The Articles of the Economic Alliance

PART A: PRELIMINARIES

1. Identity

The Economic Alliance (EA) is an affiliation of countries working together to foster economic prosperity and resilience among themselves. Member countries share common objectives and adopt common forms of economic and financial management.

2. Objectives

The objectives of the Economic Alliance (EA) are to:

(a) attain full employment;
(b) sustain economic growth;
(c) facilitate price stability;
(d) avoid undue foreign debt;
(e) assist balanced fiscal outcomes;
(f) nurture all domestic industries;
(g) make possible economic independence and self-reliance;
(h) enable unfettered international movement of capital;
(i) achieve financial stability;
(j) foster economic stability;
(k) ensure justice in economic policy;
(l) apply sound governance over economic policies;
(m) support democracy in economic institutions; and
(n) promote supportive economic relations between nations.

3. Purpose of the Alliance

The purpose of establishing an alliance of countries is to:

(a) facilitate international economic cooperation between countries;
(b) build a strong monetary identity;
(c) ensure economic policy institutions are democratic;
(d) facilitate trade with exchange rate stability;
(e) establish a common basket of currencies against which currencies are stabilised;
(f) facilitate international economic stability by building foreign currency reserves;
(g) balance international payments;
(h) advance standard banking procedures;
(i) integrate monetary systems; and
(j) adopt a common functional framework for the provision of financial services.

4. Membership

(a) Prerequisites for Membership

A country may be a member of the EA if its national government is democratically elected, and it issues and controls its own currency.

(b) Inaugural Member

The Inaugural Members of the Economic Alliance are those nations that first agree to adopt these Articles. By doing so they establish the Economic Alliance.

(c) Application for Membership

A country may apply to any existing member of the EA to be a member of the Alliance. The member to which the application was made, the sponsor, must obtain the consent of all the other members

of the Alliance before the applicant may join the EA. Once agreed, the sponsor may enter into an agreement with the applicant to abide by these Articles. By doing so, the applicant becomes a member of the Alliance.

(d) Secure Member

To qualify as a Secure Member of the Alliance, a member must have:

- the equivalent of at least 6 months' imports in foreign currency reserves;
- experienced three consecutive years of surplus in its national government recurrent[1] finances and
- tied the nation's currency to the Economic Alliance Currency Unit (EACU).

The member may remain as a Secure Member while its foreign currency reserves remain greater than the equivalent of 3 months' imports. A Secure Member is entitled to exchange its currency with other Secure Members at a published and predetermined exchange rate.

(e) Transitional Member

Countries that are members of the EA and do not qualify to be a Secure Member are classed as transitional members.

(f) Small Country Member

A "Small Country" member is a member of the EA for which a change in the exchange rate is not sufficient to affect employment. Small Country Members may use measures such as taxes on imports to change the relative price of imports to domestic products and to generate revenue for the government to provide employment. They are not required to use the exchange rate as an instrument of economic policy.

(g) Companion Economies

Companion Economies are economies that are not members of the Alliance but choose to apply the principles of the Alliance. They may choose to link their currencies to the Alliance Currency Unit or to the currency of a member country. A member of the Alliance may invite a Companion Economy to the Assembly. However, the Companion may not vote in the Assembly. The Alliance supports economies that hold similar objectives and choose to adopt and/or adapt the principles and policies of the Alliance in their economies.

(h) Chapters of the Alliance

Members of the Alliance and companion economies may form themselves into sub-groups or Chapters. These may be regional groups or be based upon other common factors. Chapters are free to determine their own membership and make their own rules, in so far as they do not conflict with these Articles. The Alliance encourages such links where they support the objectives of the Alliance.

5. Obligation of Members

Members of the Economic Alliance shall:

(a) establish an Economic Policy Council;
(b) establish or nominate a National Monetary Authority;
(c) abide by the principles and procedures in these Articles of the Economic Alliance; and
(d) Agree to provide at least 28 days' notice before withdrawing from the Economic Alliance.

[1] Recurrent finances means the tax and other current revenue and the operating expenditure.

PART B: INSTITUTIONS

6. The Economic Policy Council

(a) The Economic Policy Council (EPC), or other entity established to perform its functions, is responsible for determining policies for the nation's economic growth, employment, price stability, foreign debt, industrial development, financial stability and economic stability.

(b) The members of the Economic Policy Council shall be elected members of a national or regional governing body such as a parliament or council and be nominated to the EPC by those governing bodies. Members of the council should be selected based on their ability to identify, and their motivation to select, the most important objectives for the economy and the most effective and efficient means of attaining them.

(c) The members are to include the elected members of a national government that are responsible for the monetary and fiscal policy of the nation.

(d) The number of members on the EPC shall be a minimum of 6 and a maximum of 20.

(e) The EPC shall elect a Chairman and a Secretary.

(f) The Chairman is responsible for calling a meeting of the EPC, and the conduct of those meetings.

(g) The Secretary is responsible for the administration of the EPC, including ensuring that the decisions of the EPC are put into effect. The draft agenda is to be prepared by the Secretary with the concurrence of the Chairman. The Secretary shall be responsible for the EPC Secretariat.

(h) The EPC may appoint Directors responsible for sectors of the economy and for the operation of the EPC (such as a treasurer).

(i) The EPC shall meet at least twice each calendar year, one meeting being the annual general meeting at which the budget of the EPC for the following year shall be approved.

(j) Unless the EPC chooses otherwise, the entities nominating a member to the EPC shall contribute towards the financial requirements of the EPC agreed in the budget. Those contributions are to be in proportion to the number of members they nominate to the EPC.

(k) The EPC shall conduct an election of officers following every election of a national government. The EPC may fill any vacant offices at any general meeting. Any officer may resign their office at any general meeting or by advising the Secretary. The EPC may remove any officer from office at any general meeting provided that all members have received 3 weeks' notice of that proposed action prior to the meeting.

(l) Any member of the EPC that ceases to be a member of an elected government or council shall cease to be a member of the EPC. A member ceases to be a member if the body that nominated them withdraws their nomination and/or nominates an alternative person to replace the member.

7. The National Monetary Authority

(a) The National Monetary Authority (NMA) is responsible for:

- putting into effect the policies of the EPC, including the bank lending to reserve ratio (BLRR);
- implementing exchange rate policy;
- holding foreign currency reserves;
- selling and buying domestic notes and coins;
- monitoring bank lending activities; and
- ensuring that banks comply with the rules and guidelines of the EPC.

(b) All banks are to establish a Reserve Deposit Account with the NMA. The reserve deposit accounts are to be used to make interbank settlements. Also, purchases and sales of domestic notes and coins are to be made through the reserve deposit accounts.

