46529

12th February 1991

Confidential

Final

MINUTES

OF THE 251st MEETING OF THE COMMITTEE OF GOVERNORS

OF THE CENTRAL BANKS OF THE MEMBER STATES

OF THE EUROPEAN ECONOMIC COMMUNITY

HELD IN BASLE ON TUESDAY, 8th JANUARY 1991 AT 9.30 a.m.

Table of contents

I. Approval of the minutes of the 250th meeting

The Committee approved the minutes of the 250th meeting on the understanding that the editorial amendments suggested would be incorporated in the final text.

II. Monitoring of economic and monetary developments and policies in the EEC based on:

- Note for discussion prepared by the Secretariat;
- Preparation by the Foreign Exchange Policy Sub-Committee and discussion by the Committee of Alternates;
- Statistical charts and tables

1. Statement by Mr. Dalgaard

The Monitoring Group had noted that during the period under review the US dollar had continued to be influenced by domestic and international factors. The low growth rate of the US economy had recently led to a steady reduction in interest rates. The Gulf crisis had been a further influencing factor; in the short run, increasing tension was likely to support the US dollar. Developments in the Soviet Union had also proved to be significant. It was difficult to foresee how the US dollar would develop, although there had been some suggestion that interest rates were likely to continue their decline. This would tend to weaken the currency further, unless this factor had already been discounted by the market. In the general opinion of the Monitoring Group the US authorities did not wish to see the dollar falling further in relation to the Deutsche Mark and other European currencies. At the same time, they continued to be dissatisfied with the weakness of the Japanese Yen. It would, of course, also suit the Community authorities if the Yen were to strengthen against both the US dollar and European currencies. Unfortunately, there were no indications that this would happen.

In the first ten months of 1990 the situation in the ERM narrow band had been characterised by a relatively weak Deutsche Mark and in September and October all the currencies in the narrow band had been in close proximity. During this period other countries had benefited from the weakness of the Deutsche Mark by reducing their interest rate differentials and making quite sizable intervention purchases. Following the increase in the German lombard rate in early November the Deutsche Mark had begun to strengthen. This change had prompted different responses on the part of the ERM central banks to contain the situation. In a number of countries interest rates had been raised. There had also been considerable intervention sales, notably in France and Italy. In all the ERM countries except the Netherlands exchange rates had been allowed to move. As a result, the narrow band had widened from less than half a percentage point in September/October to approximately 1.75 percentage points in mid-December.

The Deutsche Mark had appreciated until 18th December 1990, when the resignation of the Soviet Foreign Minister had underlined the possibility of disorder in the Soviet Union which could have potentially adverse consequences for Germany. From 19th December 1990 the Deutsche Mark had weakened and the central banks of the other Member States had responded, again in a variety of ways, to the situation. Exchange rates had been allowed to rise again, intervention sales had ceased and interest rates had fallen.

The Monitoring Group had concluded that the central banks' action over the last few months had been entirely appropriate and in the spirit of the Basle/Nyborg Agreement. The widening of the band had served to remind the market of the exchange risk within the band, and this was a positive development provided that it did not generate expectations of a realignment. The cohesion of the band had been helped by the fact that concerns about political developments in the Soviet Union subsided somewhat, but most central banks indicated that they had been prepared to take stronger measures had this proved necessary.

The wide-margin currencies had pursued a somewhat separate course. Sterling had continued to weaken, but stabilised when government statements reaffirmed that there would be no devaluation of the currency and that interest rates would not be lowered until this was warranted. Sterling had also benefited from the weakness of the Deutsche Mark. The Spanish peseta had remained relatively stable and the Banco de España had not intervened for more than three months. The Portuguese escudo had continued to follow a more flexible exchange rate policy which had allowed the currency to appreciate by more than 2.0 percentage points during the period up to mid-December 1990. Since then it had declined quite sharply, but was still above the medium-term target (which implied a depreciation of the escudo against a basket of currencies by 3% per annum).

2. <u>Statement by Mr. Rey</u>

The Alternates had reviewed briefly recent developments on the foreign exchange markets; the overall feeling had been one of broad satisfaction with the way in which they had been handled, especially within the ERM. It had been noted that sterling had strengthened a little in recent weeks as the market had absorbed the message of the authorities that the exchange rate would be a focal point for monetary policy decisions in the United Kingdom.

