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VERBATIM REPORT  
COMMITTEE OF GOVERNORS' MEETING  
BASLE, 10 JULY 1990

Item VI. Common Framework for monitoring monetary policy

951. Chairman. And so we come to point VI on our agenda. M. Rey, maybe you can say a few words as an introduction.

Rey. Thank you Mr Chairman. The Governors will recall that in May, following their discussion on the Special Report on the Common Framework for the monitoring of monetary policies prepared by the group of experts chaired by M. Raymond, a number of questions arose in connection with certain analytical and policy issues as well as the proposed publication of a press communiqué. The CoA was then invited to explore further these issues and to report their conclusions for this meeting. Now the CoA has done just that with the help of the Sub-Committee chaired by M. Raymond and our combined report is now in front of you. It was finalised yesterday.

As can be seen in section 3.3 of this report, the Alts recommend the adoption of a two-stage process whereby in November of each year the Committee would assess the desirable orientation of monetary policies for the next year with particular emphasis on their consistency. The determination of targets as appropriate would then occur in accordance with existing national procedures, taking into account the results of the November exercise. On the desirability of subsequently releasing some aspects of the agreed framework, including possibly the qualitative targets, there were differing opinions among Alternates. Therefore the draft communiqués you find in Annexes 1 and 2 of this report should be regarded as mere suggestions at this juncture. The Alts essentially agreed that the issue of publicity largely depends on the outcome of the ex ante co-ordination exercise and that this would in particular be the case with the first of these co-ordination exercises. It was also suggested that the Economic Unit should look into the question of how to assess the

consistency of monetary policy targets. Its findings, if the Governors are in agreement, would probably be available in time for the September meeting and the Sub-Committee on monetary policy would then prepare a forward-looking report by way of preparation for the November meeting.

983. Chairman. M. Raymond, do you think you can do that? Do you want to add something? You have done your work. Well if I may say a few words. First I want to thank you very much for this excellent report. I think it's a very good piece of work. Of course, it's only the beginning of an exercise but I feel rather encouraged by this first try. Also, thanks to our Alternates for this contribution. I would very much support what you have suggested as far as the procedure is concerned. That we try in November for the first time to discuss our monetary targets, targets of our monetary policy maybe we should say and everybody is invited to report and to talk about what we have in mind for next year and then we will see how we can proceed. But that would be an entirely internal exercise - no publicity and so, because I think that's pretty much sure, we don't know what the outcome of that discussion will be whether that is feasible or not. And I would also like to support the proposal that our Economic Unit should start working on an operational concept - how we could really make monetary targets and other indicators consistent, technically how that is possible. I think that's a very good task for the Economic Unit when they start to begin their work next month. So I wonder whether you can agree to that proposal. M. Raymond?

1006. Raymond. Yes Mr Chairman, thank you. in the Special report which was examined at the previous meeting of the CoG, we indicated that if the exercise were to be undertaken in the way we suggested from the technical point of view, certain central banks will have to alter to some extent the aggregate which serves as a basis for their target. This is so for France, Spain and others. Therefore it is indeed essential for the research unit to give guidance to the Central banks to work in close co-operation with these central banks so that they will be able to come up with the new aggregates which will serve as a basis for the targets 1991. They would be somewhat different from what they are now. This is something which we had emphasised in our Special Report.

1019. Chairman. It will of course take some time to come up with such proposals.

1020. Ciampi. I have a little problem. A small, domestic institutional problem, Mr Chairman and therefore I'm asking whether I understood you correctly. You suggest that what we are doing now for this particular year will be an informal experiment. Did I understand you correctly? Because in Italy in view of our institutional rules, by the end of September the BdI will have to submit to the government for discussion the budget for the next year and therefore we shall already have to indicate what targets we would like to set. Therefore if this is an informal exercise I don't have to ask for this procedure to be changed in Italy, but once this exercise shall become official, formal, public, I shall have to ask for this procedure to be amended in Italy.

1033. Chairman. I think it should really be considered as you said as an informal exercise first, because really all of us have some problems of this kind. I have the same, because my council is deciding on the money supply target in December. And so, formally I am not in a position to say anything here, but of course, informally I can say what our thoughts are. And I think we need to collect some experience. I mean we have to see how that works and whether it's really practical and so on. I would suggest that we do it in a very informal way.

1040. Leigh-Pemberton. I would agree with this, Mr Chairman. My position is just the same as that described by Gov Ciampi. It happens to be February before the United Kingdom addresses its mind to monetary targets for the year, April 1991-1992 so that I welcome your proposal that when we first set about this in November it should be understood to be an entirely internal exercise. If it is, I can welcome that, because I think this is where we may begin to see the influence of our work. I would be quite ready for my colleagues round the table to make their assessment of what ought to be the monetary targets of the United Kingdom. I don't know whether they will be adopted because they have to go through a further process. But the value of this would be that if there was a concerted opinion around this table about what should happen in one country or another, I believe we

should pass that on in our own national consultations as the first illustration of the converged ex ante views of this Committee.

1055. Chairman. OK. Can I take it you are all agreed on that?

Item VII. ESCB

Chairman. So we can go ahead to the next and most important point of our agenda so far. I think it's very important that we try to come to some conclusions at this meeting, because we won't meet again before the informal meeting in Rome and I think it's very necessary that we express our opinion to the governments before that informal meeting. So if we cannot come to any final results today, although I do not expect that, we have to envisage a special meeting before the Rome meeting. So this is my first remark. My second remark which I want to make before we go into the meatier things and before I give the floor to M. Rey to explain what our Alts have discussed, I want to make a few more general remarks.

I think we have to be very clear, at least amongst ourselves, what the objective of this inter-governmental conference is and should be in our view. And if I understand it correctly, the objective is to set up the legal framework for the transfer of decision-making powers to the Community in the area of monetary policy. I'm not talking about the other areas in which decisions have to be taken, I'm talking about monetary policy. Otherwise such an IGC would not be necessary. All the rest we can do without - amendments to the Treaty without changes of the Treaty, etc. So this is really a revolutionary act, it's not business as usual. And what the objective is as far as I understand it - and the assumption under which we start our work should be that it's the objective to create one day a single currency for the Community or for the Union for those who participate in the Monetary Union which means that it is necessary to have one single monetary policy, because we can't have a currency and have different monetary policies, obviously. So there has to be agreement on that objective in my view because otherwise we really don't know what we are talking about. This does not mean that it will be implemented tomorrow, maybe it will be implemented in the distant future, that is a political decision which we do not have to take but we have to work under this assumption, otherwise we are lost and talking about completely different things. And I think if we agree so far that that is the political

