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## Information and Notices

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## I

(Information)

## COUNCIL AND COMMISSION

### NINETEENTH 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 1977.

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. A list of members as at 31 December 1977 is annexed.

The report was adopted as at 31 December 1977.

#### INTRODUCTION

1. 1977 saw a slowdown in the expansion of world economic activity. All the major industrialized countries were affected, although to differing degrees, and international trade suffered as a result: from one year to another their rate of growth by volume diminished by almost half. Balance of payments disequilibria persisted but unequally: the deficit of the non-oil-producing developing countries diminished, as did the OPEC surplus; the deficit of the Community was also greatly reduced. On the other hand, a new disequilibrium, namely a considerable worsening of the US deficit, made itself increasingly felt in the course of the year.

2. The economic situation in the Community presented rather a contrast in 1977. The slowdown of expansion

was particularly marked, the rate of growth of output in 1977 scarcely exceeding half that of the preceding year. Because of this, the employment situation did not improve: unemployment at first continued to expand before stabilizing somewhat at the end of the year under the effect of specific measures adopted in a majority of countries. On the other hand, considerable progress was achieved on prices and external payments: a slowdown in the rate of inflation was to be seen in the Community as a whole, and was particularly marked in those countries where it had been highest; similarly, there was a considerable reduction in the current deficit of the Community, and it is mainly due to the improvement in the current balances of countries who had the largest deficits.

#### COMMUNITY ACTION AND THE ACTIVITIES OF THE COMMITTEE

3. In 1977, as in previous years, the Committee devoted a major part of its time to examining the

economic situations of Member States, to studying ways of reinforcing monetary and financial cooperation

within the Community and finding a common position on international monetary problems discussed primarily in the International Monetary Fund.

4. During the year, all Community countries were examined at least once and some of them much more frequently, either in accordance with procedures governing the use of Community credit mechanisms, or as a result of developments in the economic situation of those countries.

5. The countries whose economies were examined most often therefore, in 1977, were Italy, the United Kingdom and the Federal Republic of Germany. As required by the Council Decision granting a Community loan to Italy, the Committee was consulted by the Commission on the economic situation in Italy and the economic policy conditions to be observed by Italy in 1977. The opinion expressed by the Committee, based on the work carried out by the *ad hoc* group chaired by Mr de la Genière, were taken into account when the Council adopted a Directive on 17 May 1977 adapting the conditions attached to the granting of medium-term financial assistance to Italy in 1974 as well as two Decisions, one which authorized the Commission to borrow \$ 500 million on the capital markets and lend this sum to Italy and the other which fixed the economic policy conditions to be observed by this country in return for the Community loans received in 1976 and 1977.

The Committee also closely followed the situation in the United Kingdom, as the measures taken to meet the sterling crisis of autumn 1976 began to take effect. At the beginning of the year, the Committee received a report from its *ad hoc* group chaired by Mr Andersen on the economic situation in the United Kingdom, and in the light of this report, the Committee agreed that the continued non-participation of the UK in the provision of medium-term financial assistance to Italy was justified on the basis of the balance of payments and reserves situation. The Committee continued to monitor developments in the British economy throughout the year as the improvement particularly in the balance of payments and on the financial front, was maintained.

The Committee also frequently discussed the monetary situation in Germany and the way in which the German authorities could contribute to better equilibrium in balances of payments within the Community.

6. In January the Committee also adopted the report prepared by the Andersen group on the economic situation in Ireland and the respect of the economic policy conditions in 1976, in accordance with the requirements of the Decision granting a Community loan to Ireland. In December, the group met again to consider de-

velopments in 1977 and to prepare a report which will be submitted to the Committee early in 1978.

7. In the framework of the move to the 'own resources' system for financing Community expenditure in 1978, the Committee was consulted on the monetary problems involved in the Commission's proposal for the adoption of the European unit of account (EUA) in the Community budget. It approved the proposals of the Commission and recognized that the accounting method envisaged had no monetary implications (Annex I).

8. In November 1976, the Committee had presented a report to the Council and the Commission on a number of monetary problems faced by the Community, among which was the Community's exchange rate system. At their meeting of 8 November 1976, the Council took note of this report and requested both the Committee and the Committee of Governors to see how and under what circumstances the proposals to introduce a coherent exchange rate policy system for the Community as a whole could be implemented. (See paragraph 8 (a) of the 18th report on the activities of the Monetary Committee<sup>(1)</sup>). After detailed discussions, the Committee approved the text of a declaration which it requested the chairman to make to Council at its session of 14 March (Annex II).

