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COUNCIL OF EUROPE
CONSEIL DE L'EUROPE

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Creation of a European bank with a common currency and control of exchange

Motion for a resolution
tabled by Mr R.W.G. MACKAY and other members of the Assembly

Explanatory Memorandum

INTRODUCTION

The project of monetary integration of Europe is based on the assumption that there shall be a central political authority over the participating countries with legislative and administrative powers. In the absence of some such authority the project would be impracticable. For the sake of benefiting by the advantages of monetary integration the participating countries should have to sacrifice a by no means negligible part of their sovereignty.

The project also presupposes a high degree of economic integration. No international currency system could, in the long run, withstand the strain of fundamental disequilibrium arising from discrepancies between the levels of prices, wages, cost of living, cost of production, social security benefits, etc., in the participating countries.

In particular, a project for the integration of long term capital investment and borrowing operations is a preliminary condition to the success of monetary integration. It shall be dealt with in a separate project. Likewise, the removal of obstacles to intra-European trade is an essential condition and shall also be dealt with in a separate project.

I

It is essential in the interest of European integration that the proposed intra-European financial institution should have a wider scope than that of a mere central clearing institution, payments union, or monetary fund. For this reason it is a appropriate that it should be called a Bank. In any case, its scope shall be that of a Bank. It will have powers to carry out a wide variety of banking transactions.

For considerations of expediency the Head Office of the Bank should be in London, because there it would be safer both from invasion and from Communist infiltration and undermining than in any continental capital. Being less vulnerable to such dangers it would command more confidence. It should have branches in all capitals of the participating countries, housed preferably on the premises of their respective Central Banks.

II

The Bank's capital should be fairly substantial, but the contribution of the respective quotas should represent an unduly heavy burden on the resources of the participating countries. Since only Governments and Central Banks would hold shares, units of one million gold dollars should be suitable. The determination of the quotas is a very difficult matter and it would be expedient to defer it until after an agreement has been reached on the broad principles of monetary integration.

The nominal value of the shares should be fixed both in the proposed unified European currency (which could be called provisionally European gold Dollars pending the adoption of some other name) and in gold. It is important that a substantial proportion of it should be contributed in the form of gold, so that the Bank should begin operations with an initial gold reserve. Objections to the prominent part given to gold in the project can be met by the argument that, since the proposed European currency constitutes a very bold innovation, it is advisable to reassure conservative sections of expert opinion and public opinion by making it clear that it would seek to proceed on essentially orthodox lines. Once the Bank of Europe is a going concern and earned confidence, it would always be possible to reconsider the fundamental principles involved and to depart from orthodoxy in favour of a higher degree of scientific monetary management.

The portion of the shares which is payable in gold might be provided out of Marshall Aid. The contribution of the remaining part of the paid up capital in national currencies would be a temporary arrangement, since those national currencies would eventually be replaced by the European currency.

In the meantime, the possession of balances in each participating country would enable the Bank to provide facilities to deficit countries. It is essential that the Bank should possess potential resources in the form of a large uncalled portion of the share capital in addition to its facilities to borrow from surplus countries. Although the project is primarily for the benefit of Western Europe, the door shall be left open for Eastern European countries to join it if and when circumstances should make this possible. Likewise, it should be made optional for countries belonging to the Commonwealth. Empire or currency area of any European country to participate in the scheme. Indeed, it would be a great advantage if they were to participate, since the vast currency area thus created would be better balanced between raw material production and industry than the largely industrialised area of Western Europe. On the other hand, it is conceivable that the overseas countries would prefer to remain outside the scheme, in which case the European, countries concerned would have to reconcile their participation in it with their continued participation in their present currency areas.

In case countries should join the project some time after it has been initiated, they should be allotted shares at par or in given circumstances at a premium. It is only fair that, should the Bank, as a result of unavoidable initial trial and error, lose some of its capital the new participants should contribute towards the loss by susbscribing their quota shares at par. It is equally fair that, should the Bank accumulate a surplus of assets before new participants have jointed the scheme, they should not derive an unearned profit by obtaining at par the shares the actuarial value of which be above par.

