news from european community

COMMON MARKET • COAL AND STEEL COMMUNITY • EURATOM

FOR IMMEDIATE RELEASE

February 10, 1970

FIRST PART OF COMMON MARKET "RESERVES POOL" NOW OPERATING

WASHINGTON, D.C., February 10, 1970 -- The six members of the European Community -- Belgium, France, Germany, Italy, Luxembourg, and the Netherlands -- have put into effect the first part of a plan leading to a "common monetary reserves pool."

The decision to activate arrangements for short-term monetary support was made in Basel, Switzerland, yesterday by the Community members' central bank governors. The five central banks (Belgium represents Luxembourg) will make available $1 billion for use by a member country running a temporary balance-of-payments deficit.

How It Works

Drawings for up to three months will be virtually automatic, ("virtually" because should more than one member's currency come under pressure at the same time, a country already indebted to the system can decline to aid another). Each central bank's drawing quota corresponds to its contribution or pledge: Germany and France, $300 million each; Italy, $200 million; and the Netherlands and the Belgium-Luxembourg Economic Union, each $100 million.

Second Part: Medium-term Aid

Agreement has not yet been reached on the second part of the plan, for medium-term aid, still being discussed. It would provide an additional $1 billion, with the same scale of contributions, but with no limit on the ceiling of drawings by a country. Such aid would not be automatic, nor would it replace aid granted normally through the International Monetary Fund which, due to its broad membership, can intervene more effectively than could the Six in the event of large currency disturbances.

Aid Tied to Economic Policy Coordination

Before agreement is reached on medium-term monetary aid, the Six will have to tighten coordination between them on their domestic economic goals, including the "tolerable" rate of inflation. The proposals made a year ago for both short- and medium-term monetary support were tied to economic policy coordination, so that the aid did not "encourage the authorities to choose the easy way out" of their problems.

news from european community

COMMON MARKET • COAL AND STEEL COMMUNITY • EURATOM

FOR IMMEDIATE RELEASE

February 11, 1970

CORRIGENDUM

In our press release of February 10, First Part of Common Market "Reserves Pool" Now Operating, some details of the operation of the monetary aid were erroneous. Specifically:

The five central banks of the European Community members, on February 9, declared their intention to make $2 billion (not $1 billion) available for use by member countries running a temporary balance-of-payments deficit.

In a novel approach to mutual monetary assistance, drawings from a first, $1-billion tranche will be immediate and automatic upon request. From this first tranche, each member's central bank may draw up to the amount of its quota or pledge: Germany and France, $300 million each; Italy, $200 million; and the Netherlands and the Belgium-Luxembourg Economic Union, each $100 million. The borrowing must be repaid in three months; and, after having made use of the funds, the borrower must enter into economic consultations with the other member countries.

Borrowing from the second $1-billion tranche would not be automatic and would require prior economic consultation. However, a country could borrow up to the full $1 billion. The loan from the second tranche, repayable three months, can be used either concurrently with the funds from the first $1 billion, or consecutively. (France, for example, could first borrow $300 million, pay it back in three months, and borrow $1 billion for another three months; or borrow a full $1.3 billion at one time.)

Use would be made of the Bank for International Settlements in Basel, Switzerland, and drawings made in any currency. Plans for medium-term aid are still being discussed and no agreement has yet been reached.

# # #

New address: Suite 707, 2100 M Street, N.W., Washington, D.C. 20037
Tel. (202) 296-5131

European Community Information Service: suite 808 Farragut Building Washington DC 20006 telephone: (202) 296-5131