9. In this declaration, the Committee expressed its reluctance to propose the introduction of a target zone system to the Council at that time. On the other hand, it suggested that the strengthening of economic and financial cohesion of the Community could be done without delay by initiating 'periodic consultations on the direction and intensity of measures taken by the Member States in so far as they affect the development of exchange rates'. As a result, the Committee has held regular consultations on the development of exchange rates, and on three occasions has devoted a major part of its sessions to such consultations. These consultations could play a useful role in contributing to a better understanding of the exchange rate policies of Member States and therefore promoting a closer coordination of these policies.

10. The second monetary problem which the Committee discussed in its report of November 1976, was the use of quantitative monetary policy objectives. This was also to be the subject of periodic discussion in the Committee, and in addition to its regular surveys of national monetary policies, the Committee has held one detailed examination of the experience of Member States in using such quantitative monetary policy objec-

OJ No C 195, 15. 8. 1977, p. 2.

tives, of the different types of objectives used, and Member States' assessment of the usefulness of such objectives in achieving the goals of overall economic policy.

11. Following the decision of the United Kingdom in November 1976 not to renew the bilateral three-month renewable credit it had extended to Italy at the time when that country was granted MTFA, the Commission requested the Council for permission to negotiate a \$ 500 million loan under the Community loan mechanism set up in February 1975. As required by the provisions of the Regulation governing such loans, the Committee was consulted on this proposal, and at later stages of the procedure, which culminated in the issue of a \$ 500 million Euro-bond issue in two tranches, one of \$ 200 million for five years at 7.5 % and one of \$ 300 million seven years at 7.75 %. The Committee was again consulted on proposals to change the floating rate portion of the original loan operation to fixed rates. (One such operation had already been done in October 1976 — see 18th report, paragraph 9). The consolidation was completed by means of a \$ 100 million fixed interest bank credit provided by a group of Dutch banks in April and a \$ 100 million public offer of notes on the New York market in July.

12. At the Council meeting of 18 July, the Belgian President-in-office had put forward a series of proposals for improving the Community's short- and medium-term credit mechanisms and thereby providing for convergence in the economies of Member States. The Council had then requested the Monetary Committee (along with the Committee of Governors) to examine these proposals, which essentially involved an increase in the quotas in the short-term monetary support system and in the amounts of the ceilings in the medium-term financial assistance, and increasing the conditionality of both. Concentrating mainly on the question of the MTFA, the Committee adopted a preliminary report which was submitted to the Council on 17 October (Annex III). In response to a further request from the Council, the Committee continued its examination and presented a supplementary report to Council on 21 November (Annex IV). This report proposed a doubling of member countries' commitment ceilings in the medium-term financial assistance mechanism provided satisfactory adjustments were made to the rules of the

system on conditionality of loans, supervision of compliance with policy conditions accompanying the granting of loans, conditions for possible exemption, and mobilization of claims and the currency in which credits made available are to be denominated. On the basis of these two reports, the Commission prepared a draft proposal and at its meeting of 19 December, the Council adopted a Decision amending the MTFA mechanism along the lines suggested by the Committee.

13. The Committee, along with the Economic Policy Committee, was requested to examine the proposal presented by the Commission to the European Council on 29 and 30 June on 'investment and borrowing in the Community'. This communication proposed that the Commission be permitted to raise loans up to an amount of 1 000 million EUA. On the basis of a report prepared by the alternates, the Committee adopted a preliminary report to the Council and Commission at its meeting of 12 October (Annex V). In the light of this report, the Council then invited the Monetary Committee to pursue its examinations in order that it could take a decision at its November meeting. At its meeting of 15 November, the Committee adopted a supplementary report setting out a possible compromise solution to the problems described in its first report (Annex VI). This proposal was accepted by the Council and a formal decision will be taken early in 1978.

14. As usual, the Committee also discussed international monetary questions on a number of occasions, in preparation for the meetings of the Interim Committee in April, and the annual meetings of the International Monetary Fund and World Bank in Washington in October. This year, the main questions with which the Committee was called upon to deal were international liquidity, in the framework of the seventh review of quotas, the liquidity of the Fund itself, surveillance by the Fund of exchange rate policies, and the role of the SDR in the international monetary system.

