Committee of Governors of the
Central Banks of the Member States
of the European Economic Community

Secretariat

31st January 1991

Confidential

Summary note on the Intergovernmental Conference held in Brussels on 28th-29th January 1991

The meeting at the ministerial level on 28th January 1991 was used by the Chairman to outline the aims of the Luxembourg Presidency in the Intergovernmental Conference (IGC) and by Ministers to state their principle considerations, and to introduce new documents as a basis for the discussions and negotiations on a new Treaty.

The Presidency explained that the point of departure of the IGC would be the Rome Communiqué (the Conclusions of the Presidency issued after the meeting of the European Council on 27th-28th October 1990) and that now work would commence on the preparation of draft Articles. If further analysis were needed it would be referred to the Committee of Governors and the Monetary Committee. The objective of the Presidency was to reach an agreement among all twelve Member States. At future ministerial meetings the discussions would be based on draft Articles prepared by the group of personal representatives. While in February 1991 the IGC meeting would take place, as scheduled, in conjunction with the ECOFIN meeting, the heavy workload would in the future necessitate the division of these meetings into two full-day sessions, held on different dates.

Most Ministers, in outlining their principal considerations, restated their governments' positions and reaffirmed their commitment to the objective of EMU. Mr. Lamont said that the UK position remained unchanged but stressed the willingness of the UK authorities to participate actively and constructively in the discussions. Mr. Bérégovoy briefly introduced the French proposal for a complete draft Treaty on EMU, which had been designed to establish EMU in accordance with the Rome Conclusion and the principle of democratic legitimacy. Mr. Solchaga briefly outlined a

Spanish note on the ecu and the European System of Central Banks during Stage Two, which, in a spirit of compromise, aimed at reconciling elements of the British hard ecu proposal with the requirements of a single currency (the ecu) and the creation of a European Central Bank. Mr. Delors noted that the responsibility for exchange rate policy and questions on taxation had now to be added to the list of five major issues (economic and social cohesion, economic union, the ecu, the transitional phase and institutional aspects) which needed to be resolved in the IGC.

At the <u>meeting of the personal representatives</u> there was a brief discussion of procedural questions and a first review of certain Treaty Articles dealing with economic and policy. On the procedural side, it was reaffirmed that in organising the work the Commission's working document (draft Treaty on EMU) would be used as a point of reference. Moreover, given the large number of written proposals for amending individual Articles, as well as the submission of the French proposal for a draft Treaty, it was agreed that the Secretariat of the Council would facilitate the work by preparing for individual Articles a synoptic presentation of all proposals made by IGC participants. The Presidency would present balanced draft texts for each Article in the light of the working party's discussions.

As far as substance was concerned, the meeting addressed <u>three</u> particular <u>topics</u>: the fundamental elements of EMU and the objectives of economic policy (Articles 102a and 102b of the Commission's draft); the basic prerequisites for ensuring budgetary discipline (Article 104a of the Commission's draft); and procedures for policy co-ordination (Articles 102c and 103 of the Commission's draft).

With regard to the <u>first issue</u> there was no discussion of the monetary aspects of EMU. However, the British representative restated the United Kingdom's reserve with respect to the imposition of a single currency. Criticism was voiced in particular on three points of the Commission's draft Articles 102a and 102b (but no clear common view on these points emerged during the meeting). Firstly, in Article 102a the formulation "... with parallelism between economic policy and monetary policy ..." was considered obscure and proposals were made to replace "policy" by "elements" or "developments", or "parallelism between economic union and monetary union". Secondly, in Article 102b the concept of "economic policy of the Community" was generally rejected. While it was recognised that there would be a Community dimension of economic policy, the essential point was that even in Stage Three economic policy remained a matter of national responsibility and that there was only a need for close policy co-ordination. Thirdly, the description of objectives in Article 102b was generally regarded as unsatisfactory although views differed greatly about the extent and precise formulation of the objectives to be introduced in this Article. A particular aspect in this context was the question of how this Article should reflect the commitment to a market economy. One possibility was to demonstrate the "ordnungspolitische" orientation by laying down the desirability of privatisation, abolition of indexation and macro-economic responsibility in wage-bargaining (rejected by most delegates); another possibility was to underline simply the need for free and competitive markets (accepted by most speakers).

During the discussion under this heading it was also agreed that the movement in stages, refereed to in Article 102a, would be discussed later in the context of transitional provisions.

