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Confidential

<u>Final</u>

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MINUTES OF THE 272ND MEETING OF THE COMMITTEE OF GOVERNORS OF THE CENTRAL BANKS OF THE MEMBER STATES OF THE EUROPEAN ECONOMIC COMMUNITY

HELD IN BASLE ON TUESDAY, 12TH JANUARY 1993

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Before turning to the agenda, the <u>Chairman</u> welcomed Mr. Hannoun who had succeeded Mr. Lagayette in his position as Alternate on the Committee of Governors.

I Approval of the minutes of the 271st meeting

The <u>Committee</u> approved the minutes of the 271st meeting.

- II Monitoring of economic and monetary developments and policies in the Community:
- 1. Statement by Mr. Saccomanni, Chairman, Foreign Exchange Policy Sub-Committee (Monitoring)

The Monitoring Group had focused on the following issues. Firstly, although market participants continued to believe that the US dollar would recover in 1993, there were doubts as to the strength and timing of the upswing. The dollar had appreciated vis-à-vis the Deutsche Mark as a result of continued sales of the German currency, both by ERM central banks and by private holders, and the expectation of a declining interest-rate differential between the US and Germany. The dollar had remained stable against the yen despite the relative weakness of the Japanese economy. The latest unemployment data had indicated that the US economic recovery was incomplete while the deteriorated budgetary situation limited what the Clinton administration could do to stimulate the economy. Under those circumstances, the dollar might be subject to periodic swings which gave rise to questions concerning the implications for the level of interest rates in the EMS. Secondly, the persistence of tensions in the ERM was keeping interest-rate differentials vis-à-vis Germany at record levels in a number of countries. The recent Franco-German statements and the attendant measures taken had been important in stabilising market expectations about the Deutsche Mark/French franc parity, but may have had also a destabilising impact on some other narrow-band currencies. The point at issue was whether bilateral arrangements could be regarded as an effective substitute for broader multilateral co-operation. Finally, with regard to the recent lowering of official interest rates in Belgium and the Netherlands, despite the emergence of a negative differential vis-à-vis Germany, there was no intention by these countries to decouple monetary policy from that of Germany. The situation should be kept under review as it might reflect a change in the perception of market participants concerning the anchor currency of the system.

2. Statement by Mr. Rey, Chairman, Committee of Alternates

The Alternates had concentrated on recent developments within the EMS and its external environment. Four points were brought to the attention of the Committee. Firstly, the Commission's representative had indicated that the next ECOFIN multilateral surveillance exercise would take place against a gloomy economic background; provisional forecasts suggested a growth rate for real GDP in the Community of below 1% in 1993 and the documentation prepared for the Governors by the Secretariat showed an improvement in the rate of inflation which, however, was slower than the worsening of the budgetary outlook. There was a relationship between this unfavourable environment and the EMS: a deterioration of the economic situation complicated the management of the system while the latter's credibility would be an important element in boosting confidence. Secondly, the future course of the US dollar and the reactions of the US authorities to a possible rise in the currency were difficult to predict. A strong rise of the dollar would complicate the further reduction of interest rates in Germany and thus in the rest of Europe. Thirdly, the recent downward interest-rate movements in the stronger narrow band currency countries should alleviate tensions in the system. However, the situation remained vulnerable as Ireland and Denmark had to keep interest rates at very high levels while domestic political factors in those two countries added to the uncertainty. The Irish Alternate had expressed the hope that the pledge by the French and German authorities not to devalue the French franc would stabilise the markets. The British and Italian Alternates were also concerned that the EMS should promptly return to more stable conditions so that its attractiveness as a policy framework would be restored. Finally, the removal of capital controls in Ireland and Portugal had been welcomed.

3. Discussion by the Committee

Mr. de Larosière said that the rate of inflation in France in December was unchanged on the previous month and that the rate for 1992 was 2%, although the underlying rate might be closer to 1.5% since the French inflation indices did not take into account retail discount sales which were an important factor in the real price structure. With regard to the recent turbulence, he said that the pressure on the French franc had eased since the Lombard rate in France had been increased by 2 percentage points and a communiqué had been issued jointly by the French and German authorities. The German-French declaration on the appropriateness of the parity of the French franc vis-à-vis the Deutsche Mark was not to be interpreted in the sense that the parities of the Danish krone and the Irish pound were not appropriate. However, the maintenance of the parity between the German and French currencies was crucial to the survival of the EMS. He thanked the Deutsche Bundesbank for its support and added that the resolve of the French authorities had been demonstrated by raising interest rates at a time when the French economy was performing below capacity and without any inflationary tensions. The Deutsche Bundesbank's decision in the past week to reduce its repo rate would also help to dampen the ERM tension. Political uncertainties in advance of the forthcoming elections in France had complicated the situation in the French exchange market although statements had been made recently by senior opposition politicians in France in support of the policy of defending the currency's parity and maintaining the existing monetary policy stance.