(c) The NMA shall report regularly to the EPC on its progress in implementing its policies, upon the effectiveness of those policies and on any other matters that the EPC may require of it.

8. The Assembly of the Economic Alliance

(a) All members of the EA are entitled to attend and vote at the Assembly of the Economic Alliance. A general meeting of the Alliance shall be held every 3 years. A quorum of at least two thiRD's of members is required at a meeting of the Assembly to conduct any business other than to receive reports. Meetings may be physical and/or virtual. If the Assembly is to elect officers, there must be reasonable notice of such elections and calls made for the nomination of candidates. If there are more than two candidates, a preferential voting system must be applied.

(b) The Assembly may, with the support of two thiRD's of members representing at least one third of the population of all member countries in the Alliance, amend these Articles of the Economic Alliance. Any member, or members, seeking to amend these Articles must provide notice to all other members of such a motion at least six months prior to the meeting of the Assembly. The motion may be amended by correspondence following consultations with members. Members must be notified of the final form of the proposed amendment at least two months prior to the meeting of the Assembly.

(c) At a general meeting, each member shall be given the opportunity to present a report to the Assembly upon the state of their economy, their progress in achieving their economic objectives and their economic plans for their future.

(d) Each member nation shall, in turn, appoint the Chairman of the Assembly. The Chairman shall serve a term of 3 years. Appointments shall be made in chronological order according to the date that the member joined the Alliance. If there are two or more members joining on the same day, those countries shall take their turn in alphabetical order. If the designated member government does not appoint a Chairman, the elected Chairman of the EPC for the designated country shall be the Assembly Chairman. If a member nation chooses not to appoint a Chairman, the members of the EA shall nominate a country to appoint a Chairman.

(e) The Chairman of the Assembly is responsible for calling, preparing for, and conducting the meetings of the Assembly. The Chairman may not vote at the Assembly. The nation appointing the Chairman may send a separate person as their representative to the Assembly and that representative may speak to, and exercise a vote in, the Assembly.

(f) The Chairman may call a Special Meeting of the Assembly. The Chairman shall call a Special meeting of the Assembly if two or more members, constituting at least twenty percent of the

members of the Alliance, call for such a meeting. When calling a Special Meeting of the Assembly, the Chairman shall advise members of the reason for that meeting. Only matters pertaining to the issues raised in that advice may be considered at that Special Meeting.

PART C: POLICY INSTRUMENTS

9. Bank Lending to Reserve Ratio

(a) From the date that the EPC determines, each bank is to establish a Reserve Deposit Account with the NMA. A bank may contribute to its RD's using funds received in transfers from inter-bank settlements, and by selling to the NMA:

- domestic bank notes and coins; and
- foreign currency.

(b) Likewise, a bank's RD's may be reduced when their RD's are paid as transfers to other banks in the process of undertaking inter-bank settlements and when banks purchase from the NMA:

- domestic bank notes and coins; and
- foreign currency.

(c) The EPC is to determine the Bank Lending to Reserve Ratio (BLRR). That may be determined as a range, or matrix of ratios, to apply according to the level of the NMA's Foreign Currency Reserves and the rate of inflation such as shown in the table in paragraph 16(b). The ratio determines the additional amount of bank lending permitted for each bank relative to the growth in the bank's Reserve Deposits.

(d) For the purposes of the Economic Alliance, banks are financial institutions that accept, hold and transfer deposits. Financial institutions that accept and hold deposits but do not transfer deposits are not classed as banks for the purposes of the BLRR. It is the ability of the financial institution to transfer deposits which makes them negotiable instruments and determines that they are an entity that must comply with the BLRR requirement. Also, any institutions that guarantee the securities of other entities are required to comply with the BLRR. In addition, any institution that issues securities, or financial or other instruments of exchange, that are not guaranteed by a bank, yet are negotiable, is subject to the same requirements as apply to banks. The policies applying to banks apply to those institutions, in so far as they are relevant.

(e) The BLRR applies to the *growth* in bank lending relative to the *growth* in Reserve Deposits. Two forms of lending are to be regulated using the BLRR. These are loans that are shown on the bank's balance sheet and those in the form of guarantees of securities. During the first year of the BLRR arrangements, for the purpose of providing funds for inter-bank settlements, the NMA may purchase government securities[2] from banks to increase their RD's.

(f) Banks may issue guarantees for purposes other than securities. While those guarantees may not constitute part of the money supply, banks may receive funds in exchange for these guarantees. Those funds should not be intentionally or inadvertently used to raise the bank's lending capacity. Therefore, such guarantees are to be subject to the BLRR.

[2] The total amount of government securities that the NMA may purchase from banks is not to exceed 25 percent of the growth in foreign currency reserves purchased by the NMA since the introduction of the BLRR. This requirement is necessary to prevent the growth of RD's generating excessive bank credit and depleting foreign currency reserves.

(g) To facilitate the regulation and monitoring of these loans and guarantees, each bank is to advise the NMA each month of the total amount of its loans and guarantees. To establish the starting position, each bank is to advise the NMA of the initial amount of its loan outstanding on its balance sheets and of its off-balance sheet commitments on the day before the BLRR is to apply. (The amount of a bank's total loans outstanding on their balance sheet includes holdings of government and other securities.) The initial amount of a bank's Outstanding Loan Commitments (OLC) shall become its initial Certified Outstanding Loan Commitment (COLC). The amount of a bank's off-balance sheet commitments for securities, including bank endorsed securities, are the bank's Security Guarantee Commitments (SGC). A bank's initial SGC shall become its initial Certified Security Guarantee Commitment (CSGC). All Other Guarantees and Commitments (OGC) on the day before the BLRR rates apply are to be the bank's initial Certified Other Guarantees and Commitments (COGC). Any Reserve Deposits (RD's) held by the NMA on the day before the BLRR applies shall be the banks' initial Committed Reserve Deposits (CRD's).

(h) The COLC, CSGC, COGC and CRD's of a bank established after the introduction of the BLRR shall be the opening amount of its OLC, SGC, OGC and RD's on the day that it was established as a bank.

(i) The BLRR is to apply to the *growth* each month in each bank's Outstanding Loan Commitment (OLC), Security Guarantee Commitment (SGC) and Other Guarantees and Commitments (OGC) above the amount of its COLC, CSGC and COGC. The EPC may redefine the components included in each of these categories and what are the reporting requirements, as it sees fit.

(j) Once the BLRR is in force, each bank is to report each month to the NMA on the total amount of its OLC, SGC and OGC. If a bank's RD's are sufficient to comply with the BLRR, then:

- the bank's reported OLC shall become the bank's Certified Outstanding Loan Commitments (COLC);
- the bank's reported SGC shall become the bank's Certified Security Guarantee Commitment (CSGC);
- the bank's OGC shall become the bank's Certified Other Guarantees and Commitments (COGC); and
- the RD's that each bank is required to hold to comply with the BLRR for its COLC, CSGC and COGC shall become its Committed Reserve Deposits (CRD's).