hypothesis under which we start our work, and it was already of course described in the Delors Report, that was more or less our proposal for the third stage of Monetary Union in the Delors Report, then I think we agree that the policy objective of such an institution which is responsible for the single currency has to be price stability with all the implications which are involved in that. And fortunately, I am very happy about that that we have reached this degree of agreement about that on this very important basic point, and that we also agree I think, but there are some different views and nuances in the draft in front of us, that such an institution needs of course the instruments to pursue such a policy, instruments to decide on the price and quantity of money, so to say. Because otherwise it couldn't deliver on its objective to achieve price stability, but you don't have the instruments to take the necessary decisions, you cannot deliver, you disappoint the very high expectations which have been raised in the stability of such a single currency. And I think as a third point, to use the instruments, such an institution needs the necessary independence. If it has to ask European Council or whatever, or if it is dependent on the decision of political bodies, be it national or EEC bodies, it will not be efficient to pursue such kind of policies. This I think are the basic requisites and before we start our discussion I think we should be clear that we agree on that, because otherwise we have to make it clear that we disagree, then we have to put that in our report and say, well there's one or the other Governor who is not of the opinion that this is the objective of the whole exercise. And in this context, if I may, I would like to ask Robin L-P for very obvious reasons whether he is prepared to discuss on this basis the draft Statute because we all know the position of your government in this respect. And maybe you would like to say a few words before we go into the detail, on the more general lines which I have tried to describe.

1137. Leigh-Pemberton. Mr Chairman, if the Committee would find it convenient for me to talk on those lines now, I'm very content to do so and perhaps in this context could say something in very general terms about the UK proposal which you very kindly put on our agenda specifically as item VIII but it maybe that I can deal with it now in a way that makes it unnecessary to have a special item for it later.

Let me say first of all that I share entirely, personally, what you've said about the purposes of the new European Central Bank. I think everyone here is well aware that I have the personal difficulty that at the present moment the UK government is not prepared to commit itself publicly to Stage 3. I personally however, am quite content to work on the basis for a Statute for the ECB on the Stage 3 basis, the Delors basis, because I believe that if we are ever going to have a bank of that nature, it will be necessary for it to have very largely the characteristics that you've described. What the stance of the UK government at the IGC when, as I assume this matter will come before it, I'm not absolutely clear, but I don't think they will wish to disassociate themselves from this but may, depending on how discussions go in London, will wish to attend and to make their contribution on the understanding that in due course the UK may well change its attitude towards Stage 3. But I must rely on the confidence of my colleagues around the table on this, because it's not the sort of thing that it's very easy to say publicly in London at the moment. Now it's in that context that the UK government have put forward this proposal for the Hard Ecu. And may I just emphasise that this is not an attempt to provide a substitute for Stage 3 as the Delors Report knows it. It is an attempt to produce something useful for Stage 2 to enable us as it were to get from here to there, that is from Stage 1 to Stage 3. If some people at the present moment are not prepared to see it as actually leading to Stage 3, may I just say that I regard it as not inconsistent with Stage 3 and perfectly capable of leading to Stage 3 assuming the Community is going to go to Stage 3 via a Stage 2. Now, I realise that there are some members here who feel that a Stage 2 is not necessary. I can't say whether we shall proceed from Stage 1 to Stage 3 without a Stage 2, a clean move as you might say. Or whether developments will move in such a way that there will in fact be a Stage 2. I would like to say, however, that if it should transpire that there is a Stage 2, I believe that this could actually be a useful form of Stage 2 to carry us from Stage 1 through an evolutionary development of an institution and a common currency finally to a single institution and a single currency. And the proposal has been put forward with that very much in mind.

Now I realise that this proposal does introduce what might well appear to be a parallel currency and that all of us I think in the Delors Committee were very concerned about the dangers of a parallel currency. I

believe that this proposal meets the arguments against parallel currencies. If I didn't believe that, I wouldn't have associated myself with it because I accept entirely the danger of an ordinary parallel currency being a source of monetary creation over and above the monetary creation that may take place anyway. Now why I think this is different is because it has had introduced into it what we have given the nickname, the loop. This guarantee by national central banks of the value of the currency that the Hard Ecu bank takes against the issue of the Hard Ecu or alternatively the obligation of that national central bank to repurchase its currency which has been used to acquire the Hard Ecu. I believe that this can be a sure means of ensuring no additional monetary creation. If the hard Ecu is to be guaranteed to be as strong or stronger than the strongest currency in the ERM this will also be counter-inflationary. I think actually, incidentally, this part of the scheme, if one thinks it through could work out to be an extremely ferocious instrument in the hands of the central body for putting pressure on individual national banks and governments, perhaps too ferocious even to be healthy on occasions, but that's a side point. I say that because I want to emphasise the characteristic of this that it is actually a very powerful central institution and instrument potentially. Now the other thing that I want to say at this stage, Mr Chairman, is that this proposal produces an institution which we have described as the European monetary fund I don't know whether that's an ideal name, but may I call it that - the EMF. produces an institution which can be totally consistent with an ESCB. I suggest that if it were formed, it probably ought to have the same Council and the same sort of managing board. It should have a commitment to price stability and it should above all be independent of government interference. So that the institution that we're proposing is consistent with the ESCB whose Statutes we're going to study later and indeed takes upon itself the characteristics of perhaps being an embryo or starting point for this ESCB. And it's at this point that I must acknowledge that we have used some of the ideas of the Governor of the BdeFrance which came forward during the Delors Report and which at the time we were inclined not to accept, I acknowledge that I was amongst them, but now it would only be right to say, that partly with the passage of time and partly with the easing of the political situation at home, we have found it possible to adopt this, if we may, and to work it into our proposal. So I put it before you Mr Chairman in the belief that this is a proposal which

is worth further study. Further study as a possibly useful means of getting us from here to there. For covering the transitional period from Stage 1 to Stage 3. I say possibly because it may well be that some people may not need a transitional period, it may happen in other ways. But supposing it doesn't happen in other ways, the direct, clean transition. For some reason it can't be fulfilled. Let's face it, there may be parliamentary objection to quite such a drastic transfer of powers and as a Community we may find ourselves having to accept a transitional period, a Stage 2 in which some sort of proposal such as this may be useful. Could I therefore suggest that it is worth further study, that our Alternates might look at it and report back to us in the traditional work. I'm reluctant to suggest further work for our poor Alternates, but it is an extremely efficient way of dealing with a matter like this which has got a lot of technicalities in it. And that our Committee will be, as it were, seen to have been dealing with it in our traditional fashion. It is the intention of the UK government to present this proposal to the normal monthly ECOFIN on I think July 23rd, the Chancellor of the Exchequer will be putting it forward then and according to how it goes then, I suppose he will wish to put it on the table for the IGC beginning in December. May I also ask whether in fact my colleagues around the table would be ready to receive a delegation from the Bank of England at senior working level to talk about this, if they would like to have us. It's already happened as you know at the Bundesbank and if the appropriate working level, senior officers from the Bank of England, it could well be the Deputy Governor or the Head of the Monetary side could be received by you, I would find that very courteous and it might even be helpful. And that's really how I would like to leave this matter with you Mr Chairman and the Committee.