Mr. Schlesinger said that he agreed with Mr. de Larosière's comments about their countries' bilateral operations; it had been necessary to demonstrate that the EMS was regarded as durable. However, he recognised that communiqués could have a negative impact on other EMS members. The Deutsche Bundesbank had done very much to support the ERM during 1992; the monetary base in Germany had increased by DM 40 billion in 1992, twice as much as in 1991. This was mainly the result of the Deutsche Bundesbank's purchase of a net amount of DM 64 billion

equivalent of foreign exchange. M3 had increased in the eleven months up to November 1992 by DM 150 billion, compared with DM 84 billion during the same period a year earlier. The Deutsche Bundesbank's decision to lower its repo rates by 0.15 percentage point during the previous week was a consequence of its support of the ERM. However, the situation in Germany was complicated given central bank's primary responsibility for price stability and the situation in the real economy where industrial production, at least in western Germany, had declined.

<u>Mr. Ciampi</u> said that the attacks against the French franc had to be rebuffed if the system was to survive. However, this implied that other currencies which came under pressure should enjoy a similar defence when their economic fundamentals were considered to be sound. The relationship between the French franc and the Deutsche Mark was of fundamental importance, however, we should remember that the EMS is a system; perhaps a smaller amount of interventions than those which had been necessary would have sufficed had the markets been convinced that the system had been functioning as a whole. It was, therefore, essential that the members co-ordinated their actions to safeguard the system as a whole.

<u>Mr. de Larosière</u> said that pragmatism had to be exercised since, on some occasions, the concentration of capital movements out of the French franc was such that, had bilateral action not been taken, there would probably no longer be a system.

<u>Mr. Hoffmeyer</u> said that he understood the reasons behind the two bilateral statements which had been made by the French and German authorities but pointed out the cost which had been exacted on other countries, where economic performance was as satisfactory as that of France, in terms of maintaining higher rates of interest over a longer time frame. He added that there had been no official debate in Denmark concerning a change in the parity of the Danish krone, despite the devaluation of the Swedish krona. When pressure had developed against the Danish currency, all major political parties had expressed support for the existing exchange rate policy and agreed on a compromise on fiscal policy.

The <u>Chairman</u> said that the declaration by the French and German authorities, and statements made by various leading opposition politicians in France, had been effective in reducing tensions. Sizable interventions at the margins had been undertaken by the central banks in the Netherlands and Belgium in support of the Irish pound and the Danish krone. Short-term market rates in the Netherlands and Belgium which were lowered to help diminish the tensions in the ERM, were now significantly below those in Germany; the negative interest rate differential vis-à-vis Germany, however, was likely only to be a temporary and not a structural phenomenon.

III Adoption of the Committee's report to the EEC Ministers of Finance on developments on the foreign exchange markets of the nineteen countries participating in the concertation procedure during December 1992 and the first few days of January 1993

The <u>Committee</u> adopted the report, which would be sent to the EEC Ministers of Finance in the usual way.

IV Review of the EMS Exchange Rate Mechanism:

The discussion was based on the Foreign Exchange Policy Sub-Committee's Report No. 10: "Annual review of developments in the European Monetary System" accompanied by a note by the Economic Unit: "Competitiveness, cyclical performance and trade balances in the European Community"; and a discussion paper from the Chairman of the Committee of Alternates: "Implications and lessons to be drawn from the recent exchange rate crisis".

1. Statement by Mr. Saccomanni, Chairman, Foreign Exchange Policy Sub-Committee

Although the Sub-Committee's conclusions had in most cases been unanimous, its debates had highlighted divided views. The main problem had been to avoid a polarisation around two extreme positions: putting the blame for the ERM crisis on individual member countries for their failure to tackle domestic imbalances, or blaming the system for its failure to elicit from all members an effective co-operative response to the tension. In the event, conclusions had been reached which combined elements of both. At the root of the crisis was the insufficient progress made towards convergence, especially in the field of public finances and price and cost developments, divergences in cyclical positions and the impact of the unification of Germany. Tensions had mounted when the results of the Danish referendum had cast doubt over the EMU process. In an environment of full liberalisation, capital movements had assumed major proportions and the setting of a date for the French referendum and its uncertain outcome had provided a catalyst for speculation. The Sub-Committee had noted with concern that tensions had eventually affected not only currencies of countries with underlying imbalances but also those with strong fundamentals; the credibility of the parity grid as a whole had been questioned because of market perception of a lack of concerted and co-operative reactions by all member countries.