(k) The BLRR is to apply to the sum of the growth of OLC, SGC and OGC above their respective COLC, CSGS and SOGC. If the balance of any of the OLC, SGC or OGC declines below their respective COLC, CSGC or COGC, that reduction cannot be used to increase the balance of the other guarantees or forms of lending.

(l) If a bank's RD's are insufficient to comply with the BLRR requirements, then the bank may not increase its OLC, SGC and OGC until the NMA authorises it to do so. Even so, if the bank's RD's are greater than its CRD's, it may raise the amount of its COLC, CSGC and/or COGC as far as it is able to do so and remain compliant with the BLRR. To the extent that it does so, its RD's would become CRD's. A bank whose RD's have proved insufficient, may continue to lend and/or provide guarantees up to the level of its COLC, CSGC and COGC when their OLC, SGC or OGC are below their respective certified levels subject to the constrains specified in the table in paragraph 22(d).

(m) A bank with insufficient RD's to comply with the BLRR requirements is not to engage in any activity that would raise its OLC, SGC or OGC while they exceed their respective certified amounts. When a bank that had insufficient RD's is able raise its Reserve Deposits sufficiently to comply with

the BLRR requirements, it may, with the approval of the NMA, raise its COLC, CSGC and COGC accordingly and continue its lending activities.

(n) If a bank's Reserve Deposits (RD's) fall below its Committed Reserve Deposits (CRD's) then the bank is required to respond and take action to raise its RD's to at least the amount of its CRD's.

10. The Economic Alliance Currency Unit (EACU)

(a) The Economic Alliance Currency Unit (EACU) is a unit of account the value of which is defined according to a basket of currencies. The Assembly of the Economic Alliance may from time to time modify the basket as it sees fit.

(b) The initial value of one EACU is defined as value of the sum of the amounts of the following currencies:

Currency	Code	Units of Currency
Australian Dollar	AUD	5.00
Canadian Dollar	CAD	4.60
Swiss Frank	CHF	3.20
Chinese Yuan Renminbi	CNY	46.70
Euro	EUR	12.70
Pound Sterling	GBP	5.60
Indian Rupee	INR	555
Japanese Yen	JPY	913
South Korean Won	KRW	4,426
United States Dollar	USD	13.40

11. The Exchange Rate

(a) The EPC may fix the exchange rate for its currency against the EACU. Alternatively, it may determine objectives that it wishes to attain using the exchange rate. For example, it may determine that the exchange rate be the rate at which the target range of unemployment is attained. It may then put in place policies to adjust the exchange rate to achieve that target as shown in paragraph 14(d).

(b) The NMA is to implement the EPC's exchange rate policy. Where the economy had previously applied the floating exchange rate system, the NMA may apply a maximum exchange rate, or an exchange rate cap, defined in terms of EACUs or other currency that the EPC may determine. The NMA would offer to purchase foreign currency at the cap price.

(c) When a country has accumulated sufficient foreign currency reserves, the NMA may apply a minimum exchange rate or floor price. To create the floor, NMA would offer to sell foreign currency from its foreign currency reserves at the floor price. The EPC should provide guidelines to determine the range within which the exchange rate may trade and the pace at which that range may be adjusted. These guidelines should be used to control inflation, as shown in the tables in paragraphs 16(d) and 16(e). Banks would pay for the foreign currency bought at the floor price using funds from their Reserve Deposits. When the NMA sells foreign currency, it not only reduces the bank's RD's, it takes money out of the economy and reduces banks capacity to increase their lending. Changes to the exchange rate cap and floor should be made slowly to minimise speculation and allow the economy to adapt to the changes.

(d) Once the exchange rate had been stabilised with a floor and cap, the currency could be defined in terms of EACUs for trade between other members of the Economic Alliance that have a similar stable exchange rate. To facilitate this, members of the Economic Alliance may conduct their transactions between themselves in terms of EACUs. The NMA of each country may settle their inter alliance transactions:

- bilaterally;
- through a third country member; or
- through an institution established to facilitate these transactions.

Members of the Alliance may choose to establish such an institution. It would be at the discretion of members whether they traded through such an institution.

(f) Secure Members of the Alliance may vary their exchange rate. However, when they do so, they must give other members notice at least 4 weeks before they do so and make small adjustments over a period of time. Secure Members who vary their exchange rates are to publish every week the future value of their currency in terms of EACUs for each day for the next three weeks.

(g) Members that join the EA with their exchange rates already fixed are to link their exchange rates to the EACU, or to that of a member (or members) of the EA. A new member does not need to vary their exchange rates unless that change is necessary to achieve a specified objective. Even if a member does not need to vary its exchange rate, it is to apply the Bank Lending to Reserve Ratio and require banks to hold a Reserve Deposit Account with the NMA.

(h) The EA arrangements ensure that the banking system can finance the nation's foreign exchange requirements. Therefore, it does not need to turn to any other finance markets to do so. That capacity enables the country to be independent and set its own exchange rate to achieve its own objectives and avoid relying upon the foreign exchange market to set the rate.

12. Import Taxes

(a) In small economies, employment may not respond to variations in the exchange rate. In such circumstances, economies may use taxes on imports to generate revenue for the government to fund employment through the provision of additional government services. It is anticipated that such taxes would finance increased domestic production and facilitate economic growth. Those taxes can be expected to cause inflation. However, that would be the case, also, if the exchange rate were devalued.

(b) Countries that impose taxes on imports are not reducing their total imports. The purpose of the taxes is to raise the trade multiplier, forcing funds to recirculate within the economy and generate additional domestic employment and income before the funds are fully spent on imports and lost to the economy. Also, members may introduce import taxes to minimise any distortive effect on the performance of the economy due to the different types and levels of taxation applying to domestic products compared to comparable imported products.

(c) To achieve its objectives with a minimum of distortion to relative prices, members are encouraged to ensure that the import taxes are applied at the same rate to all imports (as would be the case if they could apply the exchange rate to raise the multiplier). The EA is not a free trade organisation. Members of the EA are free to apply import taxes as they may wish, even to protect domestic industries. Members are discouraged from using the Alliance to pressure other members to obtain tax free or preferential access to their economies. That does not prevent countries from engaging in preferential trade agreements.

