proposal under consideration:

1. Overall volume proposed

28. The ceiling of 7,000 million ECU proposed appears commensurate with the magnitude of the problem, especially taking into account the fact that the ceiling is based on the amount outstanding, which means that the margin is increased as repayments are made.

29. If we add to this amount the possibilities of short and medium-term loans provided for under the EMS (25,000 million ECU), it appears that the Community would have available from 1981 onwards sums which could give adequate assistance to Member States in balance of payments difficulties.

30. However, the large volume of the loans envisaged (7,000 million ECU, or more than one-third of the Community budget) demands that serious consideration be given to the implications both for the extent of the Community's indebtedness and for the guarantee of that indebtedness by the budget.

2. Budgetization

31. Since 1977 Community loans are subject to the same budgetization arrangements as apply to NCI and Euratom loans. The definitive budgetization arrangements, which are to be adopted by the Council and Parliament at a very early date, will also apply to them.

3. Commission's role

32. The Commission is officially responsible for carrying out and administering the borrowing and lending transactions, the principle and terms of which are decided by the Council. This confirms the Commission's full financial role, which is distinct from - but complementary too - those of the EIB and the European Monetary Cooperation Fund. The Committee on Budgets has always been in favour of such a development.

4. Council's role

33. The Committee on Budgets considers that, in the particular area in question (financial situation of the Member States), the power of decision must be vested in the Council alone and the power of initiative in the Member States. It is in favour of the simplification of the decision-making procedure proposed by the Commission (a single decision by the Council on the principle and terms of the loans).

34. It considers, moreover, as does the Commission in its proposal, that the Council's decision should be taken by a majority of its members. This is a fundamental question of principle.

5. Parliament's role

35. Parliament is consulted on the basic regulation and will be able, if necessary, to invoke the conciliation procedure in order to assert its views on this regulation[1]. The Assembly will not, however, be consulted on the various Council decisions on loans (although it is consulted on every tranche under the NCI). Since these would be decisions on transactions to be taken in connection with the financial situation of a Member State, the official and public consultation of Parliament seems to be neither possible nor desirable.

36. Nevertheless, having regard to the magnitude of the budgetary implications (indebtedness/guarantee) of the transactions in question, it appears necessary for the three institutions concerned to agree on a rapid and confidential procedure for informing Parliament in advance. This might take the form of informal contacts between representatives of the Commission and the Council on the one hand and those of the Committee on Budgets and the Committee on Economic and Monetary Affairs on the other.

o

o o

[1] Undertaking given by the Budgets Council of 23 November 1980

ANNEX I

Comparison between the Regulation of 17 February 1975 and the proposal for a regulation of 30 October 1980

Regulation(EEC) No 397/75 of the Council of 17 February 1975	Proposal for a Council regulation of 30 October 1980
Preamble unchanged	
Whereas the considerable changes in the terms of international trade have produced a deterioration in the balance of payments of the Member States of the Community;	-
	Whereas the Community loan mechanism instituted by Regulations (EEC) No 397/75 and (EEC) No 398/75 still, in its general design, meets the needs of the present situation which is marked by balance of payments disequilibria in the Community;
Whereas the effects of this deterioration will vary from one Member State to another and may thereby compromise the proper operation of the common market;	-
	Whereas, in the light of experience and in accordance with the conclusions reached by the Monetary Committee in its report of 10 October 1980, it is advisable to adjust the operating techniques of Community loans in order to increase their effectiveness and simplify the procedures for implementing them;
Whereas the Community should accordingly contribute to the financing required by this situation, and to this end itself borrow funds to be put at the disposal of Member States whose balance of payments is affected by the increase in the price of petroleum products, in the form of loans having identical financial characteristics;	-
Whereas, moreover, intervention by the Community as such is likely to contribute to a stabilization of capital movements due to the increase in the price of petroleum products, to the benefit of the whole international community;	-
Whereas each loan to a Member State must be conditional upon the adoption by that Member State of economic policy measures designed to redress its balance of payments;	Whereas the operation of lending to a Member State must take place fairly promptly in order to encourage that State to adopt measures likely to prevent the occurrence of an acute balance of payments crisis;whereas the economic policy conditions linked to the granting of the loan to a Member State must be adapted to the gravity of the balance of payments situation in that State and to the way in which it develops;