The Alternates' discussion had focused on the policy dilemmas in the ERM in 1991. The discussion had been stimulated by the interesting, challenging and somewhat controversial paper presented by the Economic Unit.

Some divergence was envisaged in the cyclical positions of Community member countries in 1991. On the one hand, it was expected that the German economy would continue to boom and that the effects of unification would further stimulate the already strong demand pressures, although doubts had been expressed by one Alternate about the extent of price and demand pressures in Germany. On the other hand, a marked slowdown in the other economies of the Community was expected, notwithstanding the favourable prospects for the growth of exports to Germany. This development had raised the question of policy co-ordination, a question which the Governors had already addressed during their meeting in December 1990.

Three aspects had been discussed.

Firstly, the fiscal/monetary policy mix in Germany. The Alternates had agreed that the large German fiscal deficit expected in 1991 would constitute a potential threat to stability and that an appropriate medium-term adjustment strategy was called for. While the prospective budget deficit would be partly of a temporary nature, a credible adjustment policy was required to alleviate some of the pressure on interest rates. Some regret had been expressed that the merits of this policy option had not been more fully addressed in the Economic Unit's paper which had been based on the assumption that no major fiscal policy change would occur in 1991.

Secondly, if German interest rates remained high or rose in the coming months, the question would arise of the policy options available to other ERM countries. There had been broad consensus that neither a relaxation of budgetary policies, even in countries where a significant slowdown in activity had been recorded, nor a realignment were viable responses. The first option would be contrary to medium-term consolidation programmes in public finance in many countries and the second would jeopardise the credibility of anti-inflationary policies. Furthermore, currency depreciation would not enable interest rates to be decoupled from those of Germany; on the contrary, strengthening market perception of exchange rate stability was still the best way to eliminate risk premia in interest rates and to reduce interest rate spreads within the ERM.

Thirdly, the risks associated with divergent developments in Community countries had to be carefully monitored; an appropriate process for the co-ordination of economic policies was required, and it had been suggested that the Committee of Governors should play an important role in this respect. A good opportunity would arise in the context of the discussion on multilateral surveillance at the ECOFIN meeting on 28th January 1991. It had been suggested that the Committee of Governors should contribute to the debate on that occasion.

The Alternates had also addressed the question of the practice of issuing public statements. Some Alternates had reiterated their support for a communiqué describing the monetary policy intentions for 1991; others, however, had expressed doubts about the appropriateness of making such a statement at this juncture.

3. Discussion by the Committee

The Chairman observed that the economic situation within the Community was varied. On the one hand, the western part of Germany was enjoying an extremely strong boom with real GNP growth of 4.5 to 5.0%, a sharp increase in employment, high rates of capacity utilisation, but there were also high wage claims and a large and increasing budget deficit. In such a situation the central bank had to be very careful. It had also to be recognised that in some countries economic activity was slowing down which might, in certain cases, call for a lowering of interest rates; however, such action might not be possible because of the need to maintain exchange rate parities.

Mr. de Larosière welcomed the Secretariat's initiative to present a paper on policy dilemmas. He had already expressed in writing some reservations regarding certain aspects of the note, especially the ambiguity concerning the nature of the policy mix in Germany. Such papers should not give the impression of condoning a possible major slippage within a country in terms of fiscal policy in an attempt to maintain political realism. If, when writing the paper, it had been felt that the policy mix of a Member State should be redressed, this should have been stated, even though there might have been doubts about the ability to achieve such an adjustment. Major budget deficits had implications not only for the country concerned but also for the stability of the ERM and the international situation. Other European countries should not be forced into raising interest rates at a time when the slowing-down of their economies and easing inflationary pressures did not warrant a more restrictive monetary policy. The process of virtuous convergence that had been experienced in recent years should not be jeopardised by the authorities in the anchor-currency country engaging in a combination of lax fiscal and unrestrictive monetary policies which would be regarded as incompatible with the policy mix of its ERM partners. Mr. de Larosière said that he fully understood the nature of the shock to Germany's domestic economy resulting from unification, but it was important to ensure that it remained a transitional phenomenon. In this context he questioned whether German policy changes had been made with due regard to the spirit of collaboration, whether a sizable German budget deficit (5% of GNP) over the longer-term and the projected economic growth and the pressure on prices were appropriate. He felt that there was a fundamental question to be answered about the mix of policies adopted by one Member State.