13. The Level of Foreign Currency Reserves

(a) The NMA of members of the EA are to hold Foreign Currency Reserves to ensure that their monetary systems can meet their foreign currency requirements at the exchange rates that their respective economies have established. Each EPC is to determine its target range for Foreign Currency Reserves in terms of months of imports. They may vary the target range as they see fit. Also, they may vary their BLRRs in response to the levels of their Foreign Currency Reserves to contribute to the stability of those reserves as shown in the table in paragraph 16(b). EPCs manage only the Foreign Currency Reserves of their monetary system. Foreign currency reserves held by their governments and private sectors are not necessarily available to the banking system and are not to be included in defining the level of Foreign Currency Reserves that each EPC manages.

(b) When the BLRR comes into effect, the banks, and other financial institutions to which the BLRR applies, may not raise the level of their foreign debt, either directly or indirectly, other than to hold the deposits of foreign banks and other foreign entities. This requirement is intended to prevent banks from raising their foreign debt to raise their Reserve Deposits.

(c) If the NMA's holdings of Foreign Currency Reserves exceed the EPC target holdings, it may sell foreign currency to purchase domestic financial assets such as government securities.

PART D: STRATEGIES

14. Full Employment

(a) The EPC must determine what it considers to be its target for full employment. That may be defined as a level of unemployment or comprise target levels of unemployment for a range of age categories. Also, the EPC may need to define what it considers to be unemployment for the purposes of its economic policies. The strategy for raising employment is to use export income, and other foreign currency receipts, to stimulate the economy.

(b) The first step towards full employment, for countries that had been using the floating exchange rate system, is to stabilise the exchange rate by applying a cap to the exchange rate. Then, if demand continues to be insufficient to attain the target level of employment, the EPC may slowly devalue the currency until the demand for domestic products is sufficient to attain its full employment target.

(c) Before the EPC can put its employment policies into effect, it must ensure that the Bank Lending to Reserve Ratio (BLRR) arrangements are in place. Also, the EPC should determine the initial exchange rate cap or maximum exchange rate (preferably determined in terms of EACUs). The maximum exchange rate may be determined as the exchange rate on a specific day, such as the business day before the exchange rate policy is to be put into effect. The NMA would purchase foreign currency on the foreign exchange market at the cap price and credit the bank's Reserve Deposit accounts. The foreign currency purchased would be added to the NMA's foreign currency reserves. The banks receiving the Reserve Deposits would make a corresponding credit in the accounts of those customers that received the foreign currency. Those funds credited would immediately enter the economy as additional export income and other foreign currency receipts. When spent, they can be expected to generate additional employment.

(d) The EPC is to advise the NMA of its target range for employment (or unemployment). The purpose of devaluing the currency is to increase domestic demand for domestic products and raise the income of exporters. Also, it lowers the relative prices of domestic products and raises demand for domestic products. The speed at which the exchange rate cap is lowered may be varied to speed

up or slow down the growth of employment. Indicative rates of adjustment for a ceiling or "cap" are presented in the following table.

	Indicative Adjustment Rate for the Exchange Rate Ceiling				
Rate of Unemployment	>5.0%	4.9%-4.0%	3.9%-3.0%	2.9%-2.0%	<2.0%
Adjustment rate when cap is Binding					
Rate per business day	-0.010%	-0.008%	-0.005%	-0.002%	0.000%
Effective rate per annum	-2.5%	-2.0%	-1.3%	-0.5%	0.0%
Adjustment rate when cap is Not Binding					
Rate % per business day	-0.04%	-0.03%	-0.02%	-0.01%	0.00%
Effective rate per annum	-10.5%	-7.8%	-5.1%	-2.5%	0.0%

(e) The ceiling, or cap, is said to be "binding" when the NMA has purchased foreign currency to enforce the ceiling in the previous business day. If the NMA has not engaged in purchasing foreign currency on the previous business day, then the cap is said to be not binding.

(f) When the rate of unemployment reaches the target range, the exchange rate cap may be stabilised and a floor put in place and raised to collar the exchange rate at that level. If the exchange rate cap was not binding and the rate of growth of employment was greater than desired, it may be necessary for the EPC to apply and raise the exchange rate floor before employment has reached its target range.

(g) There may be circumstances, such as inflation, that impinge upon the EPC and the NMA'a ability to apply the EPC's employment strategy. These should be expected. There are likely to be other constraints that affect the economy, and these may influence the speed of change. The EPC and the NMA should respond to these as they occur. Also, different sectors of the economy are likely to respond at different speeds to the changing conditions. Therefore, the EPC and the NMA need to be careful when lowering the exchange rate to allow these industries time to respond, so as to ensure a soft landing and avoid unnecessary inflation.

(h) Large economies that had applied fixed exchange rates and experienced high levels of unemployment before they joined the EA, may follow a similar strategy. Rather than setting a cap or maximum exchange rate, they would determine the actual exchange rate. In such cases, before devaluing the exchange rate, the EPC should ensure that the BLRR guidelines are in place and that they are binding. This includes the requirement to make inter-bank settlements through the banks' Reserve Deposit accounts. It may take a few months to ensure that the BLRR system is functioning effectively.

(i) As noted in Section 12, small economies may not be able to use their exchange rates to raise private sector employment. Instead, they may need to raise taxes to increase public sector employment. Also, for countries with poor accounting standaRD's, import taxes may be the only option to levy tax revenue. To avoid balance of payments problems, these countries should ensure at first that the BLRR is in place and that banks are building up their RD's and the NMA is building up foreign currency reserves.

(j) The import taxes should be raised slowly and regularly each year to finance the growth in employment. The increases in the taxes should stop once the target level of government employment is reached, or if full employment is attained. The employment in the private sector in these small countries can be expected to grow as an indirect result of the growth of employment in the public sector.

15. Economic Growth

(a) The EA strategy for achieving economic growth is to raise export incomes, and other foreign income and receipts. Those funds raise total spending for both domestic products and imports. The additional exports together with the additional spending on domestic products would both generate additional employment. The additional foreign currency received from the additional exports would be available to pay for the additional expenditure on imports and thereby make the process sustainable.

(b) The EPC may define its target for economic growth in terms of per capita incomes, national income or other measures of economic welfare. It has a range of policy options to raise and control the rate of economic growth, depending upon the circumstances of the economy.

(c) Economic growth is achieved by creating disequilibrium in international trade: that is, by ensuring that international receipts are greater than international payments. When the economy reaches equilibrium (where international receipts and payments are equal) it stops growing. The task of creating economic growth involves moving from the current equilibrium position towards another equilibrium position with higher income. Therefore, the task of raising economic growth requires the continual increase of exports and other foreign receipts which in turn raises imports and other foreign currency payments.

(d) The first option for raising foreign currency receipts involves developing new products and making existing ones cheaper by improving productivity, investment in capital and technology. The second approach is to raise demand from among trading partners. The EA arrangements facilitate the reciprocal growth in income and trade, by enabling trading partners to stimulate each other's exports by raising imports.