1252. Chairman. Thank you very much Gov L-P. I think we all agree with your proposal, in spite of the fact that the Alts might feel a little inconvenient because they have so many other things to do now. But I think it's the normal procedure and nothing to say against it.

I take from what you have said Robin, and I am quite happy with that, that you say that your proposal is not an alternative to what we are discussing, it's consistent with that. It's a proposal for a transitional period but what we have to do here today is of course to try to describe the characteristics of a central bank system. This is a different approach



but your proposal if I understood you correctly, is not regarded as an alternative to that, or as a substitute to what we are doing but as an additional approach so I think we can accept what you have suggested as far as the procedures are concerned and so we can ask our Alts. And if you would be kind enough to discuss and inform, and discuss this bilaterally with the central banks that is of course a very reasonable procedure. But I wonder, and so I would suggest that we do not go into the details of the British proposal now, that we start with our draft and that we go ahead as it was intended from the beginning. Otherwise we would be in a very difficult situation because then we have to take up the discussion on that proposal but we have to present if possible this draft in due time. But who wants to say a word on what Robin said? Mr Rey?

1276. Mr Rey. Mr Chairman, given the workload of the Alts at the present time I think they would seek guidance from you as to the order of priority and the calendar that you set.

1277, Chairman. Thank you. Well I think it is very clear that the priority is now what we are working on. That cannot be changed. We cannot change our whole procedures for that reason. But that does not mean that we will not discuss your proposals. The first opportunity would be in November.

1280. L-P. If I may say Mr Chairman. I quite understand this and I think that I would be content with this. I think that the important thing for me and for the UK government is for it to be understood that this matter is on the table here at this Committee and if it remains there perforce till November because of pressure of work, well I think that's both understandable and acceptable.

1285. Duisenberg. Mr Chairman. To answer one of the last questions of Gov Leigh-Pemberton first, of course the Netherlands Bank is ready to discuss this with a high-level delegation of the Bank of England. I don't want to go into the content of the proposals as well, but just one question which is foremost in my mind. I heard Gov L-P say that the board of such an EMF would be as strong and as independent of national governments as the board foreseen for the eventual ESCB. Now that is indeed, if that is what he said, I think it would be more than in inter-governmental co-operation or

inter-central bank co-operation as I have derived so far from the British proposals as I have read them, which would be quite significant. But then of course this proposal for Stage 2 does require a change in the Treaty to be ratified by all parliaments so we would really have a two-stage procedure as an implication of the proposal. But that's just a remark.

1301. L-P. I stand to be corrected or need advice on whether this would need Treaty change or whether it's the sort of body that could be set up by agreement in the same way that the EMS was set up.

1303. Duisenberg. I don't think so.

1305. Chairman. But think of all the problems you get. The problems who is appointing the Governors and what are their rights, all the same problems that you get with the Central Bank System except that you have no single currency.

1307. Jaans. I can be very brief. My question also referred to the point whether this proposal being compatible with an ESCB, whether it is the intention of the British government to have it go alongside the ESCB and therefore also incorporated or not in a Treaty change. Whether there have already been some thoughts in the UK on that also, because that might change also depending on our work.

1312. Ciampi. May I just say Mr Chairman that what Gov LP has said deserves that we consider it with every attention. I also agree with what the Chairman has said, namely the document that we're beginning to examine today, as stated clearly in the cover note we received, concerns the final stage of EMU. Therefore we must encourage our Alts to work on that document. That has top priority because we also have to produce a first draft before the IGC. As Gove LP clearly said, the British proposal would concern a possible Phase 2 and will therefore have to be examined when we look at the transitional measures which will have to be taken for us to be able to reach Phase 3. Therefore, apart from the heavy burden of work, I don't think there are any particular procedural difficulties that we encounter. We go on working on these Statutes. These concern the final Stage. Then we shall examine the British proposal when we look at what will

have to be arranged for the period of transition, Stage 2, if I understand the position correctly. Thank you.

1332. Chairman. thank you. I think this is very convincing to me at least. So can we, with your agreement, proceed as was suggested by you and Gov Ciampi? Good. And so then we come to this paper which we have in front of us and which if I may say that already at this stage I think is a very impressive document because it really goes into the details and the problems. It's not one of these reports where all the real problems are more or less covered by nice words. Here the problems are defined and they are in square brackets. There are many square brackets because there are many problems. I think this is good and I want to congratulate our Alternates for the work they have done already. But it's only the beginning I'm afraid, so Mr. Rey you have the floor to introduce your paper.

1334. Rey. Thank you very much Mr Chairman. The document on your table has been produced as a result of three meetings of your Alts. I would like to comment briefly on the assumptions on which this work lies. On the limitations of this work so far, two comments on substance and finally a comment on possible follow-up. Now we proceeded on the basis of two major assumptions. First, we started from the assumption that there would be a chapter on monetary union in the Treaty containing the essential provisions on which we all agree. We did not set out so far to provide a draft of these essential provisions for several reasons including prominently because they have in fact their equivalent or their operational translation in the statutes anyway. We started from the second assumption that the Statute would have the legal force of a Treaty probably in the form of a Protocol annexed to the Treaty. There are two qualifications to this statement. First, this is not the only conceivable legislative technique, although it met with broad agreement from the Alternates I think, and second if we want a Statute to form a self-contained piece of legislation containing all the essential elements of the European system, it will inevitably include not only highly constitutional provisions but also provisions of a more technical nature such as those which are included in Chapter IV on the operations of the system that we might want to be able to revise if needed, somewhat more flexibly than by recourse to Treaty procedure implying approval by 12 national parliaments. That can easily be

containing all the essential elements of the European system, it will inevitably include not only highly constitutional provisions but also provisions of a more technical nature such as those which are included in Chapter IV on the operations of the system that we might want to be able to revise if needed, somewhat more flexibly than by recourse to Treaty procedure implying approval by 12 national parliaments. That can easily be accommodated by identifying precisely what these provisions are and by inserting in the Protocol itself a specific procedure for amending these provisions. We have not done this bit yet, but it's easy to do it. On the limitations of the documents that you have on your table. First, as the document mentions the Alts did not have the opportunity to review the final wording given the time pressure. Second, not all provisions were discussed in the same detail, for example Article 6 on international co-operation was not discussed at all. In Article 13 you find a German alternative that was inserted after discussion but which has not been discussed as such. And in Chapter IV relating to the operations of the system, we did have a short discussion but it is certainly by no means final.

Third, we did not have time until yesterday afternoon to discuss a major chapter concerning the financial provisions of the system. This discussion yesterday was very preliminary. I must report that it showed that under some assumptions for the balance sheet structure of the system it would probably be necessary to have a greater harmonisation of the Statutes of the central banks than we thought about initially. And finally, may I mention that we work so far without the assistance of legal experts which implied that we did not go very far in discussing the implications of these proposals for the legal personality of the system and its components and this may be an important aspect.