III

It is difficult to arrive at an ideal solution regarding the balance of power of the participating countries on the Board and the Executive Council. On the whole, it appears to be a reasonable solution that each of the four largest countries should have a permanent representative on the Board and then an equal number of Governors should be nominated by the remaining countries. As far as the Executive Council is concerned it would be advisable not to fill the post according to nationality, but according to qualifications. While the Head Office of the Bank must be in one of the capitals, it is essential that the Board should keep in touch with all participating countries by holding its monthly meetings in each capital in turn.

IV

The Shareholders' meeting is not as a rule called upon to decide in matters of monetary policy which is left in the hands of the Board of Governors. The shareholders' role will be confined to that of shareholders in an ordinary company, to examine the accounts and to male such changes in the Statutes as may become necessary.

V

The Bank should not be primarily a profit making institution, and its dividend should be strickly limited. It is essential, in order that the Bank should inspire confidence, that it should be able to accumulate reserve.

VI

The Bank should be empowered to engage in a wide variety of bank operations, even though it may not be called upon to actually engage in maby of them. One of its most important functions will be to assume charge of the combined European gold reserve. This reserve would play a part similar to that of the Serling Area Dollar pool. Although the participating Governments or Central Banks could retain gold or foreign exchange which they are expected to need in the immediate future, they should pay into the Central Reserve any surplus which is not expected to be required within the next few months. The Bank would have power to keep a large part of the gold reserve outside Europe for considerations of security.

The allocation of the gold and foreign exchange required by the participating countries will be a difficult task, but, judging by the experience of the Sterling area Dollar pool, it should not be beyond the realm of possibility. The existence of a central political authority over the participating countries should go along way towards ensuring the smooth working of the accumulation of the Central Reserve and its allocation among the participants. In any case, with the progress of integration there is bound to arise a spirit of co-operation which should encourage the desire to contribute towards the common pool and to avoid being an unduly heavy burden on its resources.

By far the most important part of the project shall be the issue of a unified European currency. In this respect the project strikes a medium between two extreme solutions. Under the one, the Bank would have power to determine the quotas of the unified currency in the same way as it shall have power to allocate gold and foreign exchange. Under the other, the participating Central Banks would have a free hand to issue unified European currency. Neither of these two solutions seems practicable. Since in the course of time unified European currency will become the only currency in Europe, under the first solution the participating countries would have to place themselves unreservedly in the hands of the Bank of Europe which would determine the volume of their monetary circulation. Although this is an idea which should be achieved eventually, it is not likely to be practicable at the early stages. On the other hand, the second solution might easily lead to competitive inflation, since each country would endeavour to secure the largest possible share in the volume of goods produced in all participating countries by producing the largest possible volume of unified notes. Under the proposed compromise solution the issue of unified notes would remain in the hands of the Central Banks, but htey would have to conform to rules fixed for all participating countries. The Bank would have powers to ensure the enforcement of these rules by supervising the printing and distribution of the notes and by operating a system of Inspectorate of Banking. In substance this system corresponds to the Federal Reserve System in the U. S. A. Since that system has been in operation for 35 years its adoption in Europe is evidently a practical possibility subject to the existence of any form of central political authority with legislative and executive powers.

Although the monetary and credit policies of the participating Central Banks shall continue to be determined by them and by their Governments, they will have to consult the Bank on proposed changes and they will have to bear in mind the limits determined by the uniform rules. In the course of time all existing national note issues should be replaced by the unified European notes. In addition to the notes supplied for that purpose the Bank will allocate to the Central Banks notes that will bring their total allocation to four times the amount of their contribution to gold and foreign exchange reserve and paid up share capital. In order to secure the largest possible amount of allocation in addition to what is needed for the replacement of the national note circulation, the participating Governments will probably want to devalue their currencies when the change takes place in order that the smallest possible amount should be needed for the replacement of the existing note issue. Since the establishment of new exchange rates will have to be a matter of negotiation with the Bank, the latter will be able to exert influence to prevent excessive devaluations.