15. The Committee also examined various other matters, including consultations under Article 108 of the EEC Treaty, and proposals to change the conversion rates for national currencies into units of account for the purposes of the common agricultural policy.

#### WORKING PARTIES OF THE MONETARY COMMITTEE

16. The Working Party on Securities Markets met three times in 1977, and continued to examine de-

velopments in the capital markets of the Member States and in the international bond markets, and also discus-

sed capital market policies. It further pursued the work begun in 1976 on the implications of the increasing use of floating-rate loans, both on the international markets and on national fixed-interest bond markets, as a means of raising long-term capital.

17. The Working Party 'Harmonization of Monetary Policy Instruments', a joint group of the Committee and the Committee of Governors, met several times in 1977. It continued its studies of simulation exercises with monetary policy instruments, and analyses of the transmission process of monetary policy, with a view to presenting a new report to the Committee in 1978.

## LIST OF MEMBERS AND ALTERNATES OF THE MONETARY COMMITTEE

*Chairman*

Mr K-O. Pöhl  
Vizepräsident der Deutschen Bundesbank  
(Frankfurt-am-Main)

*Vice-Chairmen*

Mr S. Andersen  
Governor — Danmarks Nationalbank (Copenhagen)

Mr J-Y. Haberer  
Chef du service des affaires internationales à la direction du  
trésor — ministère de l'économie et des finances (Paris)

Dott. S. Palumbo  
Dirigente generale al ministero del Tesoro (Rome)

*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 Com-  
munities (Brussels)

Mr R. de la Genière  
Premier sous-gouverneur de la Banque de France (Paris)

Mr A. Dondelinger  
(until 25 January 1977)  
Commissaire au contrôle des banques (Luxembourg)

Dr O. Emminger  
(until 1 June 1977)  
Vizepräsident der Deutschen Bundesbank  
(Frankfurt-am-Main)

Mr K. Hansen  
Director-General — Det Økonomiske Sekretariat  
(Copenhagen)

Mr M. Horgan  
Department of Finance (Dublin)

Mr P. Jaans  
(since 25 January 1977)  
Commissaire au contrôle des banques (Luxembourg)

Mr G. Janson  
Directeur de la Banque nationale de Belgique (Brussels)

Mr N. Jordan-Moss  
H. M. Treasury (London)

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)

Dr C. J. Oort  
Thesaurier-generaal bij het Ministerie van Financiën  
(The Hague)

Drs. A. Szasz  
Directeur van de Nederlandsche Bank NV (Amsterdam)

Mr J. van Ypersele de Strihou  
Conseiller du ministre des finances (Brussels)

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 J. G. Littler  
(until 7 July 1977)  
H. M. Treasury (London)

Mr H. Baquiast  
(since 9 September 1977)  
Sous-directeur à la direction du trésor ministère de  
l'économie et des finances (Paris)

*Alternates*

Dott. V. Barattieri di san Pietro (until 12 October 1977)	Banca d'Italia (Rome)
Drs. D. H. Boot	Onderdirecteur van de Nederlandsche Bank NV (Amsterdam)
Mr P. J. Bull (since 17 May 1977)	Bank of England (London)
Mr H. Dalgaard	Kontorchef — Danmarks Nationalbank (Copenhagen)
Dr W. Flandorffer	Ministerialrat — Bundesministerium für Wirtschaft (Bonn)
Mr R. H. Gilchrist (until 17 May 1977)	Bank of England (London)
Mrs M. Hedley-Miller (since 7 July 1977)	H.M. Treasury (London)
Mr P. Jaans (until 25 January 1977)	Commissaire au contrôle des banques (Luxembourg)
Mr G. Jennemann	Bankdirektor — Deutsche Bundesbank (Frankfurt-am-Main)
Mr G. Lefort	Directeur général des services étrangers de la Banque de France (Paris)
Dott. S. Masera (since 12 October 1977)	Banca d'Italia (Rome)
Mr J. Mertens de Wilmars	Conseiller économique de la Banque nationale de Belgique (Brussels)
Mr L. Meulemans (until 1 May 1977)	Inspecteur général à l'administration de la trésorerie (Brussels)
Mr G. Reynolds	Central Bank of Ireland (Dublin)
Mr M. Schmit	Inspecteur des finances (Luxembourg)
Mr B. Scully	Department of Finance (Dublin)
Mr N. Ussing	Kommitteret — Det Økonomiske Sekretariat (Copenhagen)
Drs. R. van Boven	Ministerie van Financiën (The Hague)
Mr J. Vanormelingen (since 1 May 1977)	Administration de la Trésorerie (Brussels)
Dr M. Wegner	Director in the Directorate-General for Economic and Financial Affairs — Commission of the European Com- munities (Brussels)
Mr P. Zimmer (since 25 January 1977)	Commissariat au contrôle des banques (Luxembourg)
Dott. A. Zodda	Ministero del tesoro (Rome)