On the substance I would like to say essentially two things. One about the structure of the system and second about the issue of participation. The structure of the system is probably one of the most divisive issues so far, if I can put it that way. It comes up in several Articles of the Draft before us. I would like to comment on two. One is the relations of national central banks to the system, the other is the location of power in the system, should it be in the Council or should it be in the Executive Board? On the first issue, this is dealt with in Article 13. I can report that there is full agreement among the Alts on the fact that monetary policy is indivisible and there would be no room for

policy decisions remaining with national central banks. These would have to follow the instructions coming from the centre. This is an undisputed point in the Alts group. Starting from there, there is a range of opinions as to how far the national central banks should be the normal channel relative to what we call the Central Body for executing monetary policy decisions. Second, there is a range of opinion as to how far the national central banks would keep a residual sphere of autonomy and be able to exercise other duties either outside the European System or as part of it. Third, there is a major question as to who would appoint the Governors of national central banks. Would that remain a purely national procedure or would the Council of the System as such have a say in the appointment of a Governor of a national central bank. Now these are the major issues on which there are alternative views. There are of course attendant issues, such as what name must we give to this system. Is it the European Central Bank System with the centralised connotation. Or is it the European System of Central Banks as mentioned in the Delors Report English version? There are also attendant issues which we did not have time to go into very deeply such as the legal status of the national central banks under the system and the balance sheet structure of the system.

The second point I want to raise on the structure is the location of power in the system including for carrying forward the major policy decisions regarding monetary policy. Should it be in the Council or the Executive Board? Article 8 deals with this question especially as far as the division of competences is concerned between the Council and the Executive Board. Your decision on this would have implications for the frequency of meetings in the Council but it also has other implications such as for the representation of the Executive Board in the Council, how many people should sit in the Executive Board? Should all members of the EB vote in the Council or only the President, as was suggested? Conversely, should all Governors of national central banks have voting power at the same time in the Council or should we have a rotating system limiting the number of national Governors who actually have a voting power?

The second issue I want to point to is that of participation. This issue inevitably comes up because of questions of wording in drafting the Statute. Are we talking of the Community or are we talking of the Union? How far do we have to use the word "participating" central banks. Given the fact that not all countries may wish or be able to join the

monetary union at the same time, should there be coincidence between participation in the union and participation in the European System of Central Banks? Or should we assume that all central banks shall participate in the System at the outset whether they take part in the union or not, which would imply that the System itself might have to manage difference arrangements according to the status of the various currencies. And then some central bank might have restricted rights and obligations until they indeed participate in the ERM.

May I mention that there is a proviso in the text to accommodate what Gov Leigh-Pemberton said regarding the reservation of the British position as to Stage 3.

Now once I think you have dealt with these major issues, it becomes easier to deal individually, Article by Article with the other provisions and I don't need to comment upon these at this stage. The final comment on follow-up I think there is a need to clarify the political and diplomatic agenda which you want to use for this document. The major deadlines are for the ECOFIN of 23 July, the formal ECOFIN of 7-8 September and it was mentioned that the deadline for introducing documents in the inter-governmental conference would probably be 8 October. Given this political agenda, you may decide that further work should be delegated to the Alts, to legal experts or to various Sub-Committees, or indeed to any other procedures that you decide.

1445. L-P. May I just ask about this date? Does it really have to be ready by 8 October to go before an IGC which doesn't sit till 1 December?

1448. Rey. That was reported to us by the Italian Alternates involved in the preparation of the IGC. I understand that the IGC is a very mechanical procedure, very rigid and indeed documents have to be in place by this specific date.

1452. L-P. May I just make this observation? It is actually somewhat inconvenient for us because it excludes our November meeting from having any relevance to the business of the IGC and I would have thought that we might try to get a relaxation of what seems to be a rather strict rule.

1454. Chairman. No I fully agree with what you are saying here. I think these are proposals by the Italian Presidency maybe but this is not binding for US at all. I have said in the Luxembourg council that I do not expect the Central Bank Governors to present their views before the end of the year. So myself, I am not prepared to be put under any time pressure. This is a very important institutional change in the EEC and there is no room for any rush and any hasty decisions. It's not the German unification. This is something we have to prepare very carefully. But having said that, we also have to be aware, of course, that others are not sleeping and so there will be papers on the table. But I am not worried. After we have heard, and this is only the tip of the iceberg, what M. Rey mentioned, you see what type of problems we are talking about and so I have no illusions that that can be solved very quickly and if we come up with a substantial document, carefully prepared, I am sure that the governments have to listen.

1468. Ciampi?. This is also the position of Mr Dini, say not to have a final document, but to have a good base for the final document.

1470. Chairman. What I have in mind, but perhaps it's a bit premature to say that at this point, we can say it when we have finished our discussion today. What I had in mind is that you will enable me to give a first report to the Finance Ministers in September; a report more or less on the lines of what M. Rey said a minute ago to describe the problems and what we have achieved already, etc, but that is a little premature. We can come to that at the end of our discussion.

So, I want to start the substantial discussion and before I do that, I want to make only two preliminary remarks. One is that firstly, we are not the negotiators here. The negotiators are the governments. It's a governmental conference, and the decisions have to be taken by the governments. That makes it a little easier for us and that means that we do not have to agree on everything. I wouldn't mind having a number of brackets and options, but we have to define the problems more than to solve the problems. And the second remark. I think we should behave here not as representatives of our governments, but as central bankers and so we should have in mind what from the point of view of a central bank is advisable and not what may be in the interests of one country or another country. And we come to that when we reach the concrete points. Because I

think the weakening of this system will be done by the politicians and the governments. And I think what we should present is so-to-say the most rigid system. It will be weakened, I'm afraid more than we would like to see in the process of negotiations.

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And so with these two provisions, can we open the discussions on substance and what I suggest is that we go through this paper article by article because we already have a very big problem in front of us in the first article where we have two options. Either we say European System of Central Banks, I was surprised, I have to admit that I hadn't noticed that in the Delors Report. In the German version it says ein Europaisches Centralbanksystem, because we always have the tendency to put words together which was quite satisfying for us. But I learned only quite recently that in the English and the French versions we have said a European System of Central Banks but this is not at least what I have in mind, and perhaps others as well. What I would like to see is rather a European Central Bank System - like the Federal Reserve System. And I cannot accept if I may say that in advance, what you have said here, that for reason of convenience you have used the term ESCB, because I think that has substantial relevance. it's more than just language. But perhaps we can find a solution for that. We could for instance find a neutral word. We could say the new institution or something like that. Otherwise I had to insist on the brackets, because I am very much in favour of the European Central Bank System and not the System of Central Banks which is much too loose in my mind. Who wants to?

1508. de Larosière?. The word that I consider the most important is 'System'. If you have a system of central banks, I think the gist of what you are aiming at is there and I would, I must admit, have difficulties in changing the wording of the Delors Report. This is a complicated balancing exercise which has quite a lot of political connotations. We have managed to get through the expression conveyed in the Delors Report through well the complicated, arcanses of the Ministry of Finance and now the public opinion as it is voiced through Parliament. I would get into great trouble if the semantics were changed. I don't think on the substance, we will see how the substance shapes up later on but I would certainly very much stick to the Delors formalisation.