The project will have to possess a certain degree of elasticity during the transitional period and, to that end, the Bank will have power to make exceptions from the rules concerning the maximum limit for the allocation of unified notes.

The establishment and operation of uniform rules concerning the issue of European notes by individual Central Banks would not fully achieve the purpose of preventing competitive inflation unless steps were taken for establishing some degree of uniformity concerning the limits of credit expansion by the commercial banks. In this respect, it would be difficult to achieve at the beginning complete uniformity owing to the difference in conditions prevailing in A'arious participating countries. For this reason it is not suggested that the reserve ratio should be the same for all countries, but it must be an agreed reserve ratio and the ultimate aim should be to make it uniform.

The establishment of an Inspectorate of Banking is no inovation. It has been in operation for many years in the United States and other countries. It as an essential part of the scheme that both Central Banks and commercial banks in the participating countries should submit to their inspection in order to remove the possibility of abuses or of unfounded suspicion of abuses which might otherwise undermine the will to submit to the discipline imposed on participating countries by the scheme. The Inspectorates should be under the direct control of the Executive of the Bank, but should collaborate closely with the local Boards.

With the establishment of a uniform currency there will not be the same need for the operation of a clearing system as it is under existing conditions. Nevertheless the Bank will play an important part in offsetting debit and credit balances. Under the project there would be nothing to prevent participating countries from accumulating in other countries balances in terms of the European currency. Individual holders of such balances would be in a position to transfer them to other participating countries or to their own countries. At

any given moment participating countries would possess debit and credit balances in other participating countries. If credit balances is one particular country tend to accumulate unduly, it will be the Bank's task to assume charge of the excessive credit balances and to offset them by means of granting credit to the deficit countries. Should the Bank's claim tend to become too larbe to assume a perennial character the situation should be corrected by arranging medium or long term loans with the approval of the Loans Council.

Since the Bank will have unique opportunities for accumulating information on conditions prevailing in particular countries and, since it is bound to have considerable authority, it will be eminently suitable for advising the participating Governements as to steps that may be necessary to correct threatening or actual disequilibrium. Although the Bank itself will have no means of compelling the Governments in question to follow its advice, each Government will be anxious to remain on friendly terms with the Board and the Executive. They are likely to go out of their way to meet the Bank's wishes as far as possible. In any case, the Bank could always enlist the support of the European political authority.

Since the participating Governments and Central Banks will remain in charge of determining and executing monetary policy in their own countries, it would he inadmissible for the Bank to undertake operations in the markets or currencies of the countries without providing an opportunity for the local monetary authorities to dissent. Their veto can, however, be overruled if there is a substantial majority on the Board in favour of doing so. In this respect the political authority will undoubtedly have the last word.

The Bank will have power to carry out transactions outside the confines of the participating countries. Indeed, it is intended to be the main link between the European currency arcea and countries outside that area. It will not have, however, the monopoly of financial intercourse with the outside world.

The Bank is precluded from issuing European notes on its own account, though it will be in a position to grant credits in terms of European currency. It is also inhibited from undertaking acceptance business which is outside the scope of Central Banks. It is safeguarded against becoming an instrument for Government borrowing. Any credits granted should be granted to Central Banks. Finally, it is discouraged from acquiring and holding securities other than those issued by Governments or publicly owned corporations because operations in such securities entail a certain amount of speculalive risk which the Bank should avoid.

VII

It is essential to lay down the conditions in which the participating countries can terminate their commitments in respect of the scheme either to decide in its liquidation or to withdraw from it without thereby losing the capital invested in the Bank.

VIII

While the ideal solution would be if all European countries could become original participating members, it is essential to make provisions to enable the Bank to begin to operate before that stage is reached and even before all Western European countries have subscribed and paid up their share of its capital. Up to a certain date all European countries can claim admission provided that they fulfil the conditions of admission. After that date their admission shall require special consent by substantial majorities of the Governors and Shareholders.

