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CENTRAL AMERICAN TRADE AND PAYMENTS (Experiences of the Central American Clearing House)

INTRODUCTORY NOTE

The Central American Clearing House, operating within the Central American Common Market, would appear to be the only regional multi-lateral compensation mechanism established in the less developed parts of the world for the explicit purpose of promoting an economic integration scheme.

Since the experiences of this Clearing House may be of direct interest to the Tangier Meeting of Experts on an African Clearing and Payments Union, the following paper is presented to this meeting.

The paper was written by Dr. Jorge Gonzalez del Valle of the Bank of Guatemala and former director of the Central American Clearing House, for inclusion in "Integracion Economica Latino-Americana", to be published by Fondo de Cultura Economica (Mexico) in early 1964.

I. INTRODUCTION

1. Even though in Central America an intra-regional payments mechanism was established, strictly speaking, ten years late in relation to the initiation of the programme for economic integration, it would be realistic to say that the preliminary stages of Central American monetary integration began to evolve immediately after the common market started to develop.

2. It is now generally recognized that it was not until the beginning of 1961 that, by virtue of the treaties signed in Managua in 1960, a real impetus was given to the establishment of a Central American common market. In July 1961, the five Central American central banks took the initiative in establishing a multilateral compensation system, the structure and evolution of which form the central part of this essay. It must be remembered, however, that what is now known as the "accelerate stage" of Central American economic integration begun to take shape as far back as 1958.

3. Between 1951 (when the tasks of integration were formally started) and 1958 inter-Central American trade increased at an average annual accumulated rate of ten per cent. Since 1958 the annual increase in inter-Central American trade has averaged 25 per cent. The development of concrete machinery for monetary integration has been considerably slower despite the fact that as long ago as 1958 the Central American central banks had considered organizing the multilateral compensation of payments. At present, the realities imposed by the perfecting of the common market and the rapid development of other instruments of economic integration exert a pressure which tends to find expression in more accelerated and determinate advances in the monetary sphere.

4. The monetary and financial objectives of integration are not specified in concrete and definite form in the Tratado General de Integracion Economica Centro-americana (General Treaty on Central American Economic Integration), which is the basic instrument of the programme now guiding

the formation of economic union in Central America. The sole reference to this subject is found in Article X of the General Treaty, which recommends to the Central Banks "the co-operation necessary to avoid monetary speculations liable to affect the patterns of trade and to maintain the convertibility of the currencies of the respective countries on a basis which guarantees, within a normal system, the freedom, uniformity and stability of exchange systems."^{1/}

5. This definition is manifestly incomplete and probably less fundamental than its authors believed in 1960. Generally speaking, Central American experience in matters of exchange has been highly satisfactory in the last two or three decades. From the point of view of their importance in the external trade of the region, the principal Central American currencies have been freely convertible and have remained markedly stable for many years. The occasional existence of exchange restrictions has not been a serious impediment to the development of intra-regional trade. On the contrary, the central banks have observed strict co-operation in exchange, particularly since 1952, when they started the practice of holding periodic meetings for mutual information and consultation.

6. Prior to 1961, when the Camara de Compensacion Centro-americana (Central American Clearing House) was established, relations between the Central American central banks developed slowly, but satisfactorily, on the basis of bilateral agreements. Nevertheless, the bulk of commercial and financial transactions between the Central American countries was settled mainly in United States dollars. Even though the Central American currencies were traditionally used in frontier trade, principally in the form of cash, there was no concerted effort to reap the benefits of multilateral compensation. It is estimated that at present 80 per cent of the payments derived from intra-regional trade are made in the national currencies of member countries.

^{1/} Unofficial translation.

7. Despite the foregoing, it must be admitted that from a strictly technical point of view it would be wrong to exaggerate the importance of these advances. Economic integration, and particularly the development of the common market, gives rise to numerous and intricate financial problems which will be possible to solve in the future only by means of a more coherent and vigorous effort at monetary integration. There is, for example, a lack of adequate machinery to promote the financing of intra-regional trade, the mobilization of capital within the area, the economic organization of the region's trade with the rest of the world, and so on.