As regards the policy response to the exchange crisis, the Sub-Committee had concluded that, in countries with imbalances or policy dilemmas, the intensive recourse to the market-oriented Basle/Nyborg instruments, namely, interventions, interest-rate changes and the use of the fluctuation band, had proved ineffective in preserving exchange rate stability in contrast with earlier episodes of tensions. The Sub-Committee had found in particular that using fully the room for manoeuvre in the fluctuation band in some cases had exacerbated tensions; this had suggested the advisability of keeping the exchange rate, at least against the Deutsche Mark, at some distance from the obligatory intervention margin. Even more worrisome was the recognition of the limited scope for interest-rate movements. In most countries with currencies under downward pressure, interest-rate increases were ineffective because of market perception that such increases were not sustainable in view of the weakness of the economy or of the repercussions on public and private debt. On the other hand, in Germany, the scope for interest-rate reductions was limited by the need to pursue an anti-inflationary stance of monetary policy in view of developments in the field of budgetary and wage policies. Pressures on countries with sound fundamentals could be countered in some cases by the joint application of all Basle/Nyborg instruments. However, when tensions had mounted in France, use had been made of co-operative bilateral arrangements which had allowed the financing of intramarginal interventions well beyond the Basle/Nyborg limits. The Sub-Committee was unanimous in considering that the recent realignments and decisions to suspend participation in the ERM were not in conformity with the prescriptions of the Basle/Nyborg Agreement. The Sub-Committee believed that this had undermined the credibility of the ERM in the eyes of the markets which had been confirmed by the climate of uncertainty and volatility that had prevailed in European exchange markets since the report had been completed. Finally, he drew the Committee's attention to Annex 3 of the report which contained a full description of the technical implications of foreign exchange market interventions and their financing. The Sub-Committee was aware that the answers given to some of the issues covered in the Annex were preliminary and intended to analyse them further in the period ahead.

2. Statement by Mr. Rey, Chairman, Committee of Alternates

The Alternates had identified three issues which required further examination. Firstly, the concept of competitiveness, which was an analytically difficult concept; some further work might have to be undertaken by the Economic Unit with some input from the national central banks. Secondly, some Alternates wished to go more deeply into the analysis of capital flows which, in the new environment of full liberalisation, had assumed major proportions. Thirdly, some Alternates had also expressed the wish to discuss more thoroughly ways to reintroduce a two-way risk in exchange markets in order to make speculation more costly; it was proposed to ask the Foreign Exchange Policy Sub-Committee to study this.

With regard to the note which had been submitted to the Governors on his own responsibility, he underlined that it was intended to summarise the discussions so far held by the Alternates and was not a first draft report as mandated by the Birmingham Summit. Indeed, in drawing the lessons of the crisis, it would be important to make a distinction between the material to be included in the Governors' report to the Ministers and that which was for the internal consumption of the Committee.

With regard to the two questions which had been singled out in the Chairman's annotated agenda, firstly, on the question of the sustainability of exchange rates, there was wide agreement that it was essential for the fundamentals to be sound. Several Alternates had pointed out that this involved more than looking at divergences in inflation rates or more sophisticated indicators of competitiveness and that further study might be needed. The sustainability of exchange rates also contained forward-looking elements to which the markets were sensitive and which could be subsumed in the concept of

credibility of policies. There was wide agreement that the assessment of the credibility of domestic policies was a necessary complement to the analysis of the indicators of macro-economic performance. Opinions differed with regard to the answers to be given to the second question in the annotated agenda concerning the ways to defend exchange rates against market pressures. These divergences referred to the extent to which the burden of the defence should be shared on the basis of some concept of symmetry or of collective responsibility, as well as to the weight to be assigned to the various instruments in countering pressures. These differences had been considered in his note.

Finally, there appeared to be a growing consensus relating to realignment policies. There was a widely-shared view that while the management of the EMS should not ignore the prospects of economic and monetary union, it could not anticipate the situations which would prevail in the third stage. Realignments would for some time remain a legitimate measure in certain circumstances; it was therefore important to reaffirm the agreement which had been reached in Basle/Nyborg that realignments should be carried out in a timely way. The question which derived from that related to the contribution, if any, that the Committee of Governors should make. Did a review of recent events lead to the conclusion that some adjustment was required in the monitoring procedures? If so, how could that be achieved without attracting undesirable publicity and how could such deliberations be brought to bear on the political decision-making process?