Mr. Ciampi said that he shared many of the views expressed by Mr. de Larosière. He, too, welcomed the Secretariat's initiative to prepare policy-oriented notes and emphasised that the Secretariat should play an active role in the work of the Committee of Governors. He noted that the document had adopted a somewhat fatalistic attitude towards Germany's fiscal policy, implying that it necessitated either a stricter monetary policy or a realignment. If tighter monetary policies were pursued at a time when economic growth was decelerating, the economic situation in the Community would certainly suffer. A realignment would mean abandoning the stock of credibility that had been accumulated in recent years. It was on this basis that the appropriateness of the German fiscal policy should have been questioned, rather than taking its present stance as given. Interest rate differentials would be reduced within the Community only if the market was convinced that the present exchange rate relationships were sustainable in the longer term.

With regard to procedure, he said that the Committee had now assumed a greater role in the co-ordination of monetary policies. In order to promote ex ante co-ordination it was necessary to find some means of educating the public. He considered that the Chairman's status at the forthcoming ECOFIN meeting would be enhanced if the Committee had already published its views in the form of a communiqué, even if they were couched in fairly general terms. Such action would strengthen the position of the Committee of Governors. One point that could be raised in the communiqué was the Committee's concern with regard to Germany's fiscal policy. The communiqué should also stress the new role of the Committee of Governors in the co-ordination exercise.

The Chairman, in his capacity as President of the Deutsche Bundesbank, said that the Secretariat had been encouraged to produce the policy dilemma paper which should be regarded as an internal discussion document. He agreed with Mr. de Larosière that the policy mix in Germany should not be seen as unassailable. The German Government should be made aware of the consequences of a high fiscal deficit, particularly if it persisted for a number of years. On the other hand, the dramatic change in Germany's fiscal position had been caused by unique political developments and this had to be taken into consideration. Mr. Pöhl also pointed out that a balanced assessment was called for. Questions could also be asked about the policy mix in other Community countries. In addition, the present policy mix in Germany might bring some benefits. The German authorities had, in the past, often been called upon to increase domestic demand and reduce the trade surplus. This was precisely what would now happen and it would go some way towards reducing the balance-of-payments disequilibria. Germany was now acting as the engine for growth in Europe and without the present fiscal stimulus, the slowing of economic growth in some Community countries would be more pronounced. A further aspect was Germany's control of inflation and of monetary growth. Monetary aggregates had been kept within the target range in spite of the unification conversion rate which had added about 15% to M3 instead of an expected 10%. High interest rates were not caused solely by the German policy-mix but also by inflation and weak balance-of-payments positions in other countries. The Deutsche Mark had become the anchor currency as the result of the voluntary decision by

ERM participating countries. The Deutsche Bundesbank's policy was to do everything within its power to maintain the stability of the Deutsche Mark. In this connection he drew attention to the unhelpful statement in a recent Commission paper which had suggested that, in the future, the Deutsche Mark would no longer be able to play the anchor role. He pointed out that the stability of the Deutsche Mark was not only in the interest of Germany but also of Germany's ERM partners. To maintain inflation at a level of around 3% would not be easy, not only because of the fiscal deficit but because of high wage demands which, for instance in the public sector, had been in the region of 10.5%. Such demands could not be accommodated. The situation in the Gulf and in the Soviet Union both carried unpredictable risks. In the light of these developments the Deutsche Bundesbank had little choice but to maintain a rather tight monetary policy even if this was seen as inappropriate by some of Germany's partners in Europe.

With regard to procedure, the Chairman said that he was prepared to make a statement at the ECOFIN meeting which contained a balanced assessment of the position. However, given the complexity of the present situation, he was not in favour of publishing a communiqué.

Mr. de Larosière said that the Deutsche Mark had proved an extremely valuable anchor to the ERM. If the policies pursued by the anchor currency, however, led other countries to adopt unduly restrictive measures which were not compatible with the balanced non-inflationary growth stance, the virtue of the anchor would no longer be apparent. The German Government should be made fully aware of the consequences of their fiscal policy for the functioning of the ERM. With regard to addressing the public, Mr. de Larosière felt that the Committee of Governors should make a general statement about national monetary policies which underlined the support required from appropriate fiscal policies.