(e) Bank lending can raise demand by accelerating the speed at which money from the growth of trade flows into the economy. The growth in export incomes raise bank Reserve Deposits with the NMA, enabling banks to increase their lending and stimulate the economy. When that money is spent on imports, it reduces bank Reserve Deposits and constrains further growth in bank lending. Therefore, bank lending cannot be relied upon to sustain an increase in incomes in the long term. Exports and other foreign receipts are required to sustain economic growth. The benefit of money from export growth is that when imports subsequently rise, the economy has the foreign currency reserves to pay for them. Therefore, export growth is a sustainable source of economic stimulus and growth.

(f) There may be other constraints that slow the rate of economic growth in an economy. Each country needs to identify these and adopt measures that would improve the performance of domestic industry.

(g) Economies that had previously adopted the floating exchange rate system may have implemented policies to address symptoms rather than the causes of the nation's economic problems. Some of those policies may need to be undone to improve the performance of the economy. Those policies may have included wages policies, competition policies, privatisation policies, savings policies, education policies, industry policies and trade policies.

(h) Small (and large) economies can improve economic growth by improving the efficiency of their economies, their infrastructure, legal/judicial system, health and education. Many may have constraints that have become accepted norms that may be difficult to remove. These can include business, trading, import and export licences. One of the ongoing tasks of the EPC shall be the

review of business regulation with a view to ensuring that only those businesses and business activities that need to be constrained are regulated.

(i) The growth of all economies can be improved by the growth of their trading partners. This is particularly the case for small economies. As countries join the EA, or adopt its type of policies, then they will raise their rate of economic growth for those economies through their imports. These will contribute to the growth of their trading partners, particularly if they are members of the EA. Trade with countries retaining the floating exchange rates may increase, also. However, their economies are required to immediately balance international receipts and payments. Therefore, those economies are unlikely to receive any additional income from the growth of trade generated by the members of the EA.

16. Price Stability

(a) Price variations are a signal to the market and are an important part of how the economy functions. They should be considered a normal part of economic activity. Some price changes are beyond the control of the national economy. For example, a rise in international oil prices is likely to be beyond the control of the EPC in most countries. Therefore, it would be futile for the EPC to respond to inflation caused by such price rises. The EPC should establish a clear statement of its targets for inflation and identify those forms and sources of inflation that it is able to address.

(b) There are two basic sources of inflation that the EPC may wish to respond to. They are inflation from excessive monetary growth and inflation imported through the price of foreign products. Inflation from excessive monetary growth can be managed primarily by reducing the growth of bank credit. That may require the EPC to reduce the BLRR. Establishing predetermined BLRR responses to inflation contributes to price stability and avoids the EPC having to meet to respond to every change in the rate of inflation. To adopt such an approach, the EPC must determine a trigger rate of inflation for domestic products (other than in response to a natural disaster or other significant non-monetary events), above which a policy response is applied, as shown in the table below. In that table, Foreign Currency Reserves are defined in terms of the equivalent number of months of imports[3]. The BLRR rates vary according to the rate of inflation (horizontal axis) and the level of Foreign Currency Assets held by the NMA (vertical axis). The rates apply to the growth each month in each bank's loans, guarantees and commitments. The table provides an indicative array of bank lending to reserve ratios. Each EPC is to determine an array that is relevant to its own economic environment.

	Indicative Bank Lending to Reserve Ratios					
Rate of Inflation	>10.0%	9.9%-7.0%	6.9%-5.0%	4.9%-3.0%	2.9%-2.0%	<2.0%
Level of Foreign Currency Reserves (in terms of Months of Imports)						
<3 0	1.0	1.5	3.0	4.0	5.0	6.0
3.0-3.9	1.0	1.7	3.7	5.0	6.0	7.0
4.0-4.9	1.0	1.8	4.3	6.0	7.0	8.0
5.0-5.9	1.0	2.0	5.0	7.0	8.0	9.0
6.0-6.9	1.0	2.1	5.5	7.8	8.9	10.0
7.0-7.9	1.0	2.3	6.0	8.5	9.8	11.0
8.0-8.9	1.0	2.4	6.5	9.3	10.6	12.0
9.0-9.9	1.0	2.4	6.8	9.6	11.1	12.5

[3] For example, if country's level of imports were in the order of $600 billion per annum and the Foreign Currency Reserves were in the order of $100 billion, then its foreign currency reserves would be the equivalent of 2 months imports.

10.0-10.9	1.0	2.5	7.0	10.0	11.5	13.0
11.0-12.0	1.0	2.6	7.3	10.4	11.9	13.5
>12.0	1.0	2.6	7.5	10.8	12.4	14.0

(c) The process of devaluing the currency to raise employment and provide economic growth is likely to raise the price of imported products and that inflation could feed through to domestic products. If the economy were devaluing its currency, imported inflation may be reduced by slowing the pace of devaluation.

(d) Also, the EPC may take money out of the economy by selling foreign currency to the market. For economies that had previously used the floating exchange rate system, the following table presents an indicative range of depths for the floor to sit below the exchange rate cap. These would assist in controlling inflation.

	Indicative Level of the Floor below the Ceiling Exchange Rate					
Rate of Inflation	>10.0%	9.9%-7.0%	6.9%-5.0%	4.9%-3.0%	2.9%-2.0%	<2.0%
Level of Foreign Currency Reserves (in terms of Months of Imports)						
<3 0	2.0%	2.8%	3.6%	4.4%	5.2%	6.0%
3.0-3.9	1.6%	2.1%	2.6%	3.0%	3.5%	4.0%
4.0-4.9	1.4%	1.7%	2.0%	2.4%	2.7%	3.0%
5.0-5.9	1.2%	1.4%	1.5%	1.7%	1.8%	2.0%
6.0-6.9	1.0%	1.2%	1.4%	1.6%	1.8%	2.0%
7.0-8.9	0.8%	1.0%	1.3%	1.5%	1.8%	2.0%
9.0-12.0	0.6%	0.9%	1.2%	1.4%	1.7%	2.0%
>12.0	0.5%	0.8%	1.1%	1.4%	1.7%	2.0%

(e) The NMA would offer to sell foreign currency to the foreign exchange market at the floor price to enforce that floor. Selling foreign currency is intended to reduce banks' RD's and reduce their capacity to issue loans. Adjustments to the floor should not be made suddenly, particularly if they are binding. An indicative rate for the speed of adjustment of the floor, or minimum, exchange rate is presented in the following table.