The determination of the parities of the currencies of participating countries will be one of the most difficult tasks to be undertaken. The lesson aught by the experience of the international monetary fund which accepted the parities declared by participating Governments instead of making reasonable adjustments of the condition of their admission is well worth bearing in mind. The parities should not be fixed, however, too rigidly and the Bank should always be willing to consider sympathetically any requests to agree to revaluations.

IX

The Bank shall not aim at assuming control of the Central Banks. It is not the immediate aim or even the ultimate aim to convert these Central Banks into local branches of the Bank any more than it is the aim of the Federal Reserve Board to assume full control of the Federal Reserve Banks. Voluntary co-operation will be the basis of the relation between the Central Banks and the Bank, though in case of disagreement on matters of policy the authority of the Central Government can be invoked.

In order to facilitate co-operation a personal contact between the Bank and Central Banks shall be assured through interchange of Directors. The three Directors nominated by the Bank on the Board of the Central Banks will constitute a minority and will not aim at controlling the Central Banks in question, but will merely provide a channel for closer relations. It cannot be emphasised sufficiently that the Central Banks will retain a considerable degree of independence in spite of the need to conform to certain uniform rules. The Bank will

not aim at dictating the bank rate and the level of interest rates, for instance. It will be for the Central Banks to adopt such policies as they consider necessary to achieve the level of interest rates they consider suitable. They will be entitled to carry out any operations they consider necessary in their own respective domestic spheres. They 'will remain in charge of a gold and foreign exchange reserve needed for immediate requirements instead of having to hand over all gold and foreign exchange to the Bank and apply for allocation of every item as it arises.

X

The removal of exchange control constitutes one of the most important provisions of the scheme. It does not necessarily follow from the establishment of a uniform currency. It is essential, however, that the establishment of a uniform currency should be supplemented by ensuring its free circulation over the entire currency area at any rate for the purposes of current transactions. When it comes to capital transactions there is justification for retaining a certain amount of control in order to avoid unwanted shifting of funds for economic or political reasons. This matter will be dealt with in a separate project concerning the establishment of the European Loans Council.

European notes will circulate freely between participating countries but it is not proposed that trade deficits should be settled by means of large scale exports of such notes. To de so might result in drastic deflation in deficit countries and equally inconvenient inflation in surplus countries. Even though this would go a long way towards correcting any existing disequilibrium of prices between them, there are strong objections to the application of such method of automatic adjustment. In many instances a trade surplus or deficit cannot be attributed to disequilibrium between the average price levels or even to disequilibrium between the price levels of goods entering into foreign trade between the countries concerned. In such instances, the operation of the automatic system would not correct the cause of the difficulties. Its correction must be undertaken either through the granting of loans under the Loans Council scheme or through the planning of foreign trade under the scheme providing for the removal of trade barriers.

While the ultimate aim should be a complete removal of exchange restrictions, not only between the participating countries but also between the European currency area and other countries, it may take some time before this end could be achieved. In order to prevent an unwanted outflow of capital or excessive imports of luxuries from outside the European currency area it will be necessary to maintain exchange control in relation to outside countries. It is essential that the rules relating to exchange control should be unified. It may take some time before it could be ascertained what rules would meet the requirements of Europe as a whole in the changed circumstances. Pending the elaboration of an ultimate system of exchange control it would be advisable to extend the application of restrictions operating in the United Kingdom and the Sterling area. It is generally admitted that these rules are operating very efficiently and, since they are already applied in a large number of countries, their extension over Europe would be easier than the change of the system in the countries in which the British exchange control is in operation.

Draft Protocol

CHAPTER I

Name, seat and Objects of the proposed Bank of Europe

ARTICLE 1

There is constituted under the name of the Bank of Europe (hereinafter referred to as the Bank) a Company limited by shares.

ARTICLE 2

The registered office of the Bank shall be situated at London, in the United Kingdom.

ARTICLE 3

The Bank shall have branch offices in the capitals of all participating countries and, if necessary, in other countries.