*Secretariat*

Mr G. Morelli
Mr G. Lermen
Mr A. Chapman

## ANNEX I

## OPINION TO THE COUNCIL AND THE COMMISSION

1. At its meeting of 30 March 1977 the Monetary Committee examined the monetary problems involved in the adoption of the European unit of account (EUA) in the Community budget, on the basis of documents presented by the Commission departments and in the light of the proposal for a Regulation of the Council adopting the EUA in the budget. The Committee considered the other possible applications of the unit of account which include:

- (a) the European monetary cooperation fund;
- (b) short-term monetary support system;
- (c) medium-term financial assistance;
- (d) Community loan.

The Committee noted that the Commission did not propose the application of the EUA in respect of the European monetary cooperation fund and the short-term monetary support system, for which the EMUA is used. They noted also that the Commission had deferred proposals to apply the EUA to medium-term financial assistance and that it was not proposed to apply the EUA in respect of Community loans.

2. Considering the problem of the application of the EUA to the budget, the Committee agreed that there are no monetary consequences of adopting the EUA for accounting purposes of the Community and examined separately the problems arising in connection with expenditure and those arising on the revenue side.

3. The Committee felt it could accept the principle of determining budgetary expenditure in the EUA. It noted the Commission's intention to implement this principle gradually and to achieve it with the necessary flexibility.

It recognized, however, that by far the largest proportion of Community expenditure is presently denominated in national currencies, and in the agricultural unit of account (representative rates) and some of them were sceptical about the likelihood of the proportion of EUA-determined expenditure reaching a significant level in the near future. Some members expressed particular concern about the application of the EUA to the Community's contractual relationships. Moreover, concern was expressed that the determination of payments to residents in units of account might lead to exchange control difficulties. It was noted in this connection that in the Commission's view the determination of payments in units of account would in all cases be subject to national exchange control regulations. The Committee finally felt that the provisions for a price revision index as laid down in Article 14 were unacceptable from a monetary point of view.

4. Most members of the Committee were not ready to accept the development of the EUA as a means of payment or a significant expansion of accounts held with commercial banks and denominated in EUA over and above those already in existence for ECSC use. Such an expansion in the view of some members would have the consequence of giving rise to a paral-

lel currency, of provoking undesirable capital movements, and would entail costs for banks in covering the foreign exchange risks in several currencies.

5. The Committee also considered the principle proposed by the Commission that the value of the budget receipts should be maintained in EUA. The departments of the Commission justified this principle on the following grounds: although only a small proportion of expenditure will at first be in EUA, the currency of payment of the majority of expenditure is unknown at the time of the budgetary decision. Therefore the Committee considered that it is correct to maintain the value of receipts over a spread of national currencies and that using the EUA weighting is the most neutral and least contestable solution from a Community point of view. Two methods of ensuring this maintenance of value were examined:

- (a) Own resources collected in national currencies would be transformed into EUA on the date of payment. This can either be done by the Commission holding EUA accounts with the central banks, or by the Member States giving an EUA guarantee. The national authority would then be free to choose whether to guard against the exchange risk by purchasing the EUA 'basket' to the amount of its obligation or to carry the exchange risk itself.
- (b) Own resources are held in an account in national currency in the Commission's name with the national monetary authorities. The Commission would then administer these funds and could in particular make transfers from one currency to another.