3. Discussion by the Committee

The Chairman suggested that the Committee concentrate on two substantive issues: the sustainability of central rates; and how to defend central rates that were considered to be sustainable. With regard to the first issue, he said that exchange rates must continue to reflect competitive positions. A hard currency policy that was not supported by adequate internal policies would lead to an overvalued currency and thus put the system at risk. If convergence would imply frequent devaluations this also would endanger the EMS. Decisions taken on the appropriateness of central rates and on the width of the ERM band should be based on consensus which should reflect a common assessment of the convergence situation of the country concerned. With regard to defending central rates that were considered sustainable, the main differences of view had been set out in Mr. Rey's paper, namely: how symmetrical should be the defence of currencies; and what role should interest rates play. The Chairman asked whether the Committee could agree with the conclusion in Mr. Rey's paper that intervention alone would be ineffective in containing tensions. Consideration should also be given to whether more could be done to introduce a two-way risk for speculators. In developing the report for the informal ECOFIN in May, the issues that the Alternates would address would be partly directed to the Governors specifically and partly to the Finance Ministers. He suggested that preparation be advanced of that part of the report which would consider the functioning of the system and include recommendations directed to the Committee. The review of the ERM, which would remain on the Committee's agenda in the coming months, should include whether the system reflected Member States' fundamentals. He also suggested that the Governors should hold, from time to time, restricted meetings in which the exchange rate structure would be discussed.

Mr. Ciampi said that he entirely agreed with the Chairman's remarks. He stressed that it was essential for the system as a whole to survive. The paper which Mr. Rey had prepared was an excellent working document in which Mr. Ciampi had found some of the points raised in his letter of 6th November. The Committee should try to elaborate a unitary document, even before May. Up to June 1992, the Committee could claim to hace successfully managed the EMS; steps should now be taken to ensure that the system regained the prestige which had been eroded in recent months. The project of EMU had changed the nature of the EMS, which had now to be regarded as a transition towards that end. The following could be observed from the events of the past few months. Firstly, the accumulation of real imbalances between countries ultimately results in sudden bouts of acute tension requiring sizable realignments. Secondly, when that occurrs, a realignment should take place and be credible because of the currencies involved and of the changes in parities agreed. Without such a comprehensive realignment currencies would successively come under pressure. Thirdly, the slow recognition of basic disequilibria and delayed realignments results in loss of credibility which could cause tensions to arise even if there were no fundamental imbalances between currencies; that could be observed at present. The Committee should devise procedures which would enable it to assess the appropriateness of the parities of each currency and thereby of the parity grid. Regular monitoring should be undertaken by the Committee. Pressures should be exerted on countries with fundamental imbalances to take the necessary steps. At the same time, methods needed to be devised to ensure that the defence of parities which were considered to be appropriate would be seen by the markets as being undertaken by the system as a whole; this would contribute to reduce the amount of interventions and the movement of interest-rate differentials. Finally, the Governors should reach their conclusions as soon as possible, even if that necessitated holding extraordinary meetings.

Mr. Doyle said that Mr. Rey's paper admirably covered the issues which had to be faced. However, he found it extraordinary that, despite there being agreement on the seriousness of the challenges that the system faced, there seemed to be difficulty in reaching agreement on the nature of the problem and the extent to which remedial action was necessary. The overriding lesson that could be drawn from recent events was that the system, and not just the individual currencies, had a problem which should be tackled collectively by its members. With regard to the sustainability of central parities, it was possible to distinguish clearly between the question of macro-economic performance and how to define the appropriateness of parities, on the one hand, and their credibility on the other. On the question of the objective judgement of macro-economic performance, the ECOFIN Council had tried for some time to devise an acceptable system of mutual surveillance of Member States' economic policies and their impact on exchange rate parities. With regard to credibility, it was hard to accept that the judgement of the authorities concerning the appropriateness of the parity of any particular currency should be overridden by the judgement of market participants. The logic of the Basle/Nyborg Agreement should be followed: if there was mutual agreement, parities should be jointly defended. In so doing, actions taken by currencies under pressure ought to be supported by corresponding action taken by strong currency countries. Depending on circumstances, this could take