8. The co-ordination of national monetary policies as a preliminary to Central American monetary union is, probably, the most important objective in this order of things. The existence of the Central American Clearing House has been useful in the exchange of ideas on this subject, having already succeeded in defining the stages to be followed in work which should preferably be effected in the near future. While not belittling the importance of the multilateral compensation system, it is in the field of policy co-ordination that the fruits of Central American monetary and financial integration will be felt in more solid and permanent form. Monetary union as the ultimate objective of integration would not be viable unless the stages, largely experimental, of the harmonization of national policies had been previously passed through.

II. STRUCTURE OF THE CLEARING HOUSE

9. The idea of establishing a multilateral compensation system in Central America was initially conceived in 1953. Obstacles and difficulties of various kinds prevented the project from being put into effect until 1960, but the accelerated stage of economic integration prompted its reconsideration during the Sixth Meeting of Technicians of the Central Banks of the American Continent, held in Guatemala at the end of that year. Finally, after various negotiations at technical level, in July 1961, the five Central American central banks finally signed the Agreement establishing the Central American Clearing House.

10. The Clearing House started its operations on 1 October 1961 with the participation of the central banks of Guatemala, El Salvador and Honduras. The Central Bank of Nicaragua became a member of the Clearing House on 1 May 1962, and the Central Bank of Costa Rica joined very recently - on 16 June 1963.

11. In general, the structure and operative principles of the Central American Clearing House are based on the well known practices of local clearing houses which function in virtually all countries of the world. That is to say, each member bank's debit or credit transactions are multilaterally compensated through its account in a common fund. Multilateral compensation between the Central American central banks does however assume the existence of small automatic credits to reduce the necessity of too frequent recourse to cash settlements for credits received. Furthermore, given the international nature of compensation, such cash settlements have to be made in foreign currency, in this case in United States dollars.

(a) Quotas and Subscriptions

12. The Central American Clearing House operates with a capital equivalent to 1.5 million dollars made up of subscriptions equivalent to 300,000 dollars from each of the member central banks. Twenty-five per cent of these subscriptions consists of contributions made in United States dollars

to constitute a common "Guarantee Fund" designed to settle the balances, derived from excess credits granted, in favour of creditor banks.

13. The remaining 75 per cent of the Clearing House' capital consists of contributions equivalent to 225,000 dollars made by each member central Bank in its own national currency to constitute the "Current Operations Fund." These contributions in national currency represent the normal credit which each member central bank undertakes to grant the others in the course of the regular operations of the Clearing House. Any excess over the limit of automatic credit represented by this contribution of 225,000 dollars in national currency is immediately callable in United States dollars by those central banks which are creditors in multilateral compensation.

14. Even though it was initially thought that the Guarantee Fund would play a decisive role in the final settlement of compensation accounts, its reduced value in relation to the volume of transactions compensated has made it virtually inoperative in practice. In fact, the global sum of operations compensated in the last months of 1961 was so great that the total resources of the Guarantee Fund were insufficient to settle excess credits granted by the creditor central banks. At the same time, it was found that the advantages of this mechanism to the debtor banks was greatly reduced since they were obliged to refund within eight days the quantities the Guarantee Fund had settled on their behalf.

15. In consequence, from the early days of the Central American Clearing House the debtor banks opted to pay the creditor banks directly in dollars, without the necessity of resorting to the Guarantee Fund.

