



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 04.11.1996
COM(96) 545 final

REPORT FROM THE COMMISSION TO THE COUNCIL
AND THE EUROPEAN PARLIAMENT

**REVIEW OF THE FACILITY PROVIDING MEDIUM-TERM FINANCIAL
ASSISTANCE FOR MEMBER STATES' BALANCES OF PAYMENTS**

Council Regulation 88/1969/EEC

Introduction

Medium-Term Financial Assistance to Member States which have difficulties, or are threatened with difficulties, in their balance of current payments or capital movements, is governed at present by Council Regulation 88/1969/EEC of 24 June 1988 ¹.

This facility can be activated either by a request of a Member State or in the context of Article 109h of the Treaty establishing the European Community which will be in force until the end of the second stage of Emu, and during the third stage for Members with a derogation.

The facility was reviewed by the Council in February 1993 on the basis of a report prepared by the Commission ². The Council reached the following conclusions: ³

- a) considered that the facility continued to meet in its principle, arrangements and ceiling, the need which had led to its creation
- b) shared the analysis of the Commission in its report that the facility should remain in place during the transition to the third stage of EMU
- c) considered that it was appropriate to review the facility again before the end of 1996, on the basis of a new report from the Commission after the Monetary Committee has delivered an opinion and after consulting the European Parliament.

The purpose of the present report is to serve as a basis for this review.

Developments since the last review

Use of the facility

Since the last review by the Council the facility was used once, in favour of Italy, in January 1993. That Member State, facing loss of reserves and balance of payments difficulties, following the currency turmoil of 1992/93 within the ERM, requested medium-term financial assistance in order to support its balance of payments and allow it to put in place an economic programme of adjustment and reforms. The Council decided in January 1993 to grant to Italy a 8.000 million Ecu loan in four tranches. Only the first two tranches of 2.000 million Ecu each were used, as the subsequent improvement of the balance of payments situation made unnecessary the disbursement of the remaining tranches.

The use of the facility for medium-term financial assistance for balance of payments, under various forms, since 1974, is shown in the Annex.

Accession of new Member States

The accession of Austria, Finland and Sweden on 1.1.1995 did not lead to changes in the finality of the facility or its ceilings. However, a technical adjustment in the Annex of the Regulation took place in order to re-distribute the total amount of contributions from Member States to fifteen instead of twelve members.

. / . . .

¹ O.J. N° L 178/1 of 8.7.1988

² SEC(92) 2175 final, 24.11.1992

³ 1642 session, of 15.2.1993, of the Ecofin Council.

Available lending margins

The outstanding amount of loans to be granted under this facility is 16.000 million Ecu. A ceiling of 14.000 million Ecu is set on the amount of funds the Community can borrow from the financial markets in order to onlend to Member States. Taking account of loans granted and repayments received and scheduled to be effected until the end of 1996, the total lending capacity of the facility will be about 12.000 million Ecu, or 10.000 million Ecu through capital market financing, at 31.12.1996.

Decision about the third stage

Following the conclusion of the European Council of Cannes, in June 1995, that not enough Member States would fulfill the convergence criteria in order to adopt the single currency from 1.1.1997, the European Council of Madrid decided to set the start of the third stage on 1 January 1999. That decision implies that Article 109h of the Treaty will continue to apply until the end of 1998 (and beyond that date for Members with a derogation) and that the Regulation should be in force as a vehicle for granting such assistance.

Monetary and economic developments

The most notable developments with a bearing on the facility were, a) the decision taken by the Ministers and central bank Governors of the Member States in August 1993 to widen the obligatory marginal intervention thresholds of the participants in the exchange rate mechanism of the EMS to +/- 15% around the bilateral central rates and b) the progress made in recent years towards meeting the convergence criteria as well as in advancing the integration of markets.

The above developments would, in principle, reduce the flow of speculative capital movements and the risks of balance of payments difficulties.

Conclusions

As in the past, the facility played a useful role in the case of the loan to Italy both by providing rapidly considerable financial assistance and by strengthening market confidence on the capacity of the country to remedy the situation.

The decision about the start of the third stage of Emu on 1.1.1999 implies that Article 109h will continue to apply until that date and, therefore, the facility should remain in place since balance of payments difficulties may arise during the transition to Emu, despite the progress made towards convergence.

Moreover, the developments since the last review and the experience from the operation of the facility do not reveal a need for adaptations in its specific arrangements or ceilings. The available lending margin through capital market financing is considered adequate as potentially higher demand for loans from the increased number of Member States can be considered as balanced by progress towards convergence.

The Commission, therefore, considers that the present facility should remain unchanged and be reviewed again before the end of 1998 in the light of the developments until then, notably the decisions on the participants in the single currency from the start of the third stage.

ANNEX

 USE OF BALANCE OF PAYMENTS MECHANISMS

<u>Year</u>	<u>Beneficiaries</u>	<u>Amount</u>	<u>Mechanism</u>
1974	ITALY	1159.2 Mio UA (1)	Medium-term financial Assistance of 1971
1976	ITALY (10/13) IRELAND (3/13)	(1100 Mio USD (500 Mio DM	Community Loan Mechanism
1977	ITALY	500 Mio USD	"
1983	FRANCE	4000 Mio ECU	"
1985	GREECE	1750 Mio ECU	"
1991	GREECE	2200 Mio ECU (2)	Medium-term financial Assistance of 1988 (Single facility)
1993	ITALY	8000 Mio ECU (3)	"

(1) Units of account (1 UA =1.2 USD)

(2) In three instalments. Only the first instalment of 1000 Mio Ecu was disbursed, in April 1991.

(3) In four instalments. Only the first two instalments of 2000 Mio Ecu each were disbursed, in March and November 1993.