ARTICLE 4

The objects of the Bank are :

to promote the monetary and economic integration of Europe through holding and allocating the gold and foreign exchange reserves of the participating countries; through supervising the issue of a unified European currency; through co-ordinating the monetary policies of the Central Banks and Governments of the participating countries; and through acting as a clearing institute to offset debit and credit balances arising in the course of intra-European trade.

CHAPTER II

Capital of the Bank

ARTICLE 5

The authorised capital of the Bank shall be 1,000,000,000 European gold Dollars (equal to one United States Dollar of present weight and fineness) or 28,571,428 4/7 ounces of line gold.

It shall be divided into 1,000 shares of equal Dollar and gold nominal value.

The nominal value of each share shall be expressed on the face of each share in terms both of Dollars and of gold.

ARTICLE 6

The share capital shall be allocated to the Governments or Central Banks of the participating countries according to a schedule to be determined later.

ARTICLE 7

Twenty per cent only of the value of each share shall be paid up at the time of subscription. The balance may be called up at a later date or dates at the discretion of the Board of Governors. Six months' notice shall be given to any such calls.

ARTICLE 8

If any shareholder fails to pay the amount due at the time of subscription, or any call on a share on the appointed date, the Board of Governors may, after giving a notice of not less than six months to such shareholder, forfeit the share in respect of which payment remains overdue. The forfeited shares may be allocated to the remaining shareholders according to their quota determined in the schedule referred to under (6), or they may be kept for subsequent allocation to new participants.

ARTICLE 9

The capital of the Bank may be increased or reduced on the proposal of the Board acting by a two-thirds majority and adopted by a twothirds majority of the General Meeting. In the event of a proposed increase in the authorised capital of the Bank through a further issue of shares for allocation to new participating countries the schedule referred to under (6) shall be revised.

ARTICLE 10

The Board may extend invitations to subscribe for capital to, or may consider applications to that end by, the Government or Central Bank of any European country, or of any country belonging to the Commonwealth, Empire or currency area of any European country.

ARTICLE 11

No shares shall be issued below par. They may be issued above par, the premium being determined by the actuarial value of the Bank's net surplus assets.

ARTICLE 12

The liability of shareholders is limited to the nominal value of their shares.

ARTICLE 13

Payment of the amount on subscription shall be made in gold or in currencies which are convertible into gold. Payment of any subsequent calls shall be made in gold, or convertible currencies, or in the national currencies of the respective participating countries, or in unified European currency, at the shareholders' option.

ARTICLE 14

The shares shall carry equal rights to participate in the profits of the Bank and in any distribution of its assets that may be decided upon under its statutes.

ARTICLE 15

The shares carry equal voting rights at the General Meeting. No shareholder in default on payment of any call on a share shall be entitled to exercise that right. The voting rights of shares held by Governments or Central Banks which have been declared by the Board, acting by a two-thirds majority, to have failed to have observed the Statutes, or have failed to carry out decisions taken under the Statutes, shall be suspended until the Board shall decide, by twothirds majority, to restore their voting rights.

ARTICLE 16

The shares are not transferable without the Board's consent. Such consent shall only be given for the benefit of Governments or Central Banks.

CHAPTER III

Management

ARTICLE 17

The administration of the Bank shall be vested in the Board of Governors (hereinafter referred to as the Board) acting through the Executive Council (hereinafter referred to as the Executive).

ARTICLE 18

The Board shall be composed as follows : The Governments of France, Western Germany, Italy and the United Kingdom shall appoint one Governor each the remaining four seats shall be filled each year by nominees of the other participating Governments in the alphabetical order of their countries.

ARTICLE 19

Governors must be of the nationality of the participating countries. They must be ordinarily resident in Europe and in a position to attend regularly at meetings of the Board.

ARTICLE 20

Meetings of the Board shall be held notless than once a month. At least one of these shall be held in each of the capitals of France, Western Germany, Italy and the United Kingdom. The remaining meetings shall be held in the capitals of the other participating countries in alphabetical order. If special considerations should prevail the Board may depart from this rule and meet where its presence is necessary and advantageous. ARTICLE 21 Unless otherwise provided by the Statutes, decisions of the Board shall be taken by the simple majority of those present or represented by proxy. The quorum is five Governors. No Governor shall be entitled to vote on a resolution with which his country is directly concerned.