This practice of bilateral settlements has proved satisfactory to all members and is invariably followed. The Clearing House' Guarantee Fund has, therefore, remained intact and serves only as a security margin for emergencies. The member central banks are, at present, considering the total suppression of the Guarantee Fund since mutual trust seems to

make its existence unnecessary even as a possible margin of security.^{1/}

16. In practice, the main Clearing House instrument for the conduct of all compensable transactions has been the Current Operations Fund in which the individual accounts of member central banks are concentrated, these accounts being debited or credited with the remittances received and despatched, respectively, by each of the members. The dollar settlements which the debtor members make directly to the creditor members in accordance with the procedure described above are also operated in these accounts. Remittance of compensable documents are made directly between member central banks, and the Clearing House operates on the basis of the corresponding notifications of remission. There is a system whereby the Clearing House may operate the remittances definitively, once ten days have elapsed from the date of remission, if the respective confirmations are not received within this period.

(b) Compensable Payment Documents

17. In accordance with the Clearing House' Agreement, bank-notes and coins, bank cheques, personal cheques, payment orders and settlements of any other nature resulting from commercial transactions are compensation material. In the experience of the Clearing House, approximately 75 per cent of the total value of compensation is made up of bank and personal cheques. Even though compensation of bank-notes still represents 20 per cent of the total, the increasing use of cheques expressed in Central American currencies is tending to reduce the use of bank-notes to transactions resulting from small frontier trade and tourism.

18. The existence of exchange controls in some Central American countries has made it necessary to make the compensation of cheques

^{1/} In August 1963, the member central banks agreed to amend the original agreement. It was decided, inter alia, to abolish completely the Guarantee Fund and to increase the credit in national currency for current operations to a sum equivalent to 2.5 million dollars, corresponding to 500,000 dollars for each member bank.

and bank-notes conditional upon determined requirements and restrictions. Multilateral co-operation in this sense is provided for in the Clearing House' Agreement, but the adoption of specific rules has been perfected by protocol agreements which member central banks sign and revise whenever necessary. The last of these multilateral agreements was signed on 16 June 1963 in San José, Costa Rica, and establishes regulations for the compensation of cheques and bank-notes in the national currencies of Guatemala and El Salvador, which are at present the only Central American countries with exchange controls.

19. Cheques in the national currencies of Guatemala and El Salvador are at present subject to determined validity requirements in order to be acceptable within multilateral compensation. The main requirement consists in requesting the prior authorization of the respective exchange control offices for bank and personal cheques the amount of which exceed a certain limit (at present the equivalent of 200 dollars). Documents which do not satisfy this requirement are not automatically compensable but may be accepted subject to recovery. Apart from this the compensation of cheques does not occasion greater delay, except, naturally, in the case of uncertified personal cheques which as a rule are only accepted by the paying banks subject to the usual reserve of recovery.

20. Insofar as bank-notes compensation is concerned, the central banks of Guatemala and El Salvador have settled on the other member central banks of the Clearing House a monthly quota which limits the amount of bank-note remittances accepted for automatic conversion within multilateral compensation. This has been done in order to prevent speculative movements of capital and limit transactions in bank-notes to amounts consistent with legitimate trade. The fixing of monthly quotas for each member central bank has obliged them to introduce concurrent restrictions in their respective banking systems.

21. It is appropriate to point out that although the member central banks remit compensable documents directly between themselves, in practice it is the commercial banks which negotiate the greater volume of compensated payment documents with the public through the Clearing House. Normally, the commercial banks obtain a credit on account from their respective central banks for documents expressed in other Central American currencies which they channel through their local clearing house. In consequence, the member banks centralize the compensable documents negotiated in their respective banking systems since they act as agents of the Central American Clearing House.

(c) Exchange Rates and Unit of Account

22. All operations of the Central American Clearing House are registered and settled at exchange rates fixed for Central American currencies on the basis of their corresponding parity with respect to the United States dollar. In accordance with the Clearing House' Agreement, each member central bank must declare the exchange rate of its national currency at the time of joining and before the start of multilateral compensation operations.