1519. Chairman. If I may say a word on procedure. You will understand that I now have to give up my neutrality as Chairman. I have also to present the German position. So please excuse me. I cannot agree with that. And so we have to leave it in brackets. Because I think it is a very substantial question. I don't want to convince you. I understand your point of view. We come to that later. But then I have to insist that either we put the brackets everywhere or we find a neutral word for it. Because I think it's more than semantic. It has a meaning. It's really important for what we want to achieve.

1527. de Larosière?. I think very much depends on what we agree on later on in the documents. You know I'm in favour of a very strong indivisible body that determines the indivisible monetary policy, and if we can achieve that in the remainder of the articles, I have less strong feelings of the ultimate name being chosen.

1531. Chairman. Maybe the final name will be different. I don't like the name Eurofed, by the way. because we are not an imitation of the Federal Reserve system. I found that not very helpful and I would ask you very much not to prejudice decisions by introducing expressions like that. But maybe we find a neutral word to leave that a little open.

1536. Ciampi. I only want to say something very similar to what William (?) says. We have to agree on the substance. And the substance is to stress that the governments are going to create a system, not a federation of central bank. It is a centralised system. That is my point.

1542. L-P. May I suggest for simplicity of operation hereafter that we just describe it throughout the document as 'the System'. That picks up Gov de Larosière point.

1544. Chairman. That's very good. Thank you. We leave it here in brackets and then we refer to it as 'the System'.

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The next word in brackets which is also very substantial is 'participating central banks'. And there I have a very strong position because I think that only those central banks of the Member States who participate in the System, who fulfil the conditions of the System, in

other words who are prepared to participate, should be included in the decision-making, etc. I think that's very necessary in my opinion. So I have to insist on the word 'participating'. But that brings us to all the problems that are mentioned here in the comments.

1551. de Larosière. If you allow me just a word. I would very much agree on what you have said. It is only if countries have the clear intention to participate in the system that they can be full members of that system. If a member were not ready to join the construction as far as Stage 3 then I think there would be a real problem in having it a part of the system. But if a country is not in a position to join the third stage immediately as the others do, then I think there is none-the-less a merit for having those countries that maybe latecomers into the implementation of Phase 3, to have them part of the system from the outset. If a country needs to avail itself of some transitional arrangements, then I think it would be proper that that country be considered as a participating country. Of course there would have to be provisions not to give it the full voting power on matters on which of course it would not really be participating. So that can be arranged, but I would be reluctant to have a system that would be only comprising the countries that are the immediate active members and would in a way leave outside the other members.

Now the problem we would have would be for a country that has clearly indicated that it would not be ready at any time, at least in the foreseeable future, to join the Phase 3. Then I think such a country should not be part of the institutional arrangements, but that is a very extreme case which I hope will not materialise.

1576. Chairman. We have two groups of countries. One kind of country where governments or parliaments would not be prepared to surrender these rights to a supra-national institution. And I myself think this will be not only one country, but that is just speculation. But it's very obvious to me that such countries cannot participate in the system. They cannot participate in the decision-making. They are outside the system. And then there is another group of countries for the time being who are obviously not able to participate. That is more difficult because they do not fulfil the conditions to be a member of such a system. Because the first condition is of course that you have no exchange rate any more. Which means that by

definition there is a single currency. And even if there is no single currency, the definition of a monetary union is that the exchange rates are fixed irreversibly. And so this parameter is not available any more and so obviously some countries in given circumstances would not be able to participate from the beginning but of course they would be invited to join as soon as they have reached a state of convergence which would enable them to participate. This is the problem of two-speeds. I think the word 'two-speeds' is not the right one for that. It's a very normal procedure. We have the same when we talk about transitional period. But as you have said, Jacques, in the Delors Committee, we cannot wait for the slowest ship in the convoy, I remember that was your - we have a paragraph in the Delors Report on that. And it's a very normal procedure. We have the same in the EMS, where not all countries are participating from the beginning. We have the same with the liberalisation of capital movements. We have the same, for instance, very recently with the Schengen agreement on border controls. So this is nothing exceptional in the EC and it doesn't mean it will divide the EC. It's a normal procedure. So what I wanted to say, what I would like to see here in this report, is that we refer to that and that we say: 'a system consisting not of the central banks of the Member States but of the participating central banks of the Member States but if we cannot agree on that, then I don't know. And participating means those who have given up their exchange rate as a parameter.'

1606. de Larosière. But then there will be some who are not participating. But then you have to look at the comments that is, and it is the second and the third paragraph - there are the two different positions and I think if participating means that a country does not even commit itself to joining the system at later stage then I would not accept that word 'participating'. If 'participating' means 'at a later stage' then you need transitory arrangements of course and limited rights for that non-participating country, but if I can read 'participating' as it is described in the second paragraph then I am in full agreement.

1614. Chairman. So we have to describe what participating means, yes? Are we coming to that problem at a later stage again? When it comes to the rights, etc?

1617. Rey? No except in the Transitory Chapter where we are in fact referring to article 1. I think you have to deal with this question now.

1618. de Larosière. May I make just a very short suggestion that I think could settle the matter? We should keep the word 'Participating central banks' in the article, cross out the brackets and keep the words. And then we should explain what it means afterwards in two or three lines in that first article and we would say that a participating central bank may include a country that is not yet in a position to fix its par values as the third stage foresees but is ready to do it. And then it takes advantage of transitional arrangements which have some implications on its voting rights. If you say that then I think the word participating can be maintained.

1629. Chairman. Yes we have to describe that. We have to make very clear that all EEC countries are of course invited to participate but there may be one or the other who are not willing, or not prepared to participate because they do not want to give up their sovereignty rights. Then they could be invited to join later maybe. And then there are others who are ready to give up, but they need some time to adjust and so for them, we have to make clear that we have special provisions. Because they cannot expect to participate in all the operations, like in the ERM. But they will sit in the council, but they have no voting rights in the Council. So the difference has to be clarified in one way or the other. But we agree on the substance, what it means?

1641. Jaans. Mr Chairman, just a point on this definition of participation, as it looks now, a bank participates if it makes a number of declarations of a political nature. Would it not be more operational to include a share-ownership? So if a bank is participating when it is a formal shareholder so that it is a more concrete act of adhesion to a system?

1646. Chairman. I think we come to that later. What the membership includes.

1648. Jaans. I think that share ownership would be a clear expression of the ultimate political will to participate so I would make all 12 central banks shareholders, although some will not participate for the time being.

1650. Chairman. But to express the membership by being a share-holder, I think that's a very good, visible demonstration. OK. But we come to that later.

1653. de Larosière? I'm sorry, but it's not enough. Because you could have a country who would pay whatever it needs and then would say, I will never go into that third stage.