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ARTICLE 22

The Board shall elect among its members a Chairman and a Vice-Ghairman. The Chairman shall hold office for four years, and shall be eligible for re-election. He shall not hold any other office which, in the judgment of the Board, might interfere with his duties as Chairman of the Board.

ARTICLE 23

The Executive Council shall consist of six Directors appointed by the Board and approved by the Governments of the participating countries. Approval is granted for four years. Directors must be nationals of the participating countries, permanently resident in the locality of the Bank's registered offices.

ARTICLE 24

The Board shall appoint the President of the Bank, subject to the approval of the shareholders' meeting by simple majority.

CHAPTER IV

Shareholders' Meetings

ARTICLE 25

General Meetings of the Bank's shareholders shall be held once a year. If the Board deems it necessary it can summon extra-ordinary shareholders' meetings.

ARTICLE 26

Voting rights shall be in proportion to the number of shares held subject to the provisions under (15).

ARTICLE 27

The shareholders meetings shall take place at the registered office of the Bank.

ARTICLE 28

The Annual Shareholders' Meeting shall be invited to approve the report, the balance sheet and the profit and loss account; to decide the allocation of profits; to elect the auditors for the ensuing year and to fix their remuneration; and to discharge the Board from all personal responsibility in respect of the past financial year.

CHAPTER V

Accounts and Profits

ARTICLE 29

The financial year of the Bank will begin on the First of January and end on the Thirtyfirst of December.

ARTICLE 30

The Bank shall publish an annual report and a monthly statement of account.

ARTICLE 31

The accounts and balance sheet shall be audited by independent auditors who shall have full power to examine all books and accounts of the Bank and to enquire for fulliii formation as to ist transactions.

ARTICLE 32

Of the annual net profits of the Bank ten per cent shall be paid to the legal reserve fund. Thereafter a dividend of four per cent per annum shall be paid on the paid up capital of the Bank. This dividend shall be cumulative. The residue (if any) of net profits shall be added to the general reserve fund.

CHAPTER VI

Powers of the Bank

ARTICLE 33

The Bank may undertake any operations usually undertaken by Central Banks with the exception of the issue of notes on its own account. It may in particular buy, sell or hold gold coin or bullion for its own account or for the account of participating Governments or Central Banks; make advances to or borrow from Central Banks; discount, rediscount, purchase or sell bills of exchange, cheques and other self-liquidating short term obligations, including Treasury bills and other marketable short term Government securities; may buy and sell foreign exchanges and negotiable securities for its own account or for the account of Central Banks; it may open and maintain current or deposit accounts with Central Banks and for Central Banks.

ARTICLE 34

The Bank shall take charge of all gold and foreign exchange reserves owned by the Governments or Central Banks or the participating countries. It shall hold the unified gold reserve at its own registered office or branch offices or with such institutions within or outside Europe as the Board may consider fit.

ARTICLE 35

The Bank shall allocate the gold and foreign exchange required by the participating Central Banks. Allocations are to be decided upon by the Board of Governors. In cases of urgency the Executive may take decisions in regard to allocations subject to subsequent approval by the Board. ARTICLE 36 The decisions in respect of the allocation of gold and foreign exchange shall be determined by the relative importance and urgency of the requirements for the purpose of which gold on foreign exchange is requested.

ARTICLE 37

Applications for the allocation of gold or foreign exchange shall be accompanied by such detailed information as the Board may consider relevant. The Board is entitled to ask for further information and to institute investigation to ascertain circumstances relevant to its decision.

ARTICLE 38

The Bank shall supervise the printing of unified European notes and their distribution among the participating Central Banks. It shall announce the allocation of notes as and when it is made.

ARTICLE 39

The amount of unified European notes to be allocated to Central Banks shall be determined by the Central Banks which shall remain in charge of the monetary and credit policies in their respective countries subject to the overriding control of their respective Governments. They shall consult the Bank on each occasion when they decide a change in such policies.