23. Even though member central banks are not obliged to hold prior consultations about variations in the exchange rate of their national currencies, such variations must be notified immediately to the Clearing House and other members. The main purpose of this is to establish the value of member central banks' liabilities with the Clearing House, particularly in the matter of readjustment of the balance in their own currencies so as to keep unchanged their capital contributions to the Clearing House. Remittances in transit and the cash holdings of the banking systems of the other member central banks must be settled at the rate of exchange declared to the Clearing House before the variation.

24. The Central American Clearing House has adopted its own unit of account to register all operations in the currencies of the member central banks. This unit of account is the "Central American Peso",

the parity of which has been fixed as the equivalent of one United States dollar.^{1/} The "Central American Peso" is important for bookkeeping purposes only, since the compensable documents and corresponding accounts operated by each of the member central banks are expressed in the national currencies of the Central American countries.

25. Apart from the stability of the exchange rates in the Clearing House' operations, the member central banks have granted each other unrestricted guarantee of convertibility for the balances registered in the Clearing House to their debit in excess of the capital contribution in their own currency. The only exception, and in such case relative, would be found in the restrictions already mentioned on the automatic compensation of securities expressed in the currencies of those countries which maintain actually established exchange controls. To the extent that the debit balances of the central banks of Guatemala and El Salvador include cheques not authorized by the exchange control administration, or remittances of bank-notes in excess of the fixed monthly quotas, such securities would not enjoy automatic and unrestricted convertibility in dollars as a matter of course.

(d) Settlements and Interest

26. With the object of periodically re-establishing the original position of each member central bank and cancelling the automatic credits provided in the system, the Clearing House' Agreement establishes the obligation of two ordinary settlements of accounts per year. At present these settlements are made on 15 June and 15 December each year. The debtor banks are obliged to pay in United States dollars within eight days the debit balances resulting from the settlement.

^{1/} In consequence, the official parities of the "Central American Peso" are at present: 1.00 Guatemalan quetzales; 2.00 Honduran lempiras; 2.50 Salvadorian colones; 6.625 Costa Rican colones; and 7.00 Nicaraguan cordobas.

27. As has already been mentioned, the amount of the automatic credits has in practice been so small in relation to the total volume compensated, that "extra-ordinary" settlements to cancel credit surpluses are in reality more frequent and important than the ordinary semi-annual settlements. In fact, the member central banks have found satisfactory the Clearing House' practice of making weekly calculations of the debit and credit position of each member in order to determine the existence of credit surpluses which are immediately payable in dollars. Most of the time these extra-ordinary weekly settlements give rise to direct payments from the debtor to the creditor members in the manner already explained.

28. The Clearing House' Agreement establishes the condition whereby all balances registered in the multilateral compensation earn interests in favour of the creditor member central banks, which must be paid by the debtor members. The daily differences in excess of, or below, each member central bank's contribution in national currency, serve as a basis for the calculation of the interest. The Agreement establishes further that the applicable rate of interest will be equal to the average rate of the yields of the dollar investments of the Guarantee Fund. In practice this has represented approximately 3 per cent per annum. The resulting interests are added to members' accounts each 30 June, the closing date of the Clearing House' accounting period.

III. EXPERIENCES OF MULTILATERAL COMPENSATION

29. Although it is less than two years since the Central American Clearing House started operations, the experience gained so far has been very useful to the Central American central banks. Both from the point of view of their volume and from the angle of their administration and composition, the operations compensated through the Clearing House have reflected a dynamic process within the framework of Central American economic integration.

30. In the period of 21 months from 1 October 1961 to 30 June 1963, the total volume of operations compensated by the Clearing House amounted to the equivalent of 49 million dollars. The monthly average of compensations has grown gradually from 1.8 millions in the first half of 1962 to 3.5 million dollars for the same period of 1963. In the calendar year 1962 the amount compensated by the Clearing House was 24.6 million dollars. It is estimated, on the basis of trends in the first six months, that in 1963 the volume compensated will amount to 46 million dollars.