1655. Chairman. But then they have shares, but they have no voting rights.

1656. ? I think it's quite an agreement that that country has no opposition of adapting their nature to go into Stage 3.

1659. Jaans. To show one's willingness to adhere to the system is to sign up the capital. Because as the discussion went, it was really only a matter of declarations whether one were participating in the future or just now or in the near future. So I think participation has to be defined in a more concrete way and there one element to define it concretely is that the country has to be a share-holder at least.

1663. Chairman. I wouldn't go that far to say that each EEC country is authorised to become a share-holder irrespective of what the attitude is. We have to define this participation a little more.

1667. ~~Jaans~~ de Larosière. If share-holders has implications for participation in profit and loss account, it's very difficult to associate shares to central banks that in fact do not participate in the operations of the system. Otherwise you have to make two categories of shares. Shares which don't really mean anything else other than political participation in the Community and shares which involve rights and obligations.

1671. Chairman. Maybe one has to say that only those central banks can become shareholders who are ready to give up their autonomy and monetary

policy and participate in the System. We have to defined what participation means.

1675. LP. I certainly think that a formal act of participation would be a form of agreement as a result of which it would follow that you have to subscribe for and take up shares. In other words that the shares would follow from participation. The right to take up shares and not participate is illogical because a shareholder always has the right to participate in some way in the undertaking. And a country who took up shares but then didn't participate in the monetary policy would be a very awkward customer. He could come along as a shareholder and make representations about how the matter was conducted but it would not have the commitment that the others had.

1682. Chairman. It should be the other way round. Participation first and shares later.

1683. de Larosière?. I think you have two things here. You have the Union - the Treaty on the Union. Now either a country agrees to become a full member of that union, that is to abandon one day its monetary sovereignty and to fix its par value in that union, or it does not. If it does not, it says no I cannot take that commitment now, maybe I'll do it, but at the moment I'm not even interested in accepting this perspective, then I think that country should not be considered as a participating country neither in the Union nor in the system. That's one thing. Then you could have a country that says yes I agree on the basic objectives. I signed the Treaty, I ratify the Treaty, thereby my own national system will one day face the entrance into that last stage of abandoned sovereignty but for the time being I am not in a position to do so because I have some transitional arrangements that I want to take advantage of. Now that country I consider is a participating country, in the objective of the union, but it is not a full voting country in the system. That's how I see it and thus the participating country must have two characteristics. It must fully accept all the objectives of the union, and it has to commit itself to adhere to engaging to these objectives as soon as it can. Now if it has those two characteristics, if it agrees on the objectives and it commits itself to reach those objectives as soon as possible, then I think you can consider

that it is a participating Member. Of course, you must not give it the sum voting rights pertaining to the operational working of a system in which it is not yet an active member, but I think that can be arranged legally. That's my view.

1708. Chairman. So we have to define what rights and what duties are implied being a member. It's like the EMS. I think it's very similar. We have those who are participating in the ERM, they have certain rights and obligations. And those who are not participating in the ERM, are participating in the EMS, but for instance they have not asked for the right to take advantage of the credit facilities in the EMS. So we have to find something like that in a Treaty amongst central banks who are participating which is similar.

1716. Hoffmeyer. Could we not solve it by saying that it consists of the central banks of the Member States that are willing to undertake the obligations of the Statute?

1718. Chairman. Who are willing and able?

1720. Willing. As soon as possible.

1721. Chairman. But it's got to be very clear, I think we are agreed on that. They cannot participate in for instance voting procedures. It's not conceivable that they vote on interest rates.

1723. Hoffmeyer? Perhaps on some working procedures, for example change the Statute or something like that, but not on the definition of monetary policy, certainly not.

1724. Chairman. I think we leave it to our experts to deal with this problem in more detail. But we recognise that here is a big problem. But it's solvable. So can we go to the next item? I think we don't have to discuss all the comments. The objectives,

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1728. Irish. A general point before we get too far into the document, could I ask, when this document is refined ultimately for the IGC, is it the

intention to hand it up with a commentary analogous to this debate on every article or just to hand up the articles as we finish our discussion, so to speak?

1731. Chairman. Well I don't know. But my suggestion would be to hand it over with some comments but not necessarily the same. On the brackets we have to say. But the comments may be different from these. We make comments for us but then we have to make comments for those who get the document. We have to explain why there is a bracket here.

1733. Doyle. It's just that in the light of this I had a thought which was provoked by this discussion of the word participating and the reference to the English and French and German versions of the Delors Report. I just wonder how many versions of the Delors Report exist because I thought there was really only one version of the Delors Report that was signed, the other would be translations.

1740. Chairman. No idea. The English text was the original text that we have signed, but nevertheless whatever we signed I want to insist on this point because the Delors Report was a private document.

1742. LP. May I just say, I'd be very cautious of disclosing all these comments to the IGC because it would give them all sorts of improper ideas. These are for our own consideration. The only comments we want to send to them are those that we approve as a result of our discussion here.

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1745. ? We will keep of course, as you indicated at various places square brackets, but I think it would be wise to have as few of them as possible. So can we delete the square brackets around "central body"?

1750. Chairman. I wonder whether we need that "and the central body is hereby established". Is that necessary - I think it goes without saying. I would suggest that we make a full stop behind the normal brackets and delete the rest of it. We delete "the central body".

1759. ? We have a problem, because it comes up several times later.



1760. ?. So why don't we say it? It is a central body. A central organ? No, a central body.

1763. M. Rey. We discussed a long time. Central body is better than organ.

1767. Chairman. Right, if that's good English we can keep it. It's not good German. I mean if you said Zentrale Korper, I'm sure that that will be translated. If you read the Delors Report in German, you have the impression that idiots have worked on it. The translation is so awful. Can't we say a central institution?

1771. LP. The word body in English is perfectly synonymous with institution, corporation.

1777. Spanish. I think we should use the word institution. because it's better for the translation. In Spanish it's impossible to say central body.

1780. de Larosière. Yes, a corps central wouldn't work.

1781. Chairman. So we say a central institution is here established.

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1790. Chairman. Then we come to Chapter II. The primary objective of the System, yes?

The next bracket is of course very important. Who has insisted on these brackets, actually?

1800. Rey. The German alternate didn't like this particular sentence to be in article 2. But he wasn't against the substance.

1803. Chairman. Where did he want it? In Article 12?

1805. ? I find the objective of price stability so important that I have a preference, although I do not object to having these other subordinate objectives, to having them somewhere else so as not to dilute this article.

1808. Chairman. Of course I have a lot of sympathy for that but for me it is not a big issue. Because we always took the position that of course we

have to support all the policy objectives of the Community, but I wouldn't object to having it elsewhere.

1809. de Larosière. If we tuck it in article 12 which is the article on independence I believe then it's really very odd because it means we're independent but we're not really independent to the extent that we want to fit into the macro economic framework. I don't think it's a good thing. I think it's better here. That's the way it was in the Delors Report.