Mr. Christophersen said that the Commission was preparing a paper on multilateral surveillance for the meeting of ECOFIN on 28th January 1991. It was not the Commission's intention to single out one Member State for special attention; one of the aims was to provide the authorities in Germany with arguments to stimulate debate at the political level, and in this context he would welcome the Committee of Governors issuing a strong general statement to generate discussion. He pointed out that Germany's role was very important and that the stance adopted by Germany, even though it reflected the consequences of unification, could trigger a further deterioration in the fiscal situation in Europe. Germany had a special responsibility because its actions could exacerbate the problems of its partner countries. Mr. Christophersen mentioned that at the press conference following the ECOFIN meeting, the President intended to be rather cautious, especially because of the present international climate.

Mr. Duisenberg said that he had grave reservations about publishing a communiqué. However brief and carefully worded, attention would focus on the situation in Germany. If the message of the communiqué was that the German authorities should reconsider their policy mix and if, subsequently, that policy mix was not altered, the market would deduce that a realignment was a short-term possibility. Such comments would be counter-productive. He would welcome, however, a statement by the Chairman at the ECOFIN meeting which should then be made public.

Mr. Hoffmeyer strongly supported the call for a balanced statement to be made at the ECOFIN meeting. A distinction had to be made between what had happened in the past - which was mostly positive - and what could happen in the future. He was concerned about whether it would be possible to maintain stability within the ERM since the recent change in the policy mix in Germany.

Mr. Leigh-Pemberton, too, expressed caution with regard to a communiqué. The first communiqué should be a success and its message unequivocal. Its worth, however, would be diminished if it had no positive effect on the policy mix in Germany. The issue of the policy mix, however, was not unique to Germany; fiscal deficits existed elsewhere in the Community and hitherto the German policy stance had, on the whole, been beneficial. Above all, the Deutsche Mark had to remain the anchor for the ERM generally. In contrast, he fully supported the proposal for the Chairman to make a statement at the ECOFIN meeting.

Mr. Leigh-Pemberton had been disappointed with the performance of sterling since joining the ERM; it had been weaker than was warranted. Sterling was more influenced by movements of the US dollar than by other ERM countries; this was partly the consequence of previous relationships in the market. Furthermore, in the London market there had been expectations of an interest rate cut and rumours that the United Kingdom could covertly devalue by entering the narrow band at a lower central rate. It had been necessary, therefore, to convince the markets that the UK authorities were determined to make a success of ERM membership. Strong political statements from the Chancellor and the Prime Minister around the turn of the year had produced a definite shift in market sentiment and sterling's subsequent performance had been rather more satisfactory.

With regard to the Secretariat's paper on policy dilemmas, he hoped that the Secretariat was not discouraged by the Committee's comments since he felt that the paper had been realistic in its perception and had provided an excellent basis for discussion. The paper had set out clearly the available options in the event of German fiscal policy not being tightened. Mr. Leigh-Pemberton said that he fully supported the Deutsche Bundesbank in its desire not to modify its anti-inflationary policy in the interests of relieving tension within the ERM.

In the United Kingdom the recession was biting harder and might be longer and deeper than had been anticipated. There had been great political pressure against maintaining a high exchange rate and, consequently, high interest rates. He was sure, however, that the UK Government was determined to play its role in the process of virtuous convergence. If the present discipline was maintained, there would be beneficial effects on inflation and convergence. A downward realignment vis-à-vis the Deutsche Mark was an option which might well carry with it a heavy penalty in terms of a loss of market credibility both for the United Kingdom and for its other ERM partners.

Mr. Doyle agreed with Mr. de Larosière and Mr. Hoffmeyer. He considered that the present difficulties might also have a positive aspect. The comparative ease with which inflation and interest rate differentials had converged in recent years had lulled and misled some observers into thinking that full union could be completed in relative comfort. The present developments had had a salutary effect. It was essential to ensure that there was convergence of economic as well as monetary policy; it would be inconceivable to proceed towards an economic and monetary union simply on the basis of monetary policy without the compulsory co-ordination of economic and fiscal policies.

4. The Draft Communiqué

The Committee considered the following press communiqué:

"In the context of Stage One of Economic and Monetary Union, the Governors of the central banks of the European Community have discussed the consistency of the monetary policy targets or intentions for 1991 in

Community member countries on the basis of objective indicators. The Committee of Governors is confident that the monetary policy intentions as presented are compatible with the aim of bringing about convergence towards a low level of inflation in the Community. In this context the Committee of Governors wishes to emphasise that the success of Community countries' monetary policies will critically depend on adequate support from other policies, in particular fiscal policies."