31. To assess the significance of the preceding figures it must be borne in mind that despite the fact that the process of integration has been intensified, trade between the Central American countries is still relatively small^{1/} and only represents between 8 per cent and 10 per cent of the total value of the external trade of Central America as a whole, account being taken of the limited complementarity of the national economies. The importance of multilateral compensation is better appreciated by contrasting the growth rate of trade between Central American countries between 1961 and 1963 (approximately 45 per cent) with the doubling of the value compensated in the same period.^{2/}

^{1/} The value of trade between Central American countries was estimated at 37.4 million dollars in 1961 and 47.3 million dollars in 1962.

^{2/} In the first six months of 1963 the Clearing House compensated a total of US\$ 20.9 millions, compared with a total of US\$ 10.7 millions in the first six months of 1962.

32. Evaluation of the experiences of multilateral compensation in Central America may be centred on three fundamental aspects: the degree to which the compensating pattern reflects the structure of trade between Central American countries; the influence of exchange restrictions on the direction of multilateral compensation; and, the greater or lesser importance, quantitatively, of the "self-settlement" factors implicit in the multilateral payments system.

(a) Structure of Trade and Payments

33. As was mentioned above, the accelerated process of the formation of the common market has had a direct impact on the expansion of inter-Central American trade. In the five years from 1953 to 1957, the value of regional interchange increased by 60 per cent, but in the period from 1958 to 1962 total expansion was almost 140 per cent. The structure of inter-Central American trade insofar as the concentration of interchange in some countries of the isthmus is concerned, has, however, remained almost unchanged.

34. It is estimated that the value of both the imports and exports of Guatemala, El Salvador and Honduras together represent almost 90 per cent of total inter-Central American trade. The participation of Nicaragua and Costa Rica in regional interchange has increased slowly in the last ten years. In the present composition of commercial interchange, Honduras and El Salvador show strong favourable and unfavourable positions respectively; Nicaragua and Costa Rica are deficit countries, but in moderate amounts; Guatemala's trade with the rest of the area is fairly balanced.

35. The multilateral compensation system seems to have adapted itself fairly accurately to the structure of inter-Central American trade. In 1962, 98 per cent of the total of compensable credits registered by the Central American Clearing House concerned Guatemala, El Salvador and Honduras. In part, this may be attributed to the fact that the Central Bank of Nicaragua participated in the Clearing House for only eight months of the year and to Costa Rica's absence from the compensation system.

the compensation of cheques and cash was in full operation, its adaptation to transactions compensable in quetzales having been almost automatic.

41. It may be deduced from the foregoing that while multilateral compensation was initially exposed to speculative pressures, that situation was temporary and does not at present represent any danger to the normal operation of the system. Even though the compensation of cash continues to hold some risks for the countries with exchange controls, since the monthly conversion quotas of quetzales and Salvadorian colones bank-notes are relatively liberal, the member central banks considered it unwise to introduce more severe regulations in view of the danger they might represent for frontier trade and tourism.

42. The recent disappearance of exchange controls in Nicaragua and Costa Rica signifies an appreciable advance to consolidate the gradual expansion and perfection of the multilateral compensation system in Central America. In reality, the participation of the central banks of Nicaragua and Costa Rica would have been limited if exchange controls had remained in force. On the other hand, exchange restrictions in Guatemala were simplified in May 1963 and in El Salvador they continue to be limited to control of speculative movements of capital. It is conceivable, therefore, that the regulations in force for the compensation of quetzales and Salvadorian colones are not an obstacle to the development of the Central American Clearing House and that the active participation of the central banks of Nicaragua and Costa Rica favour the expansion and perfection of the system.

