

COMMITTEE FOR THE STUDY OF
ECONOMIC AND MONETARY UNION

10th January 1989

Please find attached:

- a clean copy of the note on "The ECU, the common currency and the Monetary Union" (CSEMU/7/89), and
- a summary of the replies which have been received so far to Governor Hoffmeyer's questionnaire (CSEMU/8/89).

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Summary of replies to Governor Hoffmeyer's questionnaire

Replying country	Can under present provisions policies decisions be:			Can the decision-making power be transferred to Community bodies without changes in national legislation?
	communicated prior to implementation?	taken after consultation?	taken after co-ordination?	
Belgium	yes	yes	yes/no ¹	no/yes ²
Denmark	yes ³	yes	yes/no ¹	no
France ⁴	yes ³	yes	yes/no ¹	no
Germany	yes	yes ⁵	no	no
Greece				
Ireland				
Italy	yes ⁶	yes ⁶	yes ⁶	no
Luxembourg	yes ³	yes	no ⁷	no
Netherlands	yes	yes	yes	no
Portugal	yes ³	yes	yes/no ¹	no
Spain	yes	yes	— ⁸	no
United Kingdom	yes	yes	yes/no ¹	no

- ¹ All policy decisions except those relating to tax changes can be taken after consultation.
- ² With the exception of changes in intervention credit mechanisms, intervention policy and management of official reserves, no other decision-making power can be transferred under present legal provisions.
- ³ Government proposals on fiscal policy measures can be notified when tabled.
- ⁴ Communication, consultation and co-ordination are assumed to take place between EC-partners in a forum where full confidentiality is assured.
- ⁵ Consultation not binding decision-making bodies.
- ⁶ In the case of changes in direct taxation only at the moment when the Government proposals are presented to Parliament; consultation and/or co-ordination have to take place at Government level; the Parliament may still modify Government proposals.
- ⁷ "No" in case co-ordination implies mandatory consideration of others' concerns.
- ⁸ Left unanswered because the meaning of co-ordination is not clear, i.e. whether it might involve the transfer of sovereignty to the Community bodies where policies would be co-ordinated.

Summary conclusion:

Broadly speaking the replies to Governor Hoffmeyer's questionnaire lead to the following two conclusions:

Firstly, all countries can under present provisions communicate policy decisions prior to implementation (although some countries pointed out that tax changes could be communicated only after having been tabled) and take policy decisions after (non-binding) consultation. There is equal unanimity that decision-making power cannot be transferred to Community bodies without changes in national legislation.

Secondly, no clear answer emerges whether under present provisions policy decisions can be taken after co-ordination. The main problem appears to relate to the meaning of co-ordination: if it does not imply mandatory consideration of others' concerns the answer would generally appear to be yes (perhaps, with the exception of tax changes), but if national decision-making would be subordinated to (binding co-ordination, a number of countries would seem firstly to have to enact changes in their national legislation.

Major instruments and policy measures to be applied in connection with the gradual realization of the Economic and Monetary Union

Instrument/policy measure	Who makes the decision? ¹	Can under present provisions policies decisions be: *)			Can the decision-making power be transferred to Community bodies without changes in national legislation?
		communicated prior to implementation?	taken after consultation?	taken after co-ordination?	
<u>Monetary policy</u>					
- Change in central bank interest rates	CB (G) ²	YES	YES	YES	NO ⁸
- Credit policy	CB + Gov ³	YES	YES	YES	NO ⁸
- Reserve requirements	CB + Gov	YES	YES	YES	NO ⁸
- Open market operations	CB + Gov	YES	YES	YES	NO ⁸
- Financing of government deficits	Gov (P) + CB	YES	YES	YES	NO ⁸
- Government debt management	Gov + CB	YES	YES	YES	NO ⁸
<u>Exchange rate policy</u>					
- Change in central rates	Gov ⁴	} as a member of EMS these are common decisions			NO
- Change in intervention margins	Gov ⁴				NO
- Change in intervention credit mechanisms	CB				YES ⁹
- Intervention policy	CB	YES	YES	YES	YES ⁹
- Management of official reserves	CB	YES	YES	YES	YES ⁹
<u>Fiscal policy</u>					
- Direct taxes	P	YES ⁵	YES	NO ⁶	NO ⁸
- Taxation of interest and capital income	P	YES ⁵	YES	NO ⁶	NO ⁸
- Indirect taxes	P	YES ⁵	YES	NO ⁶	NO ⁸
- Budget balance targets	Gov	YES ⁵	YES	YES ⁷	NO ⁸
<u>Other policy instruments and measures (specify)</u>					
- Incomes Policy	Gov (P) + social partners	YES	YES	NO ⁶	NO ⁸
-					
-					