ARTICLE 40

The monetary and credit policies of participating Central Banks shall have to conform to the limits determined by uniform rules applicable in each participating country. These rules can only be changed by a two-thirds majority of the Board and a two-thirds majority of the shareholders meeting.

ARTICLE 41

The Bank shall allocate to participating Central Banks an amount of unified European notes required for the replacement of national note issues. That amount shall be determined on the basis of the existing note issues and exchange parities subject to adjustments decided upon to correct drastic under-valuations or over-valuations of exchanges and of undue inflation or scarcity of note issues.

ARTICLE 42

In addition to the notes required for the replacement of existing national note issues the Bank shall allocate to each participating Central Bank amounts of notes determined by their respective quotas in its share capital and their respective contributions to its gold and foreign exchange reserve.

ARTICLE 43

The ultimate aim shall be that the total notes allocated to any participating country shall not be in excess of four times the amount of its contribution to the Bank's gold and foreign exchange reserve and paid up share capital. The proportion of the note issue which is not covered in such way shall be covered by self-liquidating commercial bills rediscounted with the Central Banks concerned.

ARTICLE 44

Pending the establishment of the statutory ratio between gold reserves and note circulation the Central Banks shall be entitled to exceed the maximum limit with the consent of the Board. After the termination of the transitional period the Board shall be entitled to suspend the statutory ratios in cases of emergency.

ARTICLE 45

The unified European notes shall circulate indiscriminately in all participating countries. The Governments of participating countries shall undertake to make the necessary arrangements for the withdrawal of national note issues and their replacement by unified European notes within five years from the date on which the Bank begins its operations. In exceptional circumstances the Board shall temporarily suspend the application of this time limit.

ARTICLE 46

The Board shall determine the ratio which commercial banks established in participating countries must maintain between the amount of their deposits on the one hand and that of their cash and balances with the Central Banks on the other hand. That ratio need not be uniform for all participating countries but the Board shall aim gradually at achieving uniformity.

ARTICLE 47

The Board shall nominate Inspectors of Banking who shall have the right to investigate all accounts of Central Banks and commercial banks in participating countries. The object of their investigations shall be to ascertain that the rules concerning the limit of the note issue and its coverage, and the rules concerning the cash ratio of commercial banks, are observed.

ARTICLE 48

The Bank shall act as a clearing institution for the participating countries. It shall obtain credit from countries with an export surplus on their intra-European trade and shall grant credits to countries with an import surplus on their intra-European trade.

ARTICLE 49

Each Central Bank shall have an account with the Bank, on which account balances arising from intra-European trade surpluses shall be accumulated and out of which credits to deficit countries shall be granted.

ARTICLE 50

Participating Governments shall have regular consultations with the Bank in the interests of maintaining equilibrium between the respective levels of prices, wages, cost of living and cost of production for the participating countries. The Bank shall advise the Governments as to the best means by which excessive export surpluses or import surpluses should be eliminated.

ARTICLE 51

The operations of the Bank shall be in conformity with the monetary policy of the Central Banks of the countries in the markets or currencies of which the said operations are carried out. Before any such operation the Bank shall afford to the Central Banks concerned an opportunity to dissent. In the event of disapproval being expressed within reasonable time the matter shall be reconsidered by the Board and the Central Bank's objection can only be over-ruled on the basis of a three-fourths majority. This article shall not, however, be read as requiring the assent of any Central Bank to the withdrawal from its market of funds to the introduction of which no objection had been raised by it or to the reduction or termination of credit facilities granted to it by the Bank.

ARTICLE 52

The Bank may enter into relations with Central Banks and Governments of non-participating countries. It may open accounts with them and it may carry out operations on their behalf in participating countries or on behalf of participating Central Banks or on its own behalf in non-participating countries.

ARTICLE 53

The Bank may not issue on its own account notes payable at sight to bearer; it may not accept bills of exchange; it may not make advances to Governments; it may not acquire securities other than those issued by Governments or publicly owned corporations except so far as this becomes necessary in satisfaction of claims due to it.