(c) Settlement of compensated operations

43. It has already been said that when the Central American Clearing House was set up, a "Guarantee Fund" was established with the object of automatically refunding to creditor members the credits granted in excess of their corresponding contribution in national currency. The magnitude of the operations compensated by the Clearing House since its establishment

made the Guarantee Fund inoperative and the member central banks, therefore, opted for the practice of direct payments in dollars from the debtor to the creditor banks. These direct payments in dollars were initially very frequent and of considerable magnitude, but the improvement of the system in recent months has increased the settlement of balances through the compensation of accounts proper in place of payments in dollars.

44. The frequency and magnitude of direct settlements in dollars in the first stage of the Clearing House reflected the existence of a very marked bilateral relationship between Honduras and El Salvador, since the participation of Guatemala in multilateral compensation was relatively small and showed a regular balance between remittances despatched and received. The accession to membership of the Central bank of Nicaragua in May 1962 and the introduction of exchange controls in Guatemala in October of the same year, were determinant factors in the perfection of the multilateral system, facilitating at the same time less dependency on direct payments in dollars.

45. The following table summarized the settlement of operations compensated by the Clearing House, comparing three periods of six months to illustrate changes in the structure of settlement:

TABLE II

Settlement of compensation - composition - October 1961 to March 1963

(Millions of dollars)			
	Oct. 1961 - March 1962	April 1962 - Sept. 1962	Oct. 1962 - March 1963
1. Direct payments in dollars	3.6	4.9	3.3
2. Multilateral compensation of accounts	3.8	6.6	13.6
3. Net credits at end of period	1.1	0.5	0.6
Total Compensated:	8.5	12.0	17.5

Source: Central American Clearing House.

46. It may be seen from this table that at the initial stage of the Clearing House (October 1961 to March 1962) the multilateral compensation of accounts (i.e., debits and credits in members' accounts) represented only 44 per cent of total compensation, while direct payments in dollars constituted 42 per cent, reflecting mainly a marked bilateral relationship between El Salvador and Honduras. In contrast, during the last six-month period analyzed (October 1962 to March 1963), the multilateral compensation of accounts constituted 77 per cent of the total, the proportion of payments in dollars being reduced to less than 19 per cent of the amount compensated. The exchange controls introduced in Guatemala in October 1962 had a determinant influence on this new situation.

47. The success of the Central American multilateral system must be measured in relation to its greater or lesser capacity to settle compensated operations without recourse to payments in dollars or in other non-Central American convertible currencies. Direct compensation by means of debits and credits in the accounts of the member central banks must represent a substantial proportion of the amount compensated if the system is to be consolidated and perfected. The automatic credits provided for in the multilateral mechanism are very small in relation to the total compensated; direct payments in dollars to refund surpluses over automatic credit must also be reduced to a minimum proportion of the amount compensated. The ideal theoretical scheme of any multilateral compensation system requires, naturally, that 100 per cent of the amount compensated is settled through debits and credits in participants' accounts.

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IV. CENTRAL AMERICAN MONETARY UNION

48. Although the concrete results of co-operation between the Central American central banks have so far been limited to development of the multilateral payments system and the co-ordination of exchange policies, consideration has been given, since the middle of 1962, to plans intended to establish the basis of an extensive Central American monetary union. The organization of these efforts has gained momentum recently and corresponds in part to the stimulus given to the Central American banks in this matter by the Central American Economic Council^{1/} in its resolution of 16 August 1962.

49. For two years the Executive Board of the Central American Clearing House, composed of senior officials of the member central banks, has served as a body for consultation and co-operation. It has considered various initiatives not only concerning problems of payments proper but also in the wider field of the co-ordination of other actions and policies of the Clearing House' member central banks. The Clearing House has also encouraged the holding of frequent consultations and conversations between the Presidents and Managers of the Central American central banks, which occasionally result in important policy decisions at regional level.