Following comments by several Governors, the Committee decided after a majority vote not to issue the statement. The majority felt that it lacked real substance and might be regarded as slightly premature and unimpressive, given the current depth of discussions. Mr. de Larosière regretted the decision not to publish the communiqué as he felt that it was not in keeping with the higher profile that the Committee had adopted. Mr. Ciampi agreed with him.

The Chairman said that the Secretariat should prepare a detailed statement for him to deliver at the ECOFIN meeting on 28th January 1991. The text would be distributed to the Governors for comments; consideration might also be given to whether or not to publish the statement. He felt that the statement would carry considerably more weight and influence than a communiqué.

III. Adoption of the Committee's report to the EEC Ministers of Finance on developments on the foreign exchange markets of the nineteen countries participating in the concertation procedure during December 1990 and the first few days of January 1991

The Committee adopted this report, which would be sent to the EEC Ministers of Finance in the usual way.

IV. Economic and Monetary Union

1. Statement by Mr. Rey

The Alternates had not endeavoured to anticipate the exchange of views of the Committee of Governors. Nevertheless, a few remarks had been made on the memorandum prepared by the Secretariat, "Survey of Proposals suggested for Stage Two", and on the Commission's proposal for a draft Treaty on EMU. A number of procedural aspects had also been discussed.

With regard to the Secretariat's memorandum, some Alternates had been concerned that the Conclusions of the Presidency of the European Council had been treated on the same footing as other proposals. This had given the mistaken impression that some issues were still open to debate. According to some Alternates, these issues had been settled by the Rome Communiqué, which had been endorsed by all Community countries, except the United Kingdom. Other Alternates, whilst not seeking to challenge decisions taken by the European Council, had observed that the content of these decisions had been ambiguous and had already led to different interpretations by the political authorities.

Reference had also been made to the draft Treaty tabled by the Commission, which also contained provisions relevant to Stage Two. The Alternates had expressed concern that the proposals would give the European Central Bank (ECB) powers to conduct foreign exchange operations during Stage Two and to do so within the framework of guidelines laid down by political authorities. Unfortunately, however, it had not been possible to allow the representative of the Commission sufficient time to make a presentation of these proposals.

With regard to procedural aspects, it had been suggested that it would be unwise to start the Stage Two debate with the institutional issue; instead it would be more appropriate to focus on the contents of Stage Two by defining the essential features of this phase, possibly along the lines of questions 5, 6 and 7 of the Secretariat's memorandum. An alternative suggestion would be to set out certain criteria against which the different proposals could be assessed; such criteria might include:

- the need to encourage faster moves towards convergence;
- the powers which could meaningfully be assigned to the new institution in Stage Two;
- the necessary degree of independence.

2. <u>Discussion by the Committee</u>

<u>Mr. Christophersen</u> thanked the Committee and the Secretariat for the immense amount of work that had been undertaken in preparation for the Intergovernmental Conference (IGC). He explained that the offices of the Commission had recently sent to the IGC a working document which was a draft legal text of a Treaty. The document had been requested by the Italian and Luxembourg Presidencies as a basis for discussion at the IGC.

It was not a Commission proposal but took note of majority positions and had the status of a working paper.

It was the view of the Luxembourg Presidency and the Commission that the Conclusions of Rome should enjoy a special status. They should be seen as a political consensus drawn up on the basis of all the other proposals which had been tabled by, for example, the Monetary Committee, the Commission and individual Member States and would form the mandate for the IGC, subject to the reservations of the United Kingdom. It was the Presidency's wish to move forward rapidly in establishing a Treaty text, a draft Statute of the ECB and the European System of Central Banks (ESCB) and a draft "understanding" about the degree of convergence necessary to proceed from Stage Two to Stage Three.

At the ECOFIN meeting on 28th January 1991 the discussion should focus on the structure of the new Treaty; the aim being to start with the final design of the System, and then to move on to the transitional measures, the contents of Stage Two and the definition of convergence criteria.

Specifically in connection with the Secretariat's paper, the Commission had regarded some of the issues raised therein as settled as a result of the European Council meeting in Rome, at which "the institution" was the same as that described in the draft Statute prepared by the Committee of Governors. It was clear, however, that the transitional issue would be a major and complicated topic.