On the <u>second issue</u> of prerequisites for budgetary discipline (Article 104a of the Commission's draft Treaty) there was broad agreement that the text as presented was too weak and ambiguous. Four main points were made in the discussion. Firstly, the text of this Article should reflect more closely the work undertaken by, and the views expressed in, the Monetary Committee. Secondly, clear definitions - using objective criteria - of excessive deficits and monetary financing were required although, in the view of most speakers, these would not have to be introduced into the Treaty but could be specified in secondary Community legislation. Thirdly, some representatives questioned the logic of ruling out the granting of a guarantee by individual Member States in favour of another Member State; such a guarantee could be useful, for instance in the case of joint border projects. Fourthly, it was confirmed that this Article would apply only in Stage Three and that transitional provisions were needed for Stage Two in which national monetary autonomy was maintained.

Regarding the <u>third issue</u> (the procedures for policy co-ordination), the discussions centred on the following main points. Firstly, should there be separate procedures for the establishment of broad multi-annual policy guidelines (Article 102c of the Commission's draft Treaty) and for more short-term conjunctural policies (Article 103 of the Commission's draft Treaty) - a question to which most representatives gave an affirmative answer. Secondly, views differed considerably on the role of the European Council in issuing policy guidelines. Some speakers considered the European Council (performing the function of an "economic government") as a necessary counterweight to a strong and independent European System of Central Banks and therefore wished to see the European Council express views also on the policy mix. Other speakers pointed out that under the present Treaty the European Council was not a Community institution and that the institutional structure should be reviewed in the light of the outcome of the conference on Political Union. In any case, it would be essential that the ECOFIN was strongly involved in the preparation of, and be present at, meetings of the European Council devoted to economic matters. Some speakers cautioned against, or firmly rejected, a role of the European Council in the assessment of the policy mix since this could potentially give rise to conflicts with respect to an independent monetary policy. Thirdly, views differed on the need for and the nature of policy guidelines, although on the whole most delegations appeared to be willing to accept guidelines as long as they did not have the flavour of planned (and possibly quantitative) targets but rather represented general orientations or a reference framework. Finally, there was the question of whether the evaluation of the budgetary situation should form part of the general multilateral surveillance (perhaps following special rules) or be subject to a special procedure.

On all three topics firm conclusions have not yet been reached. The Presidency will now prepare new drafts of the Articles discussed on 15th and 29th January 1991 (i.e. Articles 2 to 103 of the Commission's draft Treaty) which will be discussed at the next meeting of the personal representatives on 19th February 1991. In addition, at that meeting there will be a first round of discussions on sanctions and budgetary discipline (Articles 102 and 104 of the Commission's draft Treaty).

Gunter D. Baer

COMMITTEE OF GOVERNORS OF THE CENTRAL BANKS
OF THE MEMBER STATES
OF THE EUROPEAN ECONOMIC COMMUNITY

SECRETARIAT

Basle, 7th February 1991

REPORT ON THE USE OF THE PRIVATE ECU

Please find attached a clean copy of the Foreign Exchange Policy Sub-Committee Report No. 4, "Recent developments in the use of the private ecu: a review of the issues". This text is identical to the document faxed to you on 5th February 1991, except that:

- the chart on page 15 has been updated, and
- an additional paragraph has been added to Chapter I, section 3.2 (at the bottom of page 5).

Kind regards.

Secretariat

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Committee of Governors of the
Central Banks of the Member States
of the European Economic Community

5th February 1991

Draft

Foreign Exchange Policy Sub-Committee
(Monitoring Group)

PRIOR AGREEMENT ON INTERVENTION IN COMMUNITY CURRENCIES

1. Mandate

At the meeting of the Committee of Alternates on 7th January 1991, during the discussion on the statement of principles concerning prior agreement on interventions in Community currencies (note by the Committee of Alternates, dated 9th May 1990), dissatisfaction was expressed by some members with the way the procedure currently functioned, and the Monitoring Group was asked to investigate the concrete complaints and to report back to the Alternates.

2. Examination by the group

The Monitoring Group has had a frank discussion, in which a number of examples were considered. The complaints comprised inter alia cases where replies had been negative or had been delayed for a relatively long time. There had also been a lack of an explanation both for requests for intervention in a currency and for decisions which did not wholly accommodate such requests. Finally, it was felt to be impractical, and sometimes inconvenient, that prior approval was required in each case, even when the amount was small or the need to intervene very urgent. Conversely, there was the feeling that some central banks did not fully exploit the possibilities of estimating prospective intervention needs and of making the necessary arrangements in sufficient time with the central bank issuing the intervention currency which was likely to be needed later. Furthermore, requests have often been addressed to the issuing central bank at an inappropriately low level of responsibility.