CHAPTER VII

General Provisions

ARTICLE 54

The liquidation of the Bank may not be decided upon except by a three-fourths majority of the Board and of the General Meeting. In case of its liquidation the net assets left over after the discharge of its obligations shall be distributed among the shareholders in proportion to the paid-up portions of their holdings.

ARTICLE 55

If any Central Bank or Government should wish to discontinue its participation it shall notify the Bank of this intention. The decision cannot take effect until the Central Bank or Government concerned has discharged all its liabilities to the Bank. Once this is done the Central Bank or Government concerned shall be entitled to be refunded the paid up portion of its share holding or a proportion of the actuarial value of the Bank's net assets whichever is smaller.

ARTICLE 56

Any amendment of the Statutes of the Bank shall require a two-thirds majority of the Board and of the Share-holders' Meeting.

CHAPTER VIII

Transitional Provisions

ARTICLE 57

The Bank shall be considered established when not less than twelve participating-countries have subscribed and paid up the shares allotted to them under their quota amounting to not less than 75 % of the share capital. A time limit shall be fixed for the adhesion of other European countries. After the expiry of the time limit any further adhesions shall require the consent of the Board and the Shareholders' Meeting by a two-thirds majority.

ARTICLE 58

The parities between the national currencies of the participating countries and the unified European currency shall be submitted by the Governments concerned for the Bank's approval. Their participation in the Bank shall not be effective unless and until an agreement is reached on their respective parities.

CHAPTER IX

Functions of Central Banks

ARTICLE 59

The Central Banks of the participating countries shall retain their full independence. They shall remain under the control of their respective stock holders or Governments. Co-operation with the Bank shall he based on rules and decisions freely agreed upon between the participating Governments and upon the application and interpretation of such rules and decisions by agreement between the Bank and the Central Banks concerned.

ARTICLE 60

Relations between the Bank and the participating Central Banks shall be assured by interlocking memberships between their respective Boards. The Governors of the Bank shall be, as far as possible, the nominees of participating Central Banks. The Bank shall nominate three members of the Boards of the participating Central Banks who will constitute the local Boards of the Bank's branches which shall be housed, as far as possible, on the premises of the Central Bank concerned.

ARTICLE 61

The Central Banks shall continue to determine the Bank rate in their respective countries. They shall consult the Bank before making any changes.

ARTICLE 62

Subject to the general rules, the Central Banks shall determine the volume of credit in their respective countries.

ARTICLE 63

Central Banks shall be entitled to engage in any operations in the domestic and foreign sphere as they consider fit provided that they are not expressly ruled out by the statutes or by subsequent decisions of the Boards. They shall accumulate gold and foreign exchange reserves but shall hand over to the Bank such parts of their holdings as are claimed by the Bank. They shall be allowed to retain gold and foreign exchange required for everyday transactions to a total to be agreed with the Bank.

CHAPTER X

Exchange Control Provisions

ARTICLE 64

The participating Governments shall not hinder any transfers of money to other participating countries for the purposes of current trade transactions in the broadest sense of the term. They shall not hinder the free acceptance of payments from other participating countries by exporters to those countries. Nationals of participating countries shall be at liberty to open accounts in any participating country, to make transfers to and from such accounts within the participating countries, and to pay in to such accounts the proceeds of their exports to participating countries.

ARTICLE 65

Transfers between participating countries for purposes of capital transactions shall be free, subject only to such restrictions as the European Loans Council shall impose on intra-European capital transactions.

ARTICLE 66

Travellers between participating countries shall be at liberty to import or export from any participating country unified European notes without restriction. It shall also be permissible to import and export such notes between participating countries by means of post.

ARTICLE 67

Transfers between participating countries and non-participating countries shall remain subject to restrictions. The participating Governments shall agree upon a uniform system of exchange control to be applied to all such transactions. Pending the elaboration of such system the regulations in operation in the United Kingdom in the Sterling area shall be applied by all participating countries.

Signed (see overleaf)

Signed[1]*:*

MACKAY R.W.G., United Kingdom, SOC

1. SOC: Socialist Group