50. Of the achievements of the Executive Board of the Clearing House in inter-Central American payments, the establishment of the "Central American Cheque", which may in time come to constitute the forerunner of a single currency in Central America, is worth mentioning. The "Central American Cheque" is conceived as a uniform banking cheque, of reduced cost, expressed in the national currency of the issuer and payable at par in the national currency of the payer. Even though the "Central American Cheque" would not exclude the use of other traditional instruments (like the cashier's cheque and the certified personal cheque), it

^{1/} Supreme organ of the General Treaty of Central American Economic Integration, composed of the Ministers of Economics of the member countries.

is hoped that its introduction in multilateral payments will have a favourable psychological effect and contribute to spreading the use of Central American currencies in the monetary transactions of the region.^{1/}

51. The idea of establishing in Central America a wider and more permanent monetary organization than the present clearing mechanism, began to be discussed in the Clearing House, itself, in October 1962. A committee of experts, on which the five Central American central banks are represented, has been set up to study previous cases and to formulate the draft of the legal instrument which will give shape to the specialized regional body the establishment of which was agreed to by the Central American central banks at the end of 1962.

52. The ideas so far considered consist in establishing a Central American Monetary Fund, the fundamental objectives of which would be:

- (a) to act as a permanent consultative organ for the harmonization of the monetary and exchange policies of the Central American countries;
- (b) to administer the multilateral payments system and facilitate the mutual financial assistance of member countries; and
- (c) to develop the basis of Central American monetary integration, including, at a more advanced stage, unification of the monetary systems existing in Central America.

53. Within these wider objectives, the Monetary Union would assume the responsibilities at present shouldered by the Central American Clearing House, which now operates on the basis of a voluntary agreement between the Central American central banks. The action of the Monetary Union would, however, be much wider than that which the Clearing House is able to undertake. In the first place, non-automatic credits could be

^{1/} The operative regulation of the "Central American Cheque" was approved in July 1963, it being anticipated that its practical application will begin before the end of the present year.

negotiated through the Union to correct the imbalances resulting from the structure of inter-Central American trade, which does not necessarily correspond to the over-all balance of payments position of each of the participating countries. Secondly, the Monetary Union would be able to arrange extensive over-all credits in favour of balance of payments, so as to offset temporary maladjustments of member countries.^{1/}

54. These two possibilities would without any doubt be determinant in better consolidating and integrating the multilateral payments system. The existing disparity in Central America between the individual positions of international monetary reserves leaves a wide margin to practice the transference of international liquidity so that the debtor countries with small reserves receive non-automatic credit from the creditor countries with larger reserves, instead of resorting to external financing with disadvantageous and increasingly onerous frequency. The possibility of obtaining over-all credits in favour of balance of payments through a specialized and autonomous regional organization like the Central American Monetary Union, would be highly advantageous for the development of the common market. Furthermore, it would make it possible for the balance of payments problems of an individual country to be considered as a responsibility of the region as a whole, which would constitute an advance towards the integration of financial policies.

55. From a wider and, perhaps, more transcendental point of view, the Central American Monetary Union would contribute to the harmonious and balanced development of the monetary and financial policies of the Central American countries with a view to the perfection of economic integration. It is often forgotten that economic integration is a process which begins rather than ends with the formation of a common market and customs union.

^{1/} This is now a more concrete possibility as a result of the basis of co-operation agreed at the Meeting between the President of the United States and the President of the Central American Republics held at San José, Costa Rica, at the beginning of 1963.

Consequently, the field of action of the financial policies of economic integration is vast and complex; the exchange problem on which so much emphasis is placed nowadays is, in the long run, only a partial reflection of the way in which all money and credit structures and flows react in face of central bank policies.

56. The inter-relation of monetary, exchange and fiscal policies is inevitable within the process of economic union which is beginning to develop in Central America. The presence of national financial policies, whose means and ends would in practice be divergent and even contradictory, would be inconceivable. It is concluded, therefore, that the amortization and eventual integration of the financial policies of the Central American countries is a necessary condition for the effective promotion of the success of the structural policies already adopted in respect to free trade, the customs union, industrial integration, uniformity in taxation and the balanced development of the economic infrastructure.

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