¹ Please specify: Governor, Central Bank Board, Minister, Cabinet, Parliament,
CB Gov P

*) In agreement with the Secretariat the following information should be added: Communication, consultation and coordination is assumed to take place between EC-partners in a forum, where full confidentiality is assured.

NOTES

- 2) The government can veto any of the central bank's decisions related to monetary and exchange rate policies.
- 3) Credit ceilings.
- 4) The Central Bank has an advisory capacity
- 5) Government proposals
- 6) In the absence of binding Community legislation.
- 7) Cf. art. 3. decision of Council. Feb. 18.1974.
(cf. appendix).
- 8) Except for Community regulation if the Treaty allows.
- 9) For political reasons, the consent of the Government would be needed.

COUNTRY: DENMARK

Major instruments and policy measures to be applied in connection with the gradual realisation of the Economic and Monetary Union

Instrument/policy measure	Who makes the decision? ¹	Can under present provisions policies decisions be: *)			Can the decision-making power be transferred to Community bodies without changes in national legislation?
		communicated prior to implementation?	taken after consultation?	taken after co-ordination?	
<u>Monetary policy</u>					
- Change in central bank interest rates	CB	YES	YES	YES	NO
- Credit policy	CB+GOV	YES	YES	YES	NO
- Reserve requirements	CB+GOV	YES	YES	YES	NO
- Open market operations	CB	YES	YES	YES	NO
- Financing of government deficits	GOV (CB)	YES	YES	YES	NO
- Government debt management	GOV (CB)	YES	YES	YES	NO

COUNTRY: FRANCE

Major instruments and policy measures to be applied in connection with the gradual realisation of the Economic and Monetary Union

Instrument/policy measure	Who makes the decision? (1)	Can under present provisions policies decisions be: (2)			Can the decision-making power be transferred to Community bodies without changes in national legislation?
		communicated prior to implementation?	taken after consultation?	taken after co-ordination?	
Monetary policy					
- Change in central bank interest rates	CB + GOV	YES	YES	YES	NO
- Credit policy	CB + GOV	YES	YES	YES	NO
- Reserve requirements	CB + GOV	YES	YES	YES	NO
- Open market operations	CB	YES	YES	YES	NO
- Financing of government deficits	CB	-	-	-	NO
- Government debt management	GOV	-	-	-	NO
Exchange rate policy					
- Change in central rates	GOV (CB)	} as a member of EMS these are common decisions			NO
- Change in intervention margins	GOV (CB)				NO
- Change in intervention credit mechanisms	CB (GOV)				NO
- Intervention policy	CB (GOV)		YES	YES	NO
- Management of official reserves	CB	YES	YES	YES	NO
Fiscal policy					
- Direct taxes	P	(3)	YES	NO	NO
- Taxation of interest and capital income	P	(3)	YES	NO	NO
- Indirect taxes	P	(3)	YES	NO	NO
- Budget balance targets	GOV + P	(3)	YES	NO	NO
Other policy instruments and measures (specify)					
- Incomes Policy	GOV	(3)	YES	YES	NO
-					
-					

(1) Please specify: Governor, Central Bank Board, Minister, Cabinet, Parliament,
CB GOV P

(2) Communication, consultation and coordination are assumed to take place between EC-partners in a forum, where full confidentiality is assured.

(3) Government proposals can be notified when tabled.