Mr. Duisenberg considered that the Rome Communiqué had been somewhat vague on a number of issues. He felt that had the European Council wished to call the institution to be created at the beginning of Stage Two the ECB, a statement to that effect would have been issued. In this context, some days after the Rome meeting the Dutch Government had declared that the institution to be created was not the ECB but something different. He said that it would be worthwhile assessing which articles of the draft Statute could be applied in Stage Two.

Mr. Hoffmeyer supported the proposal put forward by Mr. Duisenberg.

Mr. Ciampi said that the Committee should not become embroiled in a discussion about the nature of the institution at this stage; the interpretation of the Rome Communiqué should be left with the Authorities who approved it. His own view was that it would be the institution in existence in the final phase. The Committee should start studying the content of Stage Two and the way the new institution could operate to implement it gradually. He also supported Mr. Duisenberg's proposal.

Mr. Jaans also supported Mr. Duisenberg's proposal and considered that the institution to be created at the start of Stage Two would be entirely different from that devised for Stage Three. The Committee of Governors, however, should adhere to the work already undertaken and go forward on the hypothesis that, at the beginning of 1994, the ECB, in some form, would start operations; it was necessary, therefore, to determine what constraints had to be placed on the articles in order to prevent the institution from becoming fully operational. He said that a member of the Secretariat would be invited to attend the IGC and that the status of the representation would be decided in due course.

Mr. Rubio acknowledged the difficulty the Secretariat had encountered in producing the note on Stage Two, but he was concerned that the Spanish position had not been accurately reflected in the memorandum. The Banco de España had since sent a letter to the Secretariat explaining and clarifying the Spanish position. With regard to the Rome Communiqué, he had felt that it would be very difficult for the Committee to interpret the Conclusions. The various interpretations of the Rome Conclusions revealed substantive and fundamental differences and this would cause difficulties in the Committee's discussions for the transitional phase if it was not known whether the institution in Stage Two would be a monetary institution or a bank. He wondered whether there was a procedure for clarifying the contents of the Rome Communiqué.

Mr. Leigh-Pemberton said that the UK Government was that day to issue proposals entitled "Economic and Monetary Union beyond Stage One - possible Treaty provisions and statement for a European Monetary Fund". The document consisted of a series of proposals to illustrate how a monetary institution could issue and operate the hard ecu, and thus provided a further contribution to the discussion of a possible institution in Stage Two. The Committee should focus on the functions of the institution in Stage Two. It might also clarify the type of institution needed in Stage Two and the relative merits of the various proposals. The following questions could be asked:

- what would be the tasks of the new institution in Stage Two?

- how could it be ensured that there would be a clear distinction in this period between the responsibilities of the new institution and the national central banks?
- what would constitute adequate independence for the new institution?
- how could the new institution promote convergence in Stage Two?
- how could the new institution cope with the fact that its members' starting economic conditions would be very different and, indeed, their views on the ultimate goal might also be different?

Mr. de Larosière said that he shared the view that the Rome Communiqué provided the mandate and that national contributions should not be put on the same level. He would be in favour of setting up at the beginning of Stage Two an ECB and an ESCB as defined in the draft Statute. The ECB in Stage Two would have limited responsibilities. The institution would undertake preparatory work in readiness for the transition to Stage Three, at a time when it would not have assumed direct responsibility for monetary policy. It would also work to strengthen the co-ordination and harmonisation process. To transform the Committee of Governors into a Council or Board would appear to be a window-dressing exercise and would not represent a real step forward in terms of monetary co-ordination.

With regard to the duties and powers vested in the institution in Stage Two, there should be a strengthening of co-ordination of monetary policy and a harmonisation of instruments and monetary policy practices. In this respect, the paper produced by Mr. Ciampi was very interesting and should be considered at greater length by the Committee. Concerning the ecu, Mr. de Larosière said that he was in favour of expanding its market, which would enable the ECB to have a well-tried instrument at its disposal. He was in favour of hardening the ecu and he found the UK proposals interesting. For example, the suggestions relating to abandoning the compulsory five-year revision and also the principle of non-devaluation of the ecu could be considered. However, he had grave reservations about introducing a parallel currency.

With regard to the nature and duration of Stage Two, Mr. de Larosière said that it should be a transitional phase of a technical nature; its main role should be to prepare for Stage Three and it should, therefore, be of limited duration. Stage Two might not simply be a period of transition but also a period of instability; lengthening Stage Two might prove counter-productive.