Regulation (EEC) No 397/75 of the Council of 17 February 1975	Proposal for a Council regulation of 30 October 1980
Whereas it follows from the foregoing that transactions of this type are necessary to attain the objectives of the Community as defined in the Treaty, and in particular the harmonious development of economic activities throughout the Community;	(unchanged)
Whereas the Treaty makes no provision for the powers of action required for this purpose.	(unchanged)
Article 1	Article 1
The Community may undertake a series of operations to raise funds, either directly from third countries and financial institutions, or on the capital markets, with the sole aim of re-lending those funds to one or more Member States in balance of payments difficulties caused by the increase in prices of petroleum products.	In accordance with the decision adopted by the Council pursuant to Article 2 and after consulting the Monetary Committee, the Commission shall be empowered to contract loans, on behalf of the European Economic Community, either directly from third countries and fiancial institutions, or on the capital markets, with the sole aim of re-lending the funds raised to one or more Member States in balance of payments difficulties directly or indirectly related to an increase in prices of petroleum products.
Article 2	Article 2
The opening of the negotiations necessary for each loan transaction shall be authorized by the Council on the initiative of one or more Member States. The decision to open negotiations shall also lay down the procedures for those negotiations. In the light of the outcome of those negotiations, the Council shall decide on what terms each loan agreement is to be concluded. The average period for which funds are borrowed shall not be less than five years.	On the initiative of the Member State seeking a Community loan, the Council, after examining the situation of that State and the adjustment programme which it undertakes to implement, shall decide, as a rule during the same meeting: - whether to grant the loan, - the amount of the loan, - the economic policy conditions attaching to the loan, - the techniques for disbursing the loan which may be paid in one amount or in several instalments; in the latter case, the payment of successive instalments may be subject to compliance with economic policy conditions. At the request of the Member State seeking the loan, the loan may carry the option of early repayment at any time; this would imply the use of the appropriate borrowing formulae.

Regulation (EEC) No 397/75 of the Council of 17 February 1975	Proposal for a Council regulation of 30 October 1980
Article 3	Article 3
The Council shall decide on the principle and the terms of the loan to be granted to one or more Member States and on the economic policy conditions to be fulfilled by each beneficiary Member State in order to redress its balance of payments. The funds shall be paid only into central banks and shall be used only for the purposes indicated in Article 1.	Where a Member State receives a loan, the Commission, in consultation with the Monetary Committee, shall take the necessary measures to verify, at regular intervals, that the economic policy of this State accords with the conditions laid down by the Council pursuant to Article 2 and, where appropriate, shall pay the successive instalments on the basis of the development of the adjustment programme. To this end, the Member State shall place all the necessary information at the disposal of the Commission. The Council shall decide on the adjustments to be made to the initial economic policy conditions. Where a Member State receives a loan carrying an early repayment clause, that State shall be able to use this option only with the agreement of the Commission, which shall consult the MonetaryCommittee on the matter.
Article 4	Article 4
The operations of borrowing and lending referred to in Article 1 shall be expressed in the same currency and carried out on the same terms with respect to repayment of the principal and payment of interest. The costs incurred by the Community in concluding and carrying out each operation shall be borne by the beneficiary Member State concerned.	The operations of borrowing and lending, referred to in Article 1, shall be expressed in the same currencies and carried out on the same terms with respect to repayment of the principal and payment of interest. The costs incurred by the Community in concluding and carrying out each operation shall be borne by the beneficiary Member State. When the borrowings are expressed, payable or repayable in the currency of a Member State, they may be concluded only with the agreement of the competent authorities of that State.
	Article 5
	The funds shall be paid only into central banks and shall be used only for the purpose indicated in Article 1.
Article 5	Article 6
The loan operations authorized by this Regulation shall be limited to the equivalent in European monetary units of account of 3,000 million US dollars in principal and interest payments.	The outstanding amount of the borrowings authorized by this Regulation shall be limited to 7,000 million ECUs in principal. For the application of this ceiling, the operations of borrowing and repayment shall be recorded, where appropriate, at the exchange rate of the day on which they take place.

Regulation (EEC) No 397/75 of the Council of 17 February 1975	Proposal for a Council regulation of 30 October 1980
Article 6 The guarantees designed to ensure that the loans referred to in Article 1 are serviced and repaid in all circumstances shall not exceed the following percentages applied to the total amount of the loan in principal and interest: % Germany 44.04 United Kingdom 44.04 France 44.04 Italy 29.36 Belgium/Luxembourg 14.68 Netherlands 14.68 Denmark 6.60 Ireland 2.56	(deleted)
Article 7 The Council shall lay down detailed rules for the implementation of this Regulation.	(deleted) **Article 7** No later than five years after the adoption of this Regulation, the Council and Parliament shall examine, on the basis of a report from the Commission, whether the mechanism established in its principle, its arrangements, and its ceiling still meets the needs which led to its creation
	Article 8 Articles 1, 2 and 5 of Regulation (EEC) No 397/75 shall be repealed.
Article 8 The measures referred to in Articles 2, 3 and 7 shall be adopted by the Council acting unanimously on a proposal from the Commission, which shall consult the Monetary Committee on the matter.	**Article 9** The Council shall adopt the decisions referred to in Articles 2 and 3 by a qualified majority, acting on a proposal from the Commission which shall consult the Monetary Committee on the matter.