1815. Chairman. If there are no very strong arguments about that then I think we can delete. And then of course we have to decide whether we want to say Community or Union. From a logical point of view, I think Union is better but from a policy point of view Community is better. Because we start from the assumption that all member states participate in the Union.

1821. We have already made the provision that this is only a second objective. The first one is price stability and if that allows us to support the policy of the Community whatever that may be then we will do it, but only with this provision. OK. So we delete Union and the brackets.

The next item 2.3, there I have serious reservations. There is also the point of substance and in my understanding it is not the task of a central bank system to preserve the integrity of the financial system as a task, you know. They will certainly behave in a way that will help to. What are the alternatives?

1830. Duisenberg? We have to build a financial system where a difficult compromise we reached after long discussions in the Delors Committee to include some aspects of banking supervision in the tasks and objectives of the central bank. Now the Quinn committee has reached agreement on the way supervision should be delegated partly to the system and ways in which it could remain in the hands of national authorities. And they have just, yesterday, I think given us a report with the recommendation to turn that over to the Alternates to try to incorporate it in this Statute. So I would suggest not to...

1841. Chairman. Can we leave it in square brackets?

1842. Duisenberg? To have it here or to have it with tasks.

1844. ? I think it's a good idea to have it somewhere, because it is part of the concerns of the central bank to look at the integrity of the system. Of course we don't say it in our national statutes and I think we are probably well advised not to say it too much. There must be a basis of ambiguity in this aspect because it's the moral hazard problem. But in an international organisation like the one we are shaping up, if you don't give some indication in the Statute, then it's going to be very difficult to do it, if push comes to shove. We don't always say it, but if we don't we may then be legally prevented from doing something in an emergency case.

1852. Chairman. I understand that point but we have also to see it the other way round. If we say that it is the task of the central bank system to preserve the integrity of the financial system that could be taken as a guarantee for individual banks, which I think goes much too far. And so I wonder if we could change the word preserve.

1858. Hoffmeyer? Well you could merge the two indents on page 4, in the sense to participate in the supervision, with the aim of preserving among other things the integrity of the system.

1861. Chairman. If one were to say for instance, to participate as necessary in the formulation and execution of banking policies relating to banking supervision in order to preserve the integrity of the financial system. Then it's related to banking supervision and not to money creation.

1864. Doyle. ...a possible undertaking to preserve the system as it is today. I think a better word would be stability. That doesn't mean the preservation of any single entity.

1868. Chairman. I would prefer that: with a view to preserve the stability of the financial system. Then it's clearly said that this is related to banking supervision.

1872. de Larosière? I have a problem. If you have a crash on the markets. If one morning you wake up and the whole thing is falling down it's not a question of supervision of the banking system, it's a question of do we act or do we not act? But if this is not supervising banks, it is more than

that. This is a reaction in a time of crisis. It's not participating as necessary in the formulation of policies relating to banking supervision a pleasant Monday morning. The question would not be that. You have to ask yourself whether you want or not in such a situation to, now I agree that preserve is a very strong word and I would agree with you Mr Chairman not to use the word preserve because it clearly means that you have to maintain your existing schemes and perhaps to provide too much liquidity but then we could say, to support or to oversee, a word that is less strong than preserve, and then you could say the stability or integrity of the financial system. You have to say something separate from fiddling with bank supervision.

1885. LP. Gov de Larosiere's right. We have to think of the events of October 1987. That wasn't a matter of banking supervision, that was a sudden development in the financial markets that could have been very dangerous and the central banks have got to act. I do support a separate task and I would have thought the words "to support the stability of the financial system" would comprehend the general function.

1890. Chairman. I think we agree on the substance because we also have provisions like that and in practice we have for instance set up a liquidity bank after the Herrstadt crisis. It was never used but it's there. Can we follow the proposal and leave it in square brackets for the time being to have the time to think about it even more because it's a very important point for us. I'm prepared to keep the square brackets if there are no strong objections.

1908. ? One other point, Mr Chairman. We discussed in a different forum yesterday the increased tendency, the national banks or authorities will not only be involved with banking supervision, but that increasingly there are other areas, such as insurance, which we are not primarily responsible for but we are being involved in that and securities operations, etc. So could we, just a suggestion, instead of speaking about banking supervision could we speak about the also accepted term of prudential supervision?

1920. Chairman. I take your point, but I would prefer to say something like policies relating to the supervision of the financial markets.

1923. ? But the term prudential supervision is at least an accepted term.

1924. Duisenberg? So we change the term banking supervision to prudential supervision.

1927. Chairman. You are aware that in Germany this is a doubtful point. And I have problems here myself because even within the Bundesbank we have different views on that. Some people are against the participation of the central bank in banking supervision at all. I know that sounds very strange to you, but in Germany they think....

1932. Rey. Mr Chairman, it was the intention of the Alternates to submit this last indent to the Quinn Sub-Committee.

1933. Chairman. No, no. We can decide this as Governors. By the way, I would regard this document as a contribution of the Committee of Governors. I mean we have to take the responsibility of that because we cannot go home and get approval for every word we are saying. It has a different character from the Delors Report where we spoke in our personal capacity. This goes a little further, it's a little more formal but nevertheless it's a document of the CoG and we have to accept the responsibility. I am prepared to do that.

1940. ? Mr Chairman, the Quinn Sub-Committee has given an advice to us as a Committee of Governors with a recommendation to turn that advice over to the Alternates to see.

1941. ? It is very consistent with what we have just said. It says basically that it is up to the national supervisory nations or authorities to look after this problem but in a very co-ordinated fashion. This co-ordination is of course one of the tasks of the central institution. So I think the words "to participate as necessary in the formulation and execution of policies relating to prudential supervision," as long as you have "as necessary" is consistent with the Quinn recommendation. I think so, or am I wrong?

1956. Chairman. I think we have to go back to page 3. Because we have jumped over that. 2.3 here. We have to delete that.....

Now we come to Article 3 and start at para 1. "The basic task..." that is very important. In Germany, coins are issued by the government so maybe we leave it out.

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1968. de Larosière? I agree with the word "issue notes" but I want to make it clear to my colleagues that for quite some time there will be issuance of bank notes, even after Stage 3, before we get a single currency. We may have a phase where we will have locked our parities irreversibly but where we will still continue printing pound notes and Banque de France notes which is not inconsistent with the wording of this. Now of course at a future stage I hope we will introduce in the habits, in the mentalities of our public opinions, the possibilities of having single bank notes, but it will take some time because the way the pricing systems are in the mentalities will continue to be to calculate prices in DMs or French Francs, etc. So what I just want to say is that the wording that the task will be to issue notes is consistent with the issuance of notes by individual central banks. Now you may say that they are members of the system and thus it is the system that does it. If that is well understood, then I withdraw my observations.

1980. Chairman. I have a problem with that. I'm not sure that it is a very good formulation because I find it hard to believe that you have a central bank system which is responsible for the issuing of bank notes and at the same time you have national central banks who are still entitled to issue bank notes beside that.