	Indicative Adjustment Rate for the Exchange Rate Floor				
Rate of Inflation	>5.0%	4.9%-4.0%	3.9%-3.0%	2.9%-2.0%	<2.0%
Adjustment rate when floor is Binding					
Rate per business day	0.020%	0.010%	0.008%	0.005%	0.002%
Effective rate per annum	5.1%	2.5%	2.0%	1.3%	0.5%
Adjustment rate when floor is Not Binding					
Rate % per business day	0.10%	0.06%	0.03%	0.02%	0.01%
Effective rate per annum	28.4%	16.2%	7.8%	5.1%	2.5%

(f) The floor is said to be not-binding when the NMA did not sell any foreign currency at the floor price on the previous day of business. It is the responsibility of the NMA is to continue to keep the exchange rate within the band between the floor and the ceiling.

(g) In circumstances of excessive inflation, or excessive monetary or economic growth that may threaten inflationary pressures, it may be advisable for the EPC to raise the exchange rate floor so that the NMA can sell more foreign currency reserve assets and reduce the banks' RD's.

(h) If the currency is stable and the economy continues to be confronted with excessive imported inflation, the EPC may choose to inflate the currency against the EACU. It should be noted that this may have implications for the rate of economic growth and the level of employment. If other countries are experiencing a similar problem, the EPC may request a special meeting of the Assembly to approve an appreciation of the value of the EAMU. Again, such an appreciation should be done slowly with daily or weekly adjustments. Another short-term option would be to reduce import taxes. However, that may cause fiscal problems that would require other taxes to increase.

17. Foreign Debt

(a) The EPC manages the foreign debt created by or within the banking system. The full employment and price stability strategies, considered in Sections 14 and 16, build foreign currency reserves, and those reserves reduce net foreign debt in the monetary system. The NMA is to collect data on the foreign debt and foreign currency assets of the banks and report them to the EPC, together with the NMA's own foreign currency assets and debt. The data can be collected at the same time as the banks report on their outstanding loan commitments. From the time that the BLRR is put in place, banks and other institutions required to hold RD's, are not to increase their foreign liabilities, other than in the form of current deposits of foreign banks and other foreign entities.

(b) For countries that had been on the floating exchange rate system, the first step to reduce net foreign debt is to cap, or fix, the value of the currency to enable the monetary system to start building up foreign currency reserves. As explained in Section 9, the NMA is to purchase foreign currency assets on the foreign exchange market and credit the banks' Reserve Deposit Accounts. Those foreign currency purchases would immediately reduce the net level of foreign debt.

(c) In the case of countries that had used the floating exchange rate system and are transitioning to the EA's system, the growth of bank credit may continue to raise foreign debt, initially. That is because the growth of bank credit is likely to continue to finance national expenditure in excess of national income and cause imports to exceed exports. Once the NMA has a binding floor on the exchange rate, the reduction in RD's caused by its purchases of foreign currency will reduce and eventually prevent the excessive growth of bank credit that would otherwise have raised foreign debt. That is, the BLRR requirements would prevent banks from lending the country further into debt.

(d) For countries that had been using a fixed exchange rate, banks will be selling foreign currency receipts to the NMA and these would increase their RD's. Also, they will be buying foreign currency from the NMA to pay for imports. Such purchases reduce their RD's. If bank lending were excessive, the banks would be drawing down their RD's faster than they would be earning RD's from the sale of foreign currency. That would reduce their holding of RD's and automatically constrain them from increasing lending that would have raised imports and foreign debt. The BLRR requirements ensure that the banking system can increase its lending only as the monetary system increases its foreign currency reserves. They prevent the banks from lending the country into debt.

(e) Many foreign exchange transactions are likely to be between banks. When banks make their inter-bank settlements, those transactions may affect their individual RD's but not the overall capacity of the banks to lend nor the overall level of foreign debt.

(f) Non-bank entities may continue to borrow from foreign sources. The growth of the foreign currency reserves in the NMA ensures that when those entities repay their debts, the banking system has the foreign currency reserves necessary to repay those debts. If those foreign debt repayments were significantly large, they could reduce foreign currency reserves. However, the debt repayments would reduce the RD's of the banks. That would constrain the banks capacity to lend until their RD's, and the NMA's foreign currency reserves, were replenished. Thus, the EA arrangements constrain the economy from going further into debt.

18. Balanced Fiscal Outcomes

(a) The EPC does not directly manage public finances. Rather, it aims to put in place an economic environment conducive to maximising the income of the nation and, thereby, the income of government. By maximising employment opportunities, it minimises the need for social security payments to the unemployed and thereby reduces the demands upon public finances.

(b) Even so, government revenue may be insufficient to finance all public expenditure. If so, the EPC may encourage the government to ensure that its taxes and other revenue are sufficient to finance recurrent[4] expenditure. Members of the EA that finance their public recurrent expenditure with taxes and other revenue may become Secure Members of the Alliance.

(c) Those members of the EA that are not able to finance their public recurrent expenditure from their public revenues pose a threat to the stability of their economies. That is because they may need to continue to borrow funds at a time when the economic conditions warrant that lending be constrained. Lending at such times could reduce foreign currency reserves and inhibit the NMA's ability to finance international transactions and maintain the value of the currency.

(d) Under the EA monetary arrangements, government loans are treated the same as the loans of the private sector. Therefore, public sector borrowings reduce the banks' capacity to lend to the private sector. Public capital expenditure should be financed from taxes and other government income to maximise the capacity of the private sector to access funds for investment.

(e) For the purposes of the EPC's macro-economic policy, public expenditure is to be defined in terms of cash flow. Depreciation of public assets is not treated as an expenditure and expenditure cannot be offset by the accumulation of non-monetary assets. Such practices are normal in business to give the appearance that costs are spread over a number of years so as to allow businesses to show a profit to shareholders earlier than otherwise would have been the case. However, government is not a business, and it does not pay dividends. For the purposes of determining the amount of government expenditure in its budgets and accounts, expenditure on capital items is to be treated as public expenditure and not an investment in an asset.

19. Nurture All Industries

(a) The EA's BLRR arrangements manage the growth of demand to ensure that foreign currency reserves are not depleted. That policy frees the exchange rate as a policy instrument to ensure full employment and to move to a stable rate to enable all industries to prosper from the growth of international trade.

(b) Therefore, the exchange rate does not need to rise when exports rise. It means that any the growth of exports does not reduce the incomes of existing exporters. When the exchange rate rises in response to a rise in exports, the reduced export incomes has driven existing exporters with lower margins out of business. The EA arrangements enable existing exporters to continue to receive the

[4] Recurrent expenditure is the regular operating expenditure of government. It excludes capital and other discretionary expenditure.

same income as before the growth in exports. It enables them to continue to prosper together with the new exporters.

(c) Under systems that required the exchange to rise in response to the growth of exports, the higher exchange rate would make imports cheaper than domestic import competing products. That would drive consumers to buy the cheaper imports rather than the domestic product. The lower demand for domestic products would undermine and destroy those domestic industries. The stable exchange rates under the EA arrangements ensure that import competing industries can continue to prosper.