The Chairman, in his capacity as President of the Deutsche Bundesbank, said that the Rome Communiqué presented purely the Conclusions of the Presidency, and should not be seen as a legal document but as a statement of political intent. He noted that it had been confirmed by some Heads of State and Finance Ministers that responsibility for monetary policy would remain in the hands of national authorities until a decision concerning the passage to the third phase had been taken following an assessment which would take place three years after the start of Stage Two. It should be borne in mind that during this period exchange rates could be changed and therefore the situation might not be significantly different for a period of at least six to eight years. With regard to the responsibilities of the proposed new institution, he questioned whether they could be accommodated within the existing institutional structure. He considered that the proposed institution had little to do with the ECB or ESCB as suggested by the Committee of Governors, for it would lack both competence in the field of monetary policy and independence. It also remained to be seen whether, at this stage, a Treaty change - which would be necessary to create the proposed institution - would be acceptable to Member States. Furthermore, the character of Stage Three had to be absolutely clear before the institutional arrangements were discussed in detail. In his view, an ECB and ESCB could only be established if it was clear which countries would be ready to transfer monetary policy sovereignty to a supranational institution, which countries would be prepared to fix their exchange rates irrevocably and when this would take place. On the whole, he felt that it would be premature to deal with the transitional issues until the IGC had taken certain decisions regarding Stage Three.

Mr. Ciampi said that it was necessary to determine the contents of Stage Two but he did not agree, as suggested in the Secretariat's note, that the Governors should discuss the nature and type of institution to be created. It had been decided at political level to set up the new institution at the beginning of Stage Two; in his opinion this institution was the ECB. However, if doubts persisted on this point it was up to the political Authorities to provide interpretation of the Rome Communiqué. He agreed that the new institution was not strictly speaking necessary in

Stage Two to carry out the functions described in the Rome Communiqué; however, if a decision on this point had already been taken at political level, he suggested that it would be best to plan how the institution will gradually become fully operative. Gradualism is already in the experience of the Community. Finally, he stressed that there would be a risk in creating a provisional institution, which might prevent reaching the envisaged final framework in due course.

Mr. de Larosière agreed with Mr. Ciampi. He said that it was not the Committee's responsibility to interpret the Communiqué. He also agreed that there were a number of drawbacks to creating a transitional institution for a temporary period. He felt that the Governors should wait and see what emerged from the IGC before considering the technical input. The whole situation was too uncertain.

Mr. Christophersen said that it was the view of most Member States that Stage Two was a preparatory phase for Stage Three. During Stage Two the necessary institutional framework would have to be established. This would include the embryonic form of the ECB and ESCB, but with limited competence. One of the issues, therefore, was to determine which articles of the draft Statute would be applicable in Stage Two and which provisions should be reserved for the final stage.

The Chairman said that the Committee should continue its exchange of views at future meetings in the light of the outcome of the IGC. The Secretariat was asked to prepare the discussions.

V. Other matters falling within the competence of the Committee

1. Community central banks' activities on payment systems

A. Statement by Mr. Rey

The Committee of Alternates had reviewed a proposal made by the Banca d'Italia to initiate exploratory work on issues of common interest to EC central banks in the field of payment systems and, to that effect, to establish a temporary "ad hoc working group". The Alternates had indicated that they would welcome the creation of such a group as a worthwhile and timely initiative, especially in view of current moves being made in this field by the G-10 central banks as a consequence of the netting study and by the Commission in the context of implementing the Single Market. The Alternates had recommended to the Committee of Governors that:

- a temporary ad hoc working group should be established;
- the members of the group should be of senior level, although representatives would be nominated by the central banks themselves;
- the group should not embark on too wide-ranging an exercise, but should essentially conduct a fact-finding review and should identify general issues relevant to the functioning and responsibilities of central banks. It should prepare a report for the Committee of Governors within twelve months of its inaugural meeting; the production of an interim report would be left to the judgement of the group;
- the group should examine and respond to the issues raised in Mr. Lamfalussy's letter of 3rd January 1991 to the Chairman of the Committee of Governors. Mr. Lamfalussy had recommended a review of the design and operation of the Private Ecu Clearing and Settlement System in order to determine whether current procedures satisfied the minimum standards laid down as a result of the G-10 work on interbank netting. In this respect the group should liaise and co-operate with the G-10 Committee on Payment and Settlement Systems chaired by Governor Angell;
- taking into account some reservations expressed about an enlargement of the Secretariat for this purpose and given the limited resources of the latter, the Chairman of the group would have to consult with the Secretary General regarding the question of staff availability.