the form of a range of responses from statements of support to, inter alia, co-ordinated intramarginal intervention and the concerted adjustment of interest rates. The overnight lending rate in Ireland had been set twice in the previous two months at 100% to counter speculation, although the bulk of the support given to the market had been at much lower rates. Corresponding measures taken by stronger currency countries did not necessarily need to take the form of reductions of official interest rates but it ought to be possible to devise an instrument which would bear on speculative inflows at crucial times. He appreciated the difficulties which the German authorities faced in changing their lending rates but he wondered whether the same considerations applied to deposit rates. Could short-term speculative inflows be made ineligible to receive deposit interest or even be subjected to a penalty negative interest rate? Finally, while not suggesting the imposition of capital controls, he suggested that something had to be done about irresponsibility in capital movements which should be distinguished from the highly desirable principle of freedom of capital movements. Three distinct components in the selling pressures on the Irish pound over the last couple of months could be discerned. Firstly, there had been a very large movement of capital, mostly by Irish residents, out of the Irish currency into sterling after the latter's devaluation. This had been understandable given the enormous volume of trade and personal traffic between the United Kingdom and Ireland. The second component was due to selling pressure from non-resident holders of Irish gilts, mostly German investors, who had anticipated a devaluation of the Irish pound; that also had been understandable even if the size of the movement had been greater than expected. However, a new component had developed in the past week when over fifty banks throughout Europe had taken, virtually simultaneously, short positions in the Irish currency unrelated to investment or trade transactions. He felt that the possibilities for curbing such speculative activity should be studied.

The <u>Chairman</u> said that he on occasion had asked banks whether such transactions had originated from them or had arisen as a result of customers' orders. Since the latter seemed to be the case, it was difficult to know what action could be taken.

Mr. Doyle said that he found it an extraordinary coincidence that fifty banks, some of which had never operated in the Irish currency, should all arrive at a similar conclusion. Furthermore, while most of the trades were individually well within a currency dealer's trading limits, in aggregate they represented a very substantial amount compared with the size of the currency that was being attacked.

Mr. Schlesinger said, with regard to Mr. Doyle's suggestion, that if for example a 100% reserve requirement was imposed on any increments of deposit from non-residents, such business would migrate to other financial centres; neither the holding of Deutsche Mark deposits nor its exchange rate would be affected by such measures. Other ways of fighting speculation in a particular country would probably also achieve little since trading in currencies was not restricted to the country of issue. He felt that it was more important to consider the basic question of the objective of the EMS which was set up to generate greater monetary stability within the Community and not only to ensure more stability in respect of exchange rates. The events which had occurred since September 1992 had

demonstrated that it was impossible to defend exchange rates which were not in line with fundamentals. A growing divergency between rates of inflation among the Member States ultimately meant that the only remedy would be to alter the parities. It had never been concluded that parities could not be adjusted during Stages One and Two of EMU, and that should be plainly stated. He agreed with the Chairman's suggestion that the Governors should hold restricted meetings. On the question of defining symmetry, it could not be said to be symmetrical if a currency was forced to discontinue its fight against inflation and take steps that would encourage it. If the authorities of anchor currencies were prevented from maintaining price stability in their countries, the stability of the whole system would be jeopardised. A further issue which needed to be studied was the rules that governed the system; there were two essential requirements. Firstly, the size of compulsory interventions must be limited and the balances arising from the financing of such interventions must be repaid as soon as possible in creditor currencies in order to reverse the expansion of the monetary basis and the money stock in the creditor countries. If the money stock expanded over a long period, inflation would be encouraged. Secondly, as Mr. Rey had said in his report, action was needed to offset market perception that speculation was a one-way risk. At present, speculators had largely faced only the possibility of making a large profit or incurring a very small loss in what was perceived to be a fixed-rate system. This might be countered by allowing a currency to move from a narrow band towards a wider band for a period of time or by undertaking timely realignments.

<u>Mr. Leigh-Pemberton</u> said that it was ironical that the currencies currently under pressure were the ones with the best inflation performance. At the time sterling was forced out of the ERM, the United Kingdom's inflation performance had been at its best for about four years. There was, therefore, a divergence between the data relating to economic fundamentals and the credibility that the markets attributed to that data.

Mr. de Larosière said that the question of how to ensure appropriate exchange rates within the EMS should be considered from two complementary points of view. Firstly, methodologies already existed which enabled effective exchange rates to be calculated. Secondly, divergence could also be measured by reference to a number of other economic criteria such as those laid down in the Maastricht Treaty. He did not think that new indicators of competitiveness would have to be devised. He agreed with Mr. Rey's proposal that the Committee should monitor divergences on a more continuous basis; a monitoring exercise should therefore be carried out at regular intervals and the Governors should meet in restricted sessions to discuss the results. With regard to how to defend parities deemed appropriate, his approach was that the various instruments that were to hand - such as interest rates, interventions and movements within the ERM band - should be used pragmatically according to the extent of the speculation against one or more currencies. On the question of sharing responsibilities, the defence of a currency whose economic fundamentals were regarded as sound should be undertaken with the solidarity of the members of the system who should act in a coordinated manner. Solidarity demonstrated by the anchor currency country in the support of the currencies of other Community countries which were pursuing policies of monetary stability and