The discussion in the Monitoring Group showed that many problems would be solved if the rules described in the note from the Committee of

Alternates were implemented. In fact, the group agreed that a system acceptable to all central banks could be established on the basis of this note, if a small amendment was made to the introduction and if it was supplemented with an understanding of how the said rules should be administered in practice.

3. Recommendations

3.1. Cross-currency market transaction

The Monitoring Group agreed that it would be useful to state the rules on cross-currency transactions in more detail.

(a) According to the Alternates' statement prior approval is not required for cross-currency transactions which are customer driven or which are not intended or likely to influence the exchange rate relationship between the two currencies. This will exempt most cross-currency transactions from prior approval. The rules will for instance permit central banks to reconstitute their preferred currency distribution when the market situation makes that possible. In that connection all central banks confirmed that they would accept deviations from their preferred currency distribution if the exchange rate co-operation called for it, and that they would reconstitute their positions only when the market situation would allow it. Any transactions for this purpose would be made with due regard to the effect on the market, that is to say normally discreetly and in moderate amounts at any one time.

(b) Cross-currency transactions which were intended to influence exchange rate relationships were also uncontroversial, as all central banks agreed that they resembled interventions so much, that it was reasonable to require prior approval.

(c) The remaining cross-currency transactions - where an influence on the exchange rate relationships were likely although it was not the purpose - should be the subject of discussions.

In the opinion of the group such transactions would be exceptional. The main example would be a situation, when a central bank was not allowed to use its holding of an EC-currency for intervention sales, but needed to convert this holding into another currency which could be used for intervention.

The group agreed that should such a situation arise, the two central banks should consult each other with the aim of finding the best way to solve the problem. They could for instance agree to settle the transaction fully or partly off market between the two central banks. To the extent that the transaction was made on the market, the selling central bank should try to minimise any problems for the issuing central bank.

3.2. Improved mutual information

The Monitoring Group agreed that it was very important to avoid misunderstandings between Community central banks with regard to the motives for a desire to use an EC-currency for intervention and with regard to the reasons for a possible refusal.

The group, therefore, intends to use its weekly telephone concertation to discuss in particular the situation of the individual currencies in the ERM and vis-à-vis third currencies, with a view to arriving at a common appraisal of the choice of currency for any interventions which might be necessary in the following period. This would not replace the need for bilateral requests, but it should facilitate the discussions.

The group also agreed that all important interventions should be discussed between staff members with a full knowledge of the background to the decisions. The group will agree on a list of persons who would normally handle such cases including, in particular, cases concerning major amounts, or situations where a new development is taking place.

The Monitoring Group further agreed that it was important to ensure the mutual reporting of all important transactions in EC-currencies, even if they were not to be classified as intervention in the narrow sense but, for instance, as cross-currency transactions.

3.3. Bilateral agreements on moderate amounts

The Monitoring Group noted that the Alternates' memorandum foresees the possibility of concluding bilateral agreements on quantitative limits within which interventions would be deemed to have received prior approval. The group agreed that this possibility should be used since it would facilitate intervention not only at fixing sessions, but also at other times when the need was urgent. The guidelines for these agreements should be discussed in the Monitoring Group, while the concrete limits should be agreed bilaterally.

4. Conclusions

The Monitoring Group recommends a clarification of the rules on cross-currency transactions on the lines suggested above. This will necessitate a revision of the first page of the Statement of the Committee of Alternates. A draft for this page is enclosed.

Concerning the intervention rules, the Monitoring Group recognises that the implementation of the recommendations described above will take some time, and that a final judgement on whether the new arrangements work in a satisfactory way can be made only after a period of some months of operation.

The group, therefore, suggests that the rules in the note from the Committee of Alternates should be put in force together with the bilateral agreements on moderate amounts for a trial period of for instance six months. If the recommendations mentioned above are accepted, the Monitoring Group will elaborate the detailed rules and the bilateral limits will be agreed.

The Group recalls that the formalisation of the extended use of official ecus in intra-Community settlements through an amendment of Article 16.1 of the EMS Agreement has been linked to an agreement on the principles governing intramarginal interventions in Community currencies.

The group, in its monthly reports, will keep the Committee of Alternates and the Committee of Governors informed of the arrangements which have been agreed and of the effect on the choice of currency for intramarginal interventions.

After the trial period the Monitoring Group will report on the experience gained and will recommend a final solution.