Community loan mechanism

Loan transactions carried out as at 1 December 1980

The transactions carried out correspond to two series of operations:

- one for the benefit of Italy (10/13ths) and Ireland (3/13ths) by Council decision of 15 March 1976 in the sum of US $ 1,100 million and DM 500 million; these dollar transactions included a variable-interest bank credit subsequently consolidated by three fixed-interest loans;

- the other for the benefit of Italy, by Council decision of 17 May 1977, in the amount of US $ 500 million.

In October 1978 Italy requested authorization for early repayment of the loans granted. The Community was unable to meet this request as it was itself unable to make early repayment of the funds borrowed.

Repayment schedule governing the loan transactions

The average duration of the fixed-interest loans is 5.3 years and the average interest rate approximately 7.72%.

Repayments (repayment of capital plus interest) is to some extent concentrated in the years 1979 and 1982-1984.

Margin available under the ceiling of US $ 3,000 million

The total of the loan transactions, including interest, represents the equivalent of US $ 2,640.773 million. Taking into account the fact that the margin under the ceiling cannot be reconstituted, it comes out at US $ 359.227 million. The loan possibilities under the mechanism established in 1973 are thus limited to a capital of about US $ 220 million (on the assumption of an average loan duration of five years and an interest rate of 12.25% - the present interest on dollar eurobonds).

OPINION OF THE COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS

Draftsman: Mr M. WAGNER

On 25 November 1980 the Committee on Economic and Monetary Affairs appointed Mr Wagner draftsman.

At its meeting of 1 December 1980 the committee appointed Mr Jacques Moreau to replace Mr Wagner; it considered the draft opinion and adopted it by 19 votes in favour with one abstention.

Present: Mr Delors, chairman, Mr de Ferranti, Mr Deleau, Mr Macario, vice-chairmen; Jacques Moreau, draftsman; Mr Balfour, Mr Beazley, Mr Beumer, Mr von Bismarck, Mr Bonaccini, Mr Delorozoy, Miss Forster, Mr de Goede, Mr Herman, Mr Leonardi, Mr Petronio, Mr Piquet, Sir Brandon Rhys Williams, Mr Spinelli and Mr von Wogau.

1. One of the main features of the economic situation in the Community in 1980 was a deficit on current account of 30,000 million ECUs, that is, 1.5% of GDP.

As stressed in the conclusions of the presidency of the European Council of 27 and 28 April 1980, this situation, which results from the substantial and repeated increases in the price of petroleum products, calls for an intensification of both international and Community action on recycling. After consulting the Monetary Committee, the Commission felt that priority should be given to making the most of the existing instruments. It therefore proposes to adjust Regulations EEC/397/75 and EEC/398/75, which introduced a Community loan mechanism.

I. Extension of the Community loan mechanism

- the need to increase Community loans

2. There are three reasons for increasing Community loans. In the first place, it is important to support economic activity throughout the Community, particularly in certain Member States and regions facing serious economic and social difficulties. According to the Commission's estimates, economic growth in 1981 is expected to be no higher than 0.6%.

Secondly, if the EMS is to work properly, it is necessary to introduce a set of back-up measures, primarily economic, which give practical expression to the solidarity between the Member States and their determination to achieve greater economic convergence.

Thirdly, it would be ill-advised to leave entirely to the private banks the task of recycling the substantial surplus capital held by the oil-producing countries.

- ways of extending the Community loan mechanism

- size of the allocation

3. In its report to the Council, the Monetary Committee recommended a substantial increase in the existing ceiling on Community loans, which is fixed at 3,000 million dollars in principal and interest. In addition to the general points made above, there are several good reasons for raising the ceiling by a considerable amount, in particular:

- the erosion of the real value of the existing ceiling since 1975 as a result of constant inflation,

- the increase in the actual size of the international capital market, whose annual volume of operations has increased threefold since 1975,

- the fact that all the Community countries are now facing balance of payments deficits, which was not the case at the time of the first oil crisis (the potential of the existing mechanism was rapidly used up in loans to Italy and Ireland).

However, consideration must also be given to other arguments for a more moderate increase in the Community mechanism allocation. Mainly because of the appreciation in the value of gold on the open market, the Community's overall reserves rose in 1980 from 139,000 to 223,000 million ECUs, an increase of 60%. This growth in reserves provides basic funds which Member States can use to finance their deficits.