whose fundamentals were sound would reinforce the stability of the system as a whole without calling into question the soundness of the anchor country's currency. For its part, the anchor currency could only fulfil its role properly if that country had a well-balanced policy mix. From the French perspective, the current imperfect policy mix in Germany had a destabilising influence on French monetary policy; the more that the latter had to be tightened in order to preserve the parity of the French franc vis-à-vis the Deutsche Mark, the greater became the market's view that the monetary policy stance in France could not be maintained. However, the consequence of changing policy and decoupling the currency from the Deutsche Mark would lead to inflation being imported into France. Therefore, shared responsibility for defending parities was not a question of removing responsibility from a country whose currency came under attack, it rather meant that the authorities of the stronger currencies also accept their responsibility. He recalled that the Bretton Woods system had failed because the then anchor currency to export stability to all other members of the system.

With regard to penalising speculative capital movements, two types of movement had been identified. Firstly, there were movements related to trade transactions. According to the perception of a currency's position, it could be quite normal for exporters to delay transferring the proceeds of sales into their home currency; equally, importers might tend to pay in advance. Secondly, it was normal for investors to try to protect themselves against currency risks; this to a large extent had caused the capital outflows that had been observed in September and December 1992. However, there was a third category of capital movements which related to decisions to take up short positions in a particular currency for speculative reasons. He appreciated Mr. Schlesinger's argument that if such movements were penalised, for example by the imposition of a 100% reserve requirement, the result would be to shift the transactions in this particular currency to another market. He agreed with Mr. Doyle that a collective response should be possible, but to be effective, action would need to extend beyond the Community countries. Such co-ordination would be difficult but the Committee might contribute to the examination of ways to impose a cost on speculative movements.

<u>Mr. Schlesinger</u> said that there were large differences between the current role of the Deutsche Mark and the anchor role of the US dollar in the Bretton Woods system. The United States had suffered capital outflows at that time whereas the opposite has currently been the case in Germany.

Mr. de Larosière replied that in both cases, the anchor currency country had pursued an inappropriate policy mix which led to higher inflation in the United States at the beginning of the 1970s and to higher interest rates in Germany now. Both phenomena caused difficulties for partner countries.

<u>Mr. Jaans</u> said that the comprehensive liberalisation of capital movements indeed had consequences. It was not surprising that the system had become destabilised and had suffered large capital movements given that in the EMU process the option had been taken that every currency should have to become fully convertible prior to their ultimate abolition in the third stage. In the case of the smaller currencies such as the Irish pound, there would not have been such a large movement of speculative capital had the capacity of non-residents to borrow Irish pounds been constrained by capital controls; the report to be prepared by the Alternates should stress that point. However, he was not optimistic that ways could be found to contain speculators given that it was now indeed possible to trade all currencies of member countries freely in many parts of the world, not just in the Community.

The <u>Committee</u> agreed, firstly, that the Alternates should prepare their report in time for the Governors' March meeting. Secondly, the Governors should hold restricted meetings on a regular basis to monitor the system, the first of which should take place prior to their March meeting. Thirdly, the question of how to penalise short-term position-taking by speculators should initially be considered by the Alternates although they might wish to consult technical experts.

<u>Mr. Ciampi</u> said that he agreed with Mr. Doyle's comments. He suggested that it might be appropriate to ask one of the Committee's existing sub-committees, or to set up an ad hoc group, to study speculative capital movements. Contact might also be made with some market participants. Furthermore, liaison with Mr. Dini's Committee might also be helpful.

<u>Mr. Rey</u> confirmed that the Alternates were ready to study the questions raised but they would have to proceed carefully given the G-10 study that was underway in Mr. Dini's committee. The Alternates should not work at cross purposes with the G-10 Committee.

The <u>Chairman</u> concluded the discussion by saying that Mr. Rey and Mr. Dini should liaise so that their respective committees did not operate at cross purposes.