**Major instruments and policy measures to be applied in connection with the gradual realisation
of the Economic and Monetary Union**

Instrument/policy measure	Who makes the decision? ¹⁾	Can under present provisions policies decisions be:			Can the decision-making power be transferred to Community bodies without changes in national legislation?
		communicated prior to implementation?	taken after consultation? ⁴⁾	taken after co-ordination?	
<u>Monetary policy</u>					
- Change in central bank interest rates	CB	YES	YES	NO	NO
- Credit policy	CB	YES	YES	NO	NO
- Reserve requirements	CB	YES	YES	NO	NO
- Open market operations	CB	YES	YES	NO	NO
- Financing of government deficits	2)	YES	YES	NO	NO
- Government debt management	GOV	YES	YES	NO	NO
<u>Exchange rate policy</u>					
- Change in central rates	GOV (CB)				NO
- Change in intervention margins	GOV (CB)	as forming part of the EMS			NO
- Change in intervention credit mechanisms	CB	these are common decisions			NO
- Intervention policy	CB	YES	YES	NO	NO
- Management of official reserves	CB	YES	YES	NO	NO
<u>Fiscal policy</u>					
- Direct taxes	P	YES	YES	NO	NO
- Taxation of interest and capital income	P	YES	YES	NO	NO
- Indirect taxes	P	YES	YES	NO	NO
- Budget balance targets	GOV (P)	YES	YES	NO	NO
<u>Other policy instruments and measures (specify)</u>					
- Incomes Policy ³⁾	-	-	-	-	-

1) Please specify: CB (Governor, Central Bank Board); GOV (Minister, Cabinet); P (Parliament)

2) Only limited cash advances at CB discretion.

3) Matter for management and labour.

4) Consultation not binding decision-making bodies.

**Major instruments and policy measures to be applied in connection with the gradual realisation
of the Economic and Monetary Union**

Instrument/policy measure	Who makes the decision?	Can under present provisions policies decisions be: (6)			Can the decision-making power be transferred to Community bodies without changes in national legislation?
		communicated prior to implementation?	taken after consultation?	taken after co-ordination?	
<u>Monetary policy</u>					
- Change in central bank interest rates	CB - GOVT	YES	YES	YES	NO
- Credit policy	CB - GOVT	YES	YES	YES	IT DEPENDS
- Reserve requirements	CB - GOVT	YES	YES	YES	NO
- Open market operations	CB	YES	YES	YES	NO
Financing of government deficits	CB - GOVT	YES	YES	YES	NO (7)

**Major instruments and policy measures to be applied in connection with the gradual realisation
of the Economic and Monetary Union**

Instrument/policy measure	Who makes the decision? ¹	Can under present provisions policies decisions be: ^{*)}			Can the decision-making power be transferred to Community bodies without changes in national legislation?
		communicated prior to implementation?	taken after consultation?	taken after co-ordination?	
<u>Monetary policy</u>				⁶	
- Change in central bank interest rates ²	CB	yes	yes	no	no
- Credit policy	CB + GOV	yes	yes	no	no
- Reserve requirements ²	CB	yes	yes	no	no
- Open market operations ²	CB	yes	yes	no	no
- Financing of government deficits ³	CB	yes	yes	no	no
- Government debt management ³	CB	yes	yes	no	no
<u>Exchange rate policy</u>					
- Change in central rates	GOV	Luxembourg being a member of the EMS, these are common decisions			no
- Change in intervention margins	GOV				no
- Change in intervention credit mechanisms	GOV				no
- Intervention policy ²	CB	yes	yes	no	no
- Management of official reserves ⁴	CB	yes	yes	no	no
<u>Fiscal policy</u>					
- Direct taxes	P	yes ⁵	yes	no	no
- Taxation of interest and capital income	P	yes ⁵	yes	no	no
- Indirect taxes	P	yes ⁵	yes	no	no
- Budget balance targets	GOV, P	yes ⁵	yes	no	no
<u>Other policy instruments and measures (specify)</u>					
- Incomes policy	GOV, P	yes ⁵	yes	no	no
-					
-					

¹ Please specify: Governor, Central Bank Board, Minister, Cabinet, Parliament.

^{2,3,4,5,6} See reverse.

^{*)} In agreement with the Secretariat the following information should be added: Communication, consultation and coordination to be secured to

- 2 These instruments are available in national legislation relative to the Luxembourg Monetary Institute. However, due to the monetary association with Belgium they need not be put into operation.
- 3 The decision to accept involvement in government deficit financing and government debt management is an autonomous decision of the Luxembourg Monetary Institute.
- 4 Luxembourg has only IMF-reserves and gold as official reserves; it does not have foreign exchange reserves other than BF.
- 5 Legislative proposals can be notified only when tabled.
- 6 The answer is no if coordination implies mandatory consideration of others' concerns. The answer could be yes if coordination did not imply mandatory consideration of others' concerns.