(c) The EA's process for optimising and stabilising the exchange rate allows additional funds to enter the economy, raising the demand for all products. That rising demand enhances the prosperity of all industries. All industries can prosper without the risk and fear that the exchange rate may rise and make them uncompetitive. The system ensures that all industries can compete fairly in business, both on the domestic market and in international markets.

(d) For small countries relying on taxes on imports to generate government revenue to provide employment, the tax rate should be the same for all products to minimise distortions. That includes taxes on imported food staples. This requirement does not mean that there should not be excise on products such as tobacco and alcohol. A standard rate of import tax would contribute to ensuring that all industries can prosper from the growth in domestic demand from the growth in public sector expenditure.

20. Economic Independence and Self Reliance

(a) The optimum exchange rate established under the EA's approach to maximising employment and balancing international payments, enables economies to become independent and self-reliant. The policies and procedures ensure that economies can sustain their level of expenditure without relying on other countries or entities to support them. That is not to say that the economy cannot benefit from assistance. However, if that assistance were not available for any reason, the country should be able to continue to prosper.

(b) As the EPC's implement these policies, they will be ensuring that their nation has a sound monetary system. The growth of their NMA's foreign currency reserves would provide the economy with the confidence and the ability to maintain a stable currency that is freely convertible into other currencies. The economic growth engendered by these policies enable their economies to attain, and sustain, full employment and improve their self-reliance. Within the new monetary and economic environment, their economies become more independent and are able to follow their own aspirations and apply their own social and economic policies.

(c) When EPCs apply these procedures, they will be encouraging the development of domestic industries and ensuring that their economies spend within their means. Governments may choose to borrow foreign funds to invest in infrastructure and finance other development. If they do, the structure that the EPCs have put in place will ensure that, if governments have the local funds to repay their debts, their monetary systems will have the foreign currency necessary to meet those commitments.

21. Unfettered International Movement of Capital

(a) The large foreign currency reserves fostered under these EA arrangements ensure that there is no need for countries to restrict international capital movements. Such movements do not threaten the stability of the currency. Therefore, it is not necessary for the EPC, nor the NMA, to

restrict the international movement of capital funds. That is not to say that the economy must allow all forms of capital inflow and outflow.

(b) Capital outflows can be expected to reduce banks' RD's. If those RD's were excessively reduced, the BLRR guidelines would automatically restrict the growth of bank credit. That may constrain investment in the economy. However, if financial markets are operating efficiently and effectively, economies in need of capital for investment would be expected to pay higher interest rates and that would attract foreign capital. Countries that have surplus funds can be expected to pay lower interest rates. Therefore, it would be expected that investors in those economies would move their funds to economies that have a greater need for capital and, therefore, pay higher interest rates.

(c) The EA arrangements reduce exchange rate risk for international investors. They are likely to be more willing to invest in a member country because they can be confident that they will be able to repatriate their funds when they wish with little exchange rate risk. Therefore, the unfettered international movement of capital together with the stable monetary system under the EA's policies are likely to make available to member a more efficient and effective international capital market.

22. Financial Stability

(a) This EA's approach to managing bank lending generates financial stability because it ensures that banks have the resources to meet their commitments. The requirement to hold reserve deposits with the NMA and to use these to make interbank settlements and meet foreign currency commitments ensures that any bank that starts to have problems are automatically and immediately constrained from extending further loans and expanding its difficulties.

(b) The reserve deposit requirements ensures that banks build up substantial resources that are available to them to settle their commitments without having to borrow additional funds. Those deposits impede the effect of bank failures impinging upon the stability of other banks. Even if a bank failure does affect other banks, the banks' large holdings of RD's contribute substantially to their ability to meet their commitments.

(c) The procedures presented in the table in the following paragraph, ensure that there is a clear and automatic process known to the banks that they must follow if their RD's are insufficient. That requirement provides banks with a strong incentive to meet their BLRR commitments and remain solvent. It is a process that automatically prevents banks from growing their business unless they are stable and secure. Banks can be expected to make it a priority to manage their RD's, not only to look after their customer's interests, but also those of their shareholders.

(d) The following table sets out the constraints to apply to banks and their activities while their Reserve Deposits are below the amount of their Committed Reserve Deposits. These limitations are intended to ensure that banks remain stable and do not trade themselves into difficulties. They come into effect one year after the Reserve Deposit requirements are put in place. That delay is intended to give banks time to establish and stabilised their Reserve Deposits and meet minimum requirements. Note that during the first year, there may be an opportunity for banks to sell government securities to the NMA to increase their RD's[5].

[5] See paragraph 9(e).

Reserve Deposits relative to Committed Reserve Deposits.	Default Restriction Apply to Banks with Reserve Deposits less than their Committed Reserve Deposits
<100%	The bank is not to raise its OLC above its COLC, its SGC above its CSGC nor its OGC above its COGC.
<90%	The bank is not to make any new guarantees or commitments other than for securities.
<80%	The bank is not to secure or guarantee any more securities.
<70%	The bank is not to issue any further loans.
<60%	The bank is to dispose of any holdings of non-government securities and not purchase any additional non-government securities.
<50%	The bank is to dispose of any government securities it may hold and is not to purchase any additional government securities
<40%	The bank is to dispose of any other assets that are not necessary for its banking business and is not to purchase any other assets that are not necessary to its banking business.
<30%	The bank is to sell any remaining financial assets that may be sold to other banks or financial institutions.
<20%	The NMA is to negotiate with the bank and other banks as to whether the bank may be taken over by another bank or banks. Any bank or banks that takes it over must have Uncommitted Reserve Deposits sufficient to enable that bank to continue to lend after it has taken over the target bank.
<10%	The bank ceases to be classed as a bank. It ceases to have access to inter-bank settlements. The NMA is to organise for it to be classed as a non-bank, deposit-taking financial institution. Remaining Reserve Deposits may be used to settle any outstanding commitments to other banks and the remainder may be transferred to the RD's of the institution that is the banker for the former bank, or as agreed between the NMA and the former bank.

(e) The EA's approach to managing bank lending avoids the use of interest rates. That improves the financial stability of the banks because raising interest rates can undermine the capacity of existing borrowers to repay their loans. That is particularly relevant if the loans outstanding have variable interest rates. Banks may fail if borrowers are unable to repay their loans. Also, if a bank had a large portfolio of loans issued with fixed interest rates and market interest rates rise, they may face rising costs but a fixed income, leading to financial instability. The EA approach to managing bank lending provides greater stability to the financial system because it does not use interest rates as an instrument of economic policy.