6. The Committee felt that it might be possible and attractive to look for ways of matching expenditure and revenue by currency: to the extent that expenditure and revenue could be accurately forecast this would have the advantage of reducing the amount of net transfers of funds to the minimum required to accommodate net flows of financial resources between Member States. However, the Commission departments pointed out that the prediction of currency requirements both in the short-run and in the long-run is uncertain, since Community policy may be changed in mid-year in the face of special circumstances, (such as in 1976 when the basis of payment of monetary compensatory amounts was changed), and that under the own resources system, forecasting of receipts by currency is also very difficult. To the extent that a large margin of error would exist, currency transfers might well be substantial and frequent, thus raising difficulties for the monetary authorities in their management of exchange markets.

7. To the extent that offsetting expenditure and revenue by currency is not feasible, the Committee felt that an alternative fairly well defined and administratively defensible criterion for guiding the transfers between currencies would be for the Commission to match its currency holdings to the EUA basket.

8. While applying the principle of keeping currency holdings in step with the EUA weights there was still scope for cancelling out, as far as possible, receipts and payments in the same



national currency so as to reduce to a minimum the need for currency transfers. It was pointed out that the Commission intended to continue its current practice of concentrating its receipts and payments in time, thus minimizing the number of transactions needed to maintain the value of receipts.

9. Although some of them found the first type of solution paragraph 5 (a) as proposed by the Commission acceptable, the members of the Committee generally felt that the option in paragraph 5 (b) appeared to be the system which is least complex, most easily managed, offers most opportunity for cancelling out payments and receipts and does not require the open-

ing of EUA-denominated bank accounts. However, it was recognized that in operating such an arrangement the Commission would still have to make some transfers. These transfers should be subject to concertation with the monetary authorities so as to minimize their impact on exchange markets and reserves management.

10. It was felt that this system offered significant scope for experimentation: the Committee, like the Commission, recognized the need for a broad guideline, but it considered that a flexible and pragmatic approach should be adopted at least in the initial stages so as to allow for eventual reconsideration and adjustment.

## ANNEX II

### ORAL STATEMENT TO COUNCIL ON THE COMMUNITY EXCHANGE RATE SYSTEM

At the request of the Council (416th session of 8 November 1976), the Monetary Committee has again examined how and under what circumstances the Dutch proposals on the strengthening of economic and financial cohesion of the Community could be made operational. The Committee has asked its chairman to make an oral report to the Council on this subject.

The members of the Monetary Committee, in their discussions, supported the objectives of the Dutch proposals. They unanimously agreed that the main point of this initiative is to initiate more consultations in order not only to reduce the danger of divergent developments in exchange rates between members of the European exchange arrangement and other members of the Community, but also to foster convergence in economic policy and exchange rates. As was emphasized on several occasions in the Committee, these consultations should cover all areas of economic and financial policy which are relevant to the development of exchange rates. There are, even now, sufficient grounds for this procedure, certainly at a time when the economic policies of the Member States and their exchange rates obviously do not show a sufficient degree of convergence. I might add that existing Council Decisions already require such consultations, and this irrespective of whether and when 'target zones' can be established.

As indicated in its report to the Council and the Commission of 4 November 1976, the Committee considers that, for the foreseeable future, it would not be feasible to introduce a coherent exchange rate policy system, if such a system were to go beyond consultations and also contain binding obligations whether in respect of general economic policy or exchange rate policy in particular. Such obligations can only be undertaken when appreciable progress has been made towards the con-

vergence of economic policies and when there is a sufficiently parallel development on the exchange markets.

It is mainly on these grounds that the Committee is reluctant to propose the introduction of a target zone system to the Council at the present moment. There is also the fact that a number of differences of opinion still remain in the Committee on individual aspects of the target zone concept (method of calculation and usefulness of effective rates, uncertainty as to the reaction of the exchange markets to the establishment of target zones). Discussion of these questions should continue in the Monetary Committee.

I believe I am interpreting correctly the views of all the members of the Committee when I say that it is more a question of practical action and pragmatic procedure than formal decisions. Therefore I suggest that:

- the Monetary Committee initiate, without delay, periodic consultations on the direction and intensity of measures taken by the Member States in so far as they affect the development of exchange rates,
- the Commission be requested to make available all the necessary data to the Monetary Committee for this purpose,
- the Monetary Committee report to the Council and the Commission on the outcome of its consultations,
- Member States decide in the Council to what extent the recommendations of the Monetary Committee can be put into effect.

I am convinced that such consultations in the Monetary Committee would be an initial realistic step towards taking account of the proposals of the Dutch and French Ministers of Finance as well as one of the aspects of the Tindemans Report.