Note : Questions with respect to the answers provided may be addressed to Mr. Serge KOLB, conseiller, at the Luxembourg Monetary Institute; tel. 478893, fax. 492180.

Major instruments and policy measures to be applied in connection with the gradual realisation
of the Economic and Monetary Union

Instrument/policy measure	Who makes the decision?	Can under present provisions policies decisions be:			Can the decision-making power be transferred to Community bodies without changes in national legislation?
		communicated prior to implementation?	taken after consultation?	taken after co-ordination?	
<u>Monetary policy</u>					
Change in central bank interest rates	CB	Yes	Yes	Yes	No
Credit policy	CB	Yes	Yes	Yes	No
Reserve requirements	CB	Yes	Yes	Yes	No
Open market operations	CB	Yes	Yes	Yes	No
Financing of government deficits	GOV	Yes	Yes	Yes	No
Government debt management	GOV	Yes	Yes	Yes	No
<u>Exchange rate policy</u>					
Change in central rates	GOV	as a member of the EMS, these are common decisions			No
Change in intervention margins	GOV				No
Change in intervention credit mechanisms	CB				No
Intervention policy	CB	Yes	Yes	Yes	No
Management of official reserves	CB	Yes	Yes	Yes	No
<u>Exchange rate policy</u>					
Direct taxes	GOV+P	Yes	Yes	Yes	No
Reduction of interest and capital flows	GOV+P	Yes	Yes	Yes	No
Direct taxes	GOV+P	Yes	Yes	Yes	No
Get balance targets	GOV+P	Yes	Yes	Yes	No
<u>Policy instruments and measures (specify)</u>					

Please specify: Governor, Central Bank Board, Minister, Cabinet, Parliament

CB

GOV

P

According to the Dutch Central Bank law the Nederlandsche Bank can be subjected to an instruction by the minister of Finance. At the same time, the law lays down elaborate procedural safeguards embodying checks and balances, which in practice induce Minister and Bank to consult frequently, in order to arrive at a consensus on the general stance of monetary policy. The implementation of the concrete measures is decided upon by the Bank and the Minister is informed beforehand, e.g. in case

~~for the Minister of Finance to issue an instruction~~

ceilings or cash reserve requirements, require agreement with commercial banks; if such agreement cannot be reached the Bank may impose the measure on the banks if the minister of Finance agrees, pending ultimate approval by Parliament. The power of the minister to issue, within procedural safeguards, an instruction prohibits the transfer to the Committee of Governors of decision-making power on Central Banking matters within the present institutional context. The position of the Executive Board as the governing body of the Bank also forms an obstacle to the transfer of authority.

The financing of government deficits and government debt management are in the Netherlands within the competence of the minister of Finance. However, the Central Bank cannot be obliged to finance the government. Furthermore, there is an understanding with the Bank that the Treasury will refrain from monetary financing by other means. Fiscal policy measures require approval by Dutch parliament.

In completing the questionnaire, it has been assumed that in the stage 'decisions taken after coordination' recommendations can be made at the European level and that recommendations within the Central Bank's competence are made in the Committee of Governors, an EC-body that is not subject to directives of the Council of Ministers. It should be added that progress in monetary policy coordination requires that all Governors participate in the coordination process on more or less the same footing, i.e. equally independent from instructions of national ministers.

Major instruments and policy measures to be applied in connection with the gradual realisation of the Economic and Monetary Union