V Future work of the Committee

The <u>Chairman</u> said that, in addition to the issues set out in the Secretariat's note which would need to be considered by the Committee in 1993, there were three further groups of tasks which would have to be addressed. Firstly, the Committee was to report to ECOFIN on lessons to be drawn from the recent exchange market crisis. Secondly, the Committee would need to consider its recommendation for an external president of the EMI in accordance with Article 9.3 of the EMI Statute. The Committee should work on the hypothesis that, whatever happened in the political process during the course of 1993, the EMI would be created on 1st January 1994. He proposed that, in the coming months, he would have bilateral talks with each Governor to discuss how the recommendation should be made. Thirdly, with regard to the preparation of the establishment of the EMI, emphasis would also need to be placed on personnel policy and how the EMI would be financed. He suggested that the Secretariat should prepare a note setting out proposals as to how to finance the EMI. In addition, the Heads of Personnel should be asked to accelerate their work on the possible personnel structure and conditions of employment of the EMI.

<u>Mr. Schlesinger</u> said that the Heads of Personnel should restrict themselves to discussing the type of staff which might be necessary for the EMI to fulfil its tasks, but not the size of the staff which should be determined by the Governors. The <u>Chairman</u> confirmed that the heads of personnel would confine themselves to the conditions of employment, not the number of staff. On a separate issue, he asked the Governors of those central banks where steps had been taken or were envisaged towards making their respective institutions more independent to provide the Committee with a short note describing what form this was taking. At some future stage, the Committee could send a note to the Ministers of Finance describing how far were various countries in the process towards central bank independence.

Mr. Rojo said that a draft had been prepared by the Spanish government which would be sent to the parliament in the near future. There was agreement in the government on all of the important aspects of the draft law although a small number of questions were still being discussed. He would send the Governors a copy of the draft law as soon as it was finalised together with a note setting out its main features.

<u>Mr. Christodoulou</u> said that, in Greece, a draft law was due to be submitted to parliament before the end of February; he wondered whether this should be postponed in order to see what other countries were doing.

The <u>Chairman</u> said that a uniform approach was not intended; the Committee would be interested in receiving a note setting out the changes to legislation which were being prepared in Greece.

<u>Mr. Rey</u> said that the Alternates had considered the first draft of the Committee's annual report and had agreed that it should include a section describing the present status of central banks and the progress being made in the Member States towards central bank independence.

<u>Mr. Doyle</u> said that one had to distinguish between achieving conformity of legislation throughout the Community to meet the principles set out in the Maastricht Treaty and the perhaps more relevant issue of how it would be implemented in practice.

The <u>Chairman</u> said that the practice would develop from the legislation that was put in place.

VI Preparatory work for the move the final stage of EMU

Mr. Rey said that the Alternates had considered the interim report of the Working Group on Statistics entitled "Catalogues of users' requirements in the field of money and banking, balance of payments, financial accounts and ECU statistics and current conceptual follow-up". In its report, the Working Group had undertaken a preliminary assessment of the statistical requirements of the EMI and the ESCB on the basis of information received from the Committee's three sub-committees, the Economic Unit and, in compliance with the mandate of the Working Group, the Commission. The Working Group, in close contact with the users' groups, would regularly keep the catalogues up to date. At the present time, the report did not imply any commitment on the part of the central banks to change collection systems or to collect additional data. Its only aim was to provide a frame of reference for the steps to be undertaken by the Working Group in the immediate future, consisting of the preparation of inventories of available country data, the assessment of the gaps in those data, and the identification of the need for harmonisation within the framework of the EMI. The Alternates proposed that the Governors endorsed the report and emphasised that the Working Group should take particular account of cost considerations when, in the future phases of its work, it would make proposals for filling the gaps between the users' requirements and the available data and for harmonisation in the framework of the EMI.

The <u>Committee</u> endorsed the Working Group's report.

VII Other matters falling within the competence of the Committee

1. Expenses of the Committee in the third quarter of 1992 and operational expenses of the Sub-Committee and Working Groups in 1993

Speaking on behalf of the Committee on Financial Matters <u>Mr. Doyle</u>, said that the <u>Committee's</u> third quarter's expenses had been in line with the revised projection. Details of the expenses incurred during the fourth quarter would be available in February; a report would be made to the Governors at their March meeting on the outcome for 1992 and on the projections for 1993.

With regard to the projected 1993 operational expenses of the Sub-Committees and Working Groups, he pointed out that approximately 50% of the estimated expenses related to interpretation and translation. Significant savings could be made if all members of Sub-Committees and Working Groups made passive use of English (i.e. that there would be no interpretation provided from English into other languages but that French and German could be spoken with interpretation provided into English). Furthermore, savings could be made if reports prepared by the Sub-Committees/Working Groups were only produced in English.