## ANNEX III

## REPORT TO THE COUNCIL AND THE COMMISSION ON THE BELGIAN PROPOSALS

1. At the Council meeting of 18 July 1977, the Belgian Presidency submitted a programme for action in the field of economic and finance. In particular, this programme makes suggestions for amending and improving the short- and medium-term credit mechanisms which exist at present within the Community. The Council asked the Monetary Committee to examine these suggestions and report back in time for the October Council meeting. In response to this request, the Monetary Committee is submitting the present report which embodies the conclusions of its preliminary discussions on this matter.

2. The work of the Monetary Committee at its meetings of 9 September and 12 October was based on a memorandum from the Belgian members which spells out in detail their ideas concerning the Community credit mechanisms. The Belgian memorandum suggests that the credit mechanisms be amended as follows:

(a) *Short-term monetary support*

- existing debtor quotas for each central bank would be doubled by adding a second debtor tranche of an equal amount,
- creditor quotas would be increased by 50 %,
- the *rallonge* would be doubled,
- barring exceptional circumstances, no country could receive more than half the *rallonge*,
- any drawing involving utilization of the second tranche and any or all of the *rallonge* would be open only to those countries who have agreed to announce the adoption of intermediary monetary objectives.

(b) *Medium-term financial assistance*

- the credit ceilings would be doubled,
- access to the facility would be subject to stricter conditions, in particular in the field of public finance,
- where appropriate the medium-term financial assistance could be disbursed in instalments, the drawing of each instalment being subject to the observation of specific conditions.

3. The Committee shares and approves the motivations which have guided the Belgian members in making their proposals. Indeed there was agreement in the Committee that ways of enlarging and improving the existing credit mechanisms and at the same time of making conditionality more effective should be considered in conjunction. In addition, the Committee feels that present credit arrangements should be reviewed so as to provide accommodation for more than one member country and to avoid them being used up almost entirely by a single beneficiary.

4. On the problem of increasing the amounts available within the two Community credit arrangements, the Committee has not been able to reach a unanimous position. It is generally recognized that given the development of balance of payments and reserve positions there is no urgent demand for financial assistance within the Community at present. Most members argue that periods of relative calm should be put to good use and consider that the Belgian suggestions to increase the

amounts within the two credit mechanisms should be examined now so that they are available in the future when new difficulties might arise. Some members consider that the lack of urgency at present and in the foreseeable future argues in favour of postponement. They also see no need to increase the amounts of the short-term mechanism in advance of the quinquennial review referred to in Article 2 of the Agreement of central banks of 9 February 1970.

5. The resources available in the short-term monetary support system were already substantially increased in March 1974. Even so, the credit facilities currently available to individual countries under the short-term system are not notably higher than those available under the medium-term financial assistance. Members agreed that it would be difficult under the short-term monetary support to impose conditions which could not be fulfilled or properly monitored in the short-term. While taking note that the Belgian proposals are not to be interpreted in this sense, the Committee felt that these proposals should be worked out in greater detail.

In any case, the Committee noted that the Belgian proposals concerning the short-term monetary support mechanism were being examined by the Committee of Governors of Central Banks.

6. A clear majority of the Committee recognized that an increase in the resources available in the medium-term financial assistance mechanism is warranted on several grounds: these resources have remained unchanged ever since the mechanism was created in March 1971; almost all funds available are presently used up by one single borrower; and there is, finally, a good case to match the medium-term resources to those available in the short-term, as in actual practice it is to be expected that the latter would often precede the former. This last argument is further reinforced by the fact that the majority of the Committee thinks that the resources in the short-term monetary support should themselves be increased. Some differences of opinion emerged in the Committee concerning the extent of the increase that would be justified in present circumstances and the timing of it in the light of the parallel discussion on IMF quota increases.

All members supported the idea that an increase in resources should be combined with more effective conditionality. Disbursements of the medium-term facility in instalments over a period of time could be an appropriate way of achieving that result. Doubts were however expressed on the possibility of implementing disbursements by instalments whenever substantial recourse to the short-term monetary support precedes the granting of medium-term financial assistance.

In any event, it was felt that before any decision were taken on modifying and enlarging the medium-term mechanism, careful attention should be devoted to such important aspects as opt-