1984. de Larosière. I think we agree on this. Before you have ecus or single currency in the totality of the system, you will have for some time some individualisation of the monetary signs.

1987. Chairman. But who is deciding on that?

1988. de Larosière. The issuance will have to be consistent with the single monetary policy. The issuance of one single symbol is not necessarily going to happen immediately.

1990. Chairman. How is that done in Luxembourg? I mean you have monetary union with Belgium but you have your own bank notes?

1991. Jaans. Yes. Practically 20% of currency in circulation is Luxembourg currency and we issue both notes and coins. We agree the exact amount of bank notes. It has to be consistent with the limit of 20% of total circulation.

1995. Hoffmeyer? You have different demand for notes in different countries. It depends on habits. Are cheques very much utilised? It depends on seasonal factors.

1999. Chairman. No I can conceive that we have a system at the beginning, not one single currencies, but the amount of cash in circulation has to be decided by the central institution. That I think you accept?

2002. de Larosière? Yes I accept that, but you have to understand that the demand for money, our response to many factors, which will not be universal. You cannot predict from the location of that central bank what will be the exact number of notes you will have to create in Germany or France at one specific time because it depends very much on the habits of people. The important thing is that the monetary policy is consistent and is applied in a consistent way. But the degree of demande de monnaie in different formats is very much dependent on market forces. You can't predict that. You can't say, I will not allow French citizens to go on holiday with bank notes, because there is a limit. You have to have some flexibility.

2010. Chairman. We leave it open here. "The central bank has the right to issue bank notes". But what we had better say is "The central bank has the sole right to issue bank notes." The only institution that is allowed to issue bank notes.

2013. de Larosière. That wouldn't work. At the final stage, yes.

2014. Chairman. As long as you have national currencies, you need a guarantee that the national central banks wouldn't issue more bank notes than is consistent with the monetary policy.

2016. de Larosière. Sure, how is that formalised in the arrangements?

2017. LP. But surely that's dealt with under the primary objective? You have your primary objective of monetary stability but within that you can't ordain how many bank notes you issue or not. It's the public that creates the demand for bank notes issued. A central bank can't refuse to issue bank notes on demand against someone who's got credit in his account. The correct thing here, surely, is that this theory (?) should be regarded as giving the system the power to issue bank notes, the extent to which it does it is a different matter which comes under the main objective of price stability and therefore I think the phrase to issue notes is the correct way of doing it. How is it to do it?

2025. Chairman. But we have to look at Article 15 where it is said that "as provided by the Treaty the system shall have the exclusive right within the Union to issue notes in the Community except for a transitional period during which notes denominated in national currency, can circulate alongside the Community currency, the latter shall be the only legal tender." You have commercial banks who have the right to issue bank notes?

2032. LP. Yes we have some local banks who have the right to issue bank notes provided it is backed by a note issued by the central bank.

2033. Chairman. So this article 15 would not be consistent with what you have suggested?

So why can't we say, "to formulate .... and issue notes which shall circulate as means of payment within the Community consistent with the provisions of Article 15."

2040. Doyle. May I suggest that you simply delete everything after the word "credit" in that indent since the question of issuing notes and the means of payment belongs in article 15. That's the place to discuss that. At this



point, all you have to say is that the basic task is to determine the supply of money and credit.

2042. Chairman. OK. I think that's good.

2045. de Larosière? As long as it's clearly understood, I', OK.

2046. Chairman. And then we have the exchange rate policy....

2048. Duisenberg. Mr Chairman. Here I have a rather substantial problem. It relates to the third and the fourth indent. It is imaginable that when we have one currency or we have irrevocably locked exchange rates, there will be floating. So there will be no exchange rate regime, that is no obligations vis-a-vis the dollar and the yen. But still we have the authority as the system to determine interest rates and to make interventions in the market. And that will have implications for the exchange rates. But now it is unclear whether we will have that exclusively or together with the other relevant bodies of the Community and to avoid that ambiguity I would like to make the following suggestion to replace the third and fourth indents by the sentence "to conduct foreign exchange operations in accordance with the established exchange rate regime of the Community." If it is a decision of the Community to have a floating rate system vis-a-vis the third currencies, then it will be the exclusive authority of the system to conduct foreign exchange rate operations.

2065. Doyle. The phrase "the established exchange rate regime of the Community" must mean internal not external.

2066. Rey. Mr. Chairman, we identified three levels. One is the exchange rate regime which is normally decided by governments. There is always an exchange rate regime in the sense that you always have to notify to the IMF what your regime is. It can be floating or it can be something like the EMS. The second level is the exchange rate policy of the individual member. IF the regime is such as the EMS there is very little to say in the way of policy. If it is floating it is much more ambiguous and the formulation we have maintained, adopted, tries to associate central banks to the governments in the determination of what policy you are going to. It is

very much a sort of G7 affair. When they discuss the general policy within the exchange rate, is that only a thing for the government or should central banks have a say in it? And then the last regime is of course the conduction of foreign exchange operations which again is non-ambiguous and is clearly the central banks.

2079. Chairman. I must say, as someone who burnt his fingers in the G7 agreements, I don't like this distinction of exchange rate policy and exchange rate regime. Either you have a regime which is either a regime of fixed exchange rates or floating, or you don't have that. This distinction I don't like because in practice it would lead to enormous pressure from governments to defend certain exchange rates which is then not consistent with your monetary policy and so if there is a decision to establish a fixed exchange rate with the dollar or with the yen that's OK. But for the rest I think there should be no obligations. And no obligations for the central bank system to consult with other relevant bodies on the exchange rate policy. I prefer very much what you said.

*Duisenberg?*

2088. ? A regime is ultimately a government decision. Once the regime is there, it should be the central bank system.

2091. Chairman. Then the central bank system can decide whether they want to intervene or not.

2092. Spanish? I don't think that the version proposed by William is the same. It may mean that we will conduct foreign exchange operations but within a policy which may be ? by us, without participation by the central bank.

2097. Chairman. In this formulation the council would be able to agree a certain ecu/dollar rate. That would put the central bank system under terrible pressure.

2100. Duisenberg? But it is consistent if you take the three indents together and the basic tasks are formulated in the monetary policy, the provision of money and credit and then the conduct of foreign exchange

operations in accordance with the established exchange rate regime of the Community. It rests with government.

2104. Chairman. The regime is a formal thing. It has to be notified with the IMF. That does not exclude the central bank system coming to the conclusion that they have to buy or sell foreign currencies, but they are not obliged to do so.

2108. de Larosière? I think we have to be a little - the regime is fixed once for all, or something that they do is done perhaps once every twenty years. It's difficult to say that there is the only point where the governments have anything to say in the domain. I think that the formulation you have here is a very strong formulation because what you say, it is the system that formulates the exchange rate policy of the Community in consultation with the other relevant bodies. You can't completely abstract yourself of the fact that exchange rate is a matter that concerns governments also. You can't completely abstract from that fact.

END OF TAPE 1 - UNITS 2116