Mr. Rey said that the Alternates had had a short discussion of this issue and both the German and French Alternate had expressed objections against the suggestion. The German Alternate could not accept any formulation which would imply that German became a secondary language in the Community; and the French Alternate had considered that the suggestion was against Community rules and the principle of equal treatment of all languages. Several other Alternates had supported the suggestion. It was also mentioned that the Committee had complied with Community rules when dealing with other Community bodies as evidenced by the decision to address the annual report to the European Parliament in all nine Community languages. However, the Committee itself was free to establish its own internal rules. Some Alternates saw merit in drawing the line, where appropriate, between the work where languages was dealt with on the basis of policy considerations and the work which should proceed primarily on the basis of operational requirements.

<u>Mr. Schlesinger</u> supported the German Alternate's view that he could not accept any differentiation among the Community's languages.

<u>Mr. de Larosière</u> said that it might be necessary for two-way interpretation to be carried out in some of the working group dealing with technical issues.

The <u>Committee</u> agreed that there would be no changes made to the current arrangements and endorsed the projections of the operational expenses of the Sub-Committees and Working Groups in 1993.

2. Relations with trade unions

Mr. Hoffmeyer said that a brief summary of his meeting with trades union representatives had been circulated by the Secretariat. The representatives had accepted that the Committee could not negotiate with the trades union on behalf of the EMI because it had no mandate to do so. They had raised two questions on which the Governors had to make a decision. Firstly, with respect to work currently being carried out by the Heads of Personnel, they wanted to deliver a paper to the Banque de France representative who had been given the task of examining the question of staff representation and relations with trade unions. Secondly, they wanted to discuss from time to time issues arising in the course of the preparatory work with central bank specialists. In this regard, he suggested that invitations ought to go via the Committee of Governors and that trades union representatives should not be allowed to invite directly the Alternates or relevant experts. He suggested that the Committee's response should be sent in writing by its new chairman.

The <u>Chairman</u> said that he agreed with the approach that Mr. Hoffmeyer had taken. He suggested that the Committee should have no objection to contact between the Banque de France and the trade union representatives.

<u>Mr Schlesinger</u> sought clarification that it should be possible to present papers to the Banque de France, but not positions.

<u>Mr. Hoffmeyer</u> replied that it would be difficult for the Committee to say that it was not willing to accept any invitation, rather if the trades unions wanted to invite an expert for discussions they could do so via the Committee of Governors which should decide whether the invitation should be accepted.

The <u>Chairman</u> said that the trades union representatives had asked for a meeting with him which he proposed to have towards the middle of the year.

3. Appointment of professional staff to the Secretariat

The <u>Committee</u> agreed to appoint Mr. Pineau as a professional member of the Secretariat.

The <u>Chairman</u> said that the Secretary General was having increasing difficulty finding seconded personnel from the various central banks. There were some central banks which no longer responded when requests were made to fill vacancies, partly due to uncertainty over the site of the EMI. As a result, an unbalanced distribution of nationalities was emerging and there was a danger that there might be a deterioration in the professional qualifications of applicants. He urged all Governors to be helpful in trying to find adequate and high level people for secondments in the Secretariat.

VIII Date and place of next meeting

The next meeting of the Committee of Governors will take place in Basle on Tuesday, 9th February 1993.

MINUTES

272ND MEETING OF THE COMMITTEE OF GOVERNORS

12th January 1993

Those present were:	
Chairman	Mr. Duisenberg
Banque Nationale de Belgique	Mr. Verplaetse Mr. Rey ¹ Mr. Michielsen
Danmarks Nationalbank	Mr. Hoffmeyer Mrs. Andersen Mr. Hansen
Deutsche Bundesbank	Mr. Schlesinger Mr. Tietmeyer Mr. Rieke
Bank of Greece	Mr. Christodoulou Mr. Papademos Mr. Karamouzis
Banco de España	Mr. Rojo Mr. Linde Mr. Durán
Banque de France	Mr. de Larosière Mr. Hannoun Mr. Robert
Central Bank of Ireland	Mr. Doyle Mr. Coffey Mr. Reynolds
Banca d'Italia	Mr. Ciampi Mr. Dini Mr. Santini
Institut Monétaire Luxembourgeois	Mr. Jaans
Nederlandsche Bank	Mr. Szász Mr. Boot Mr. Bakker
Banco de Portugal	Mr. Beleza Mr. Borges Mr. Bento
Bank of England	Mr. Leigh-Pemberton Mr. Crockett Mr. Foot
Commission of the European Communities	Mr. Pons
Chairman of the Foreign Exchange Policy Sub-Committee	Mr. Saccomanni
Secretariat of the Committee of Governors	Mr. Baer Mr. Scheller Mr. Viñals