23. Economic Stability

(a) Economic stability is be fostered under the EA arrangements because the EPC uses predetermined processes to respond automatically to destabilising changes in the economy before

they become critical. Also, the EPC has a range of policy instruments available to it to address different problems. Furthermore, the EPC policies promote a robust economy with full employment, economic growth, stable prices, declining net foreign debt and accumulating foreign currency reserves. These all contribute to economic stability.

(b) The EPC is able to put in place a range of action plans to response to a range of situations. They include measures to lower the BLRR and reduce the growth of bank credit if inflation occurs or foreign reserves decline. That approach does not necessarily reduce economic growth because additional income from trade can continue to stimulate the economy without inflating prices.

(c) If unemployment were to rise, the economy would respond automatically by devaluing the currency to make domestic products relatively cheaper and raise demand for them, thereby creating additional employment.

(d) While natural disasters or other physical, social, political and economic crises will occur, the monetary system is most likely to continue to be stable, allowing the continued functioning of government, business and household sectors. The large level of foreign currency reserves fostered under the EA arrangements enables economies to continue to function and pay for imports, even if export incomes are suddenly reduced.

(e) The foundation of stability for the economy under the EA arrangements are the foreign currency reserves. Members are required to hold the equivalent of 6 months' imports in their foreign currency reserves before they may be classed as a Secure Member of the EA. Secure members may trade with each other at a predetermined exchange rate. When a Secure Member varies its exchange rate, the exchange rate for any specific day is predetermined and made public at least two weeks in advance.

(f) If the member's foreign currency reserves start to fall significantly, the EPC is to take action to stabilise them. That can be by lowering the BLRR.

(g) If a Secure Member's foreign currency reserves fall below the equivalent of 6 months' imports, then the following table sets out the maximum BLRR that may apply in the economy.

Months of Exports	Maximum BLRR for Secure Member
< 6	4
< 5	2
< 4	1
< 3	0

(h) If a Secure Member's foreign currency reserves fall below the equivalent of 3 months imports, its Secure Membership would be suspended until its foreign currency reserves are equal to or greater than the equivalent of 6 months imports. While their secure membership is suspended, other members are not required to purchase the suspended Secure Member's currency at a predetermined exchange rate. Banks of a suspended Secure Member may continue to lend up to the limit of their COLC, CSGC and COGC. However, they are to discontinue all lending activities if foreign currency reserves fall below the equivalent of 2 months imports.

24. Justice

(a) The EA processes enhances justice for all participants in each economy. They establish a monetary system that ensures that the contributions of economic entities to the economy are rewarded appropriately. One of the major forms of injustice that the EA arrangements address is

the injury to domestic producers caused when the growth of exports inflates the value of the exchange rate. Justice is restored by putting in place policies that stabilise the exchange rate and enable all industries to prosper from international trade without adversely affecting another. These policies are the same as those used to provide full employment, economic growth, stability and avoid undue foreign debt.

(b) The result of all these policies is that the economy rewards all economic entities according to their contribution to the economy. The policies ensure that when exports increase, manufacturers who produce for the domestic economy prosper, along with the exporters. Also, exporters are not disadvantaged when other exporters increase their exports. The exchange rate is stable to bring prosperity to all industries.

(c) The amount that banks are allowed to lend is managed so that it does not drive the country into debt nor undermine the welfare and real incomes of those who have worked and contributed to the economy.

25. Sound Governance

(a) Monetary policy is the heart of economic policy. Money is the blood of the economy. It is used by every facet of the economy, including the government, primary industry, manufacturing, finance and household sectors. Therefore, it needs to be managed responsibly and fairly for the benefit of all sectors of the economy.

(b) In order to achieve that objective, the EPC is established as a separate government entity responsible for determining monetary policy. Monetary policy includes policies relating to the exchange rate, the growth of the money supply, the source of monetary growth, the security of the banking industry, the security of the economy, inflation and interest rates.

(c) To ensure accountability to the public and all stakeholders, each member of the Economic Policy Council (EPC) is required to be an elected representative of the national or a regional government.

(d) The separation of the EPC, the entity responsible for determining monetary policy, from the NMA, the institution responsible for implementing the policy, improves the independence and transparency of the EPC. Also, it reduces the opportunity for the regulated entities to lobby the EPC.

26. Democracy

(a) Monetary policy has been left out of the democratic process in many countries. That has meant that there is an opportunity for it to be prejudiced and misdirected away from the objective of maximising the welfare of the whole economy. The Economic Policy Council (EPC) is made up of people who have been democratically elected to office. That means that members are accountable to their respective elected governments and to the people, for the policies that they apply. An EPC of democratically elected members is more transparent and more likely to ensure that economic policy is directed at improving the welfare of the whole nation than a board of unelected experts, bankers and/or industrial representatives.

(b) Countries may choose to democratically elect the members of the EPC. However, once the EA policies were put in place and stability attained, it is unlikely that the EPC would need to meet more often than the minimum of two times per annum. Therefore, later members of the EPC may be left with little to do to warrant the cost of a separate election process.

27. International Support

(a) The EA policies strengthen the economies of members, enabling them to prosper from international trade. Their stable exchange rates allow money to flow into their economies to enable all industries, even those supplying the domestic market, to prosper from international trade. The prosperity of each member contributes to, and supports, the prosperity of the others, so that they all prosper together within a stable economic environment.

(b) The EA arrangements recognise that countries are interdependent, both in terms of physical trade and of their monetary systems. They apply this reality to optimise the economic welfare of each member of the Alliance through international trade and investment. It allows each economy to prosper according to its own lights.

28. Dispute Resolution

(a) Where two countries are in dispute over a matter related to the EA, they are first to negotiate between themselves to resolve the matter. If they cannot resolve the matter bilaterally, they may appoint a mediator that is acceptable to both parties. If they cannot agree on a mediator, they may request the Chairman of the Assembly to appoint a mediator. If that option is not accepted by either party, they may request a special meeting of the Assembly to resolve the matter. The matter would be determined by a majority of members. Any member that does not accept the decision of a mediator or the Assembly, may withdraw their membership of the Alliance. A member who withdraws as a member of the Alliance may be a Companion of the Alliance, if they qualify.

29. Glossary of Acronyms

BLRR	Bank Lending to Reserve Ratio
COGC	Certified Other Guarantees and Commitments
COLC	Certified Outstanding Loan Commitments
CRD’s	Committed Reserve Deposits
CSGC	Certified Security Guarantee Commitment
EA	Economic Alliance
EACU	Economic Alliance Currency Unit
EPC	Economic Policy Council
NMA	National Monetary Authority
OLC	Outstanding Loan Commitments
OGC	Other Guarantees and Commitments
RD’s	Reserve Deposits (with the NMA)
SGC	Security Guarantee Commitments