In addition, since the creation of the EMS the funds allocated to the monetary support and financial aid mechanisms have more than doubled but have not been utilized.

The EEC must also beware of competing too strongly with international recycling instruments (IMF, World Bank) and must set an example by adopting a disciplined policy which gives precedence to structural adjustments over short-term arrangements.

The ceiling of 7,000 million ECUs laid down in Article 6 of the proposed regulation takes adequate account of these various points. It represents a sum five times that of the existing ceiling.

Furthermore, in order to comply with normal international practice in this field, the ceiling includes only the principal and not the interest.

- loan currency

4. There have often been calls, particularly by the European Parliament, for Community loans to be floated in ECUs. When consulted on this matter the Monetary Committee took the view that it was not at present appropriate to adopt the ECU as a currency. The Community's creditworthiness and the status of the ECU do of course point to the prospect of attractive loan terms, but an isolated experimental issue would be inadvisable. The Monetary Committee feels that a sufficiently large market for these issues must be developed first to ensure adequate continuity and to find solutions to the technical problems which may arise among the various Community issuers.

- duration of the mechanism

5. Article 7 of the proposed regulation stipulates that no later than five years after the adoption of the regulation, the Council must examine the mechanism and its operation, on the basis of a report from the Commission with a view to making the necessary adjustments.

- guarantee provided to creditors

6. The proposal does not incorporate the dual guarantee provided by the Community and the Member States. Since previous experience has shown that a token entry against the commitments in the Community budget represents a sufficient guarantee for third parties, the specific arrangements for possible refinancing by the Member States have been discontinued.

II. Adjustments to the conditions for granting loans

Essentially, the adjustments to the procedure for granting loans are both institutional and economic in character.

- increased responsibility for the Commission

7. Article 2 states that in principle the Council should decide at the same meeting on the granting of the loan, its amount, the relevant economic policy conditions and the arrangements for disbursing it. The consultation of the Council at a single meeting represents a considerable simplification of the decision-making procedure, which has hitherto been encumbered by the fact that the Council intervened at several stages (opening negotiations with lenders, authorization of transactions, etc.). The Commission thus has greater freedom to adapt to market conditions.

- greater economic efficiency of the Community borrowing and lending mechanism

8. The adjustments to the actual procedure for granting loans reflect a laudable concern to ensure economic efficiency.

The general conditions relating to the implementation of the Community borrowing and lending mechanism will be made more flexible in that, under Article 1, the funds collected are to be re-lent to Member States with balance of payments difficulties related directly or even indirectly to an increase in the prices of petroleum products. The concept of the origin of payments difficulties is thus less rigid and more realistic.

Article 2, subparagraph 2, introduces a welcome innovation in that it provides a Member State receiving a loan with the option of early repayment. There is little point in obliging a Member State which has improved its economic situation to continue to bear the burden of a loan and of the related economic policy conditions.

9. A further aspect of this concern to ensure economic efficiency which characterizes the new proposed mechanism is that it will be possible for loans to Member States to be granted early enough to prevent a serious balance of payments crisis.

In addition to the obvious value of all preventive measures, there is no doubt that Member States' authorities will thus find it easier to convince public opinion of the need for a programme of recovery if they can base their argument on the economic policy conditions required by the EEC. With regard to the conditions for granting loans, the proposed regulation states that they 'must be adapted to the gravity of the balance of payments situation in that State and to the way in which it develops'.

It will be the Commission's responsibility, after consulting the Monetary Committee, to lay down these conditions, which may involve the adoption by the recipient State of structural transformation programmes, particularly in the energy field, and possibly also the fixing of monetary or budgetary 'targets'. If the Commission sees fit, the loan may be paid in several instalments, depending on how the programme of recovery progresses.

To conclude, the Committee on Economic and Monetary Affairs:

1. Notes that all the Community Member States are now facing serious balance of payments deficits resulting from the constant increase in the price of petroleum products;

2. Emphasizes the need to increase Community loans in order to support economic activity, promote economic convergence, consolidate the EMS and contribute to the orderly recycling of capital;

3. Approves the principal adjustments to the Community system of loans to support balances of payments, which are designed to increase its volume and economic efficiency and which include in particular
   - an increase in the loan ceiling to 7,000 million ECUs,
   - the simplification and speeding up of the procedure for granting loans,
   - the new role of the mechanism as a means of preventing balance of payments disequilibria,
   - the possibility of early repayment of loans;

4. Hopes that the Commission will make every effort to foster the technical conditions to be met in order to issue loans in ECUs;

5. Stresses that the granting of loans to support balances of payments must under no circumstances be regarded as an easy way out but must help to improve the situation in the recipient States; requests the Commission to ensure compliance with the economic policy conditions laid down when the loans are granted.