B. Discussion by the Committee

Mr. de Larosière welcomed the establishment of the ad hoc working group as a timely and appropriate initiative. However, he was concerned that the mandate to the working group to review the operation of the ecu clearing mechanism would unnecessarily retard implementation of projected improvements to the system.

Mr. Baer reported that it had been Mr. Lamfalussy's concern that some of the five minimum standards described in the netting report were not met by the present ecu clearing and settlement system and, with a view to satisfying the minimum requirements, the ecu clearing system should be reviewed. However, this work should not delay the implementation of the improvements in the ecu clearing and settlements system which had recently been agreed by the BIS Board.

Mr. Leigh-Pemberton agreed with Mr. de Larosière that there should be no interference with the arrangements that had been made with regard to the ecu clearing system. The existing arrangements should be seen as distinct from the longer-term exercise. The implementation of present proposals and arrangements for the improvement of the ecu clearing should not be delayed.

Mr. Duisenberg fully agreed with the creation of the ad hoc working group and hoped that the task of reviewing the ecu clearing system could be dealt with expeditiously. He suggested that Mr. Padoa-Schioppa chair the group.

The Chairman said that he was concerned at the apparent proliferation of sub-committees of the Committee of Governors, and questioned whether some of them could not be rationalised. However, he agreed that the ad hoc working group should look into the issue of the ecu settlement and payment system and report back to the Committee of Governors with its findings.

2. Harmonisation of monetary aggregates

Statement by Mr. Rey

On the basis of a preliminary note prepared by the Economic Unit, the Committee of Alternates had briefly discussed the approach for harmonising broad monetary aggregates and the procedure to be followed. The Alternates had endorsed the pragmatic approach which would build on existing aggregates. They had supported the proposal that the work would initially concern a group of selected representative countries, possibly a mixture of large and small countries, in order to keep the task manageable.

The procedure that had been suggested would enable the Economic Unit to work in close contact with monetary experts from national central banks, through a small and informal technical group, and the Secretariat would consult with the Chairman of the Monetary Policy Sub-Committee in this respect. An interim report to the Committee of Alternates would be produced by the end of spring 1991 under the aegis of the Economic Unit. This report would possibly be accompanied by comments from the Monetary Policy Sub-Committee.

The Committee took note of the work in hand.

VI. Exchange of views on the Committee's work programme for 1991

Mr. Rey said that the Alternates had no particular comments.

Mr. Christophersen said that he thought that it would be expedient to publish an annual report in 1991 rather than in 1992, as suggested in the draft work programme.

VII. Date and place of next meeting

The Committee's next regular meeting would be held in Basle on Tuesday, 12th February 1991 at 9.30 a.m.

251st MEETING OF THE COMMITTEE OF GOVERNORS

8th JANUARY 1991

Those present were:

Chairman of the Committee of Governors	Mr. Pöhl
Banque Nationale de Belgique	Mr. Verplaetse Mr. Rey Mr. Michielsen
Danmarks Nationalbank	Mr. Hoffmeyer Mrs. Andersen
Deutsche Bundesbank	Mr. Tietmeyer Mr. Rieke
Bank of Greece	Mr. Chalikias Mr. Papademos Mr. Karamouzis
Banco de España	Mr. Rubio Mr. Linde Mr. Durán
Banque de France	Mr. de Larosière Mr. Lagayette Mr. Cappanera
Central Bank of Ireland	Mr. Doyle Mr. Coffey Mr. Reynolds
Banca d'Italia	Mr. Ciampi Mr. Dini Mr. Santini
Institut Monétaire Luxembourgeois	Mr. Jaans
Nederlandsche Bank	Mr. Duisenberg Mr. Szász
Banco de Portugal	Mr. Tavares Moreira Mr. Amorim Mr. Bento
Bank of England	Mr. Leigh-Pemberton Mr. Crockett Mr. Foot
Commission of the European Communities	Mr. Christopherson Mr. Pons
Chairman of the Monetary Policy Sub-Committee	Mr. Raymond
Chairman of the Foreign Exchange Sub-Committee	Mr. Dalgaard
Secretariat of the Committee of Governors	Mr. Baer Mr. Scheller Mr. Strauss-Kahn