Instrument/policy measure	Who makes the decision? ¹	Can under present provisions policies decisions be: ^{*)}			Can the decision-making power be transferred to Community bodies without changes in national legislation?
		communicated prior to implementation?	taken after consultation?	taken after co-ordination?	
<u>Monetary policy</u>					
• Change in central bank interest rates	CB(GOV) ²⁾	YES	YES	YES	NO
• Credit policy	CB(GOV) ²⁾	YES	YES	YES	NO
• Reserve requirements	CB(GOV) ²⁾	YES	YES	YES	NO
• Open market operations	CB	YES	YES	YES	NO
• Financing of government deficits	GOV(CB) ³⁾	YES	YES	YES	NO
• Government debt management	GOV(CB) ³⁾	YES	YES	YES	NO
<u>Exchange rate policy</u>					
• Change in central rates	GOV(CB) ³⁾	4)	4)	4)	NO
• Change in intervention margins	GOV(CB) ³⁾	4)	4)	4)	NO
• Change in intervention credit mechanisms	GOV(CB) ³⁾	4)	4)	4)	NO
• Intervention policy	CB	YES	YES	YES	NO
• Management of official reserves	CB(GOV)	YES	YES	YES	NO
<u>Fiscal policy</u>					
• Direct taxes	P	5)	YES	NO	NO
• Taxation of interest and capital income	P	5)	YES	NO	NO
• Indirect taxes	P	5)	YES	NO	NO
• Budget balance targets	GOV	5)	YES	YES	NO
<u>Other policy instruments and measures (specify)</u>					
• Incomes Policy	GOV	5)	YES	?	NO
•					
•					

¹ Please specify: CB GOV P
 Governor, Central Bank Board, Minister, Cabinet, Parliament.

²⁾ Decisions taken by the Banco de Portugal in its quality of monetary authority under the guidelines set by The Finance Minister.

³⁾ Decisions taken by the Government in close agreement with the Central Bank.

⁴⁾ When Portugal participates in the EMS/ERM, the answer would be YES.

⁵⁾ Government proposals can be notified when tabled.

^{*)} Assuming full confidentiality is assured.

COUNTRY: SPAIN

Major instruments and policy measures to be applied in connection with the gradual realisation of the Economic and Monetary Union

Instrument/policy measure	Who makes the decision?1	Can under present provisions policies decisions be: *)			Can the decision-making power be transferred to Community bodies without changes in national legislation?	
		communicated prior to implementation?	taken after consultation?	taken after co-ordination?		
<u>Monetary policy</u>						
- Change in central bank interest rates	CB	YES	YES	-	NO	
- Credit policy	-	-	-	-	-	
- Reserve requirements	CB	YES	YES	-	NO	
- Open market operations	CB	YES	YES	-	NO	
- Financing of government deficits	GOV	YES	YES	-	NO	
- Government debt management	GOV	YES	YES	-	NO	
<u>Exchange rate policy</u>						
- Change in central rates	}	NA ²	NA	NA	-	NO
- Change in intervention margins		NA	NA	NA	-	NO
- Change in intervention credit mechanisms		CB	NA	NA	-	NO
- Intervention policy		CB	YES	YES	-	NO
- Management of official reserves		CB	YES	YES	-	NO
<u>Fiscal policy</u>						
- Direct taxes	P + GOV	YES	YES	-	NO	
- Taxation of interest and capital income	P + GOV	YES	YES	-	NO	
- Indirect taxes	P + GOV	YES	YES	-	NO	
- Budget balance targets	P + GOV	YES	YES	-	NO	
<u>Other policy instruments and measures (specify)</u>						
-						
-						
-						

Please specify: Governor, Central Bank Board, Minister, Cabinet, Parliament.

CB

GOV

P

*) In agreement with the Secretariat the following information should be added: Communication, consultation and coordination is assumed to take place between EC-partners in a forum, where full confidentiality is assured.

2 NA = Non applicable since Spain does not participate in the Exchange Rate Mechanism of the EMS.

BANCO DE ESPAÑA

EL GOBERNADOR

Madrid, December 22, 1988

Dr. Erik Hoffmeyer
Governor
Danmarks Nationalbank
COPENHAGEN

Dear Governor Hoffmeyer,

Please, find attached herewith the table that you have proposed, duly filled with the answers relative to Spain. I am sending a copy of it to other members of the Committee and to the two Rapporteurs.

Naturally, decisions-making is a more complex reality than might be reflected by the formal procedures to which the answers in the table correspond to. You might, therefore, find useful the following brief description of responsibilities in Spain.

Monetary policy

Formally, general monetary objectives, including annual monetary targets, are set by the Government. In practice, however, they are formulated jointly by the Government and the Bank of Spain after extensive discussion and consultation. Thereafter, responsibility for the execution of monetary policy rests with the Bank of Spain.

On the other hand, decisions on government financing and the issuing of government debt rest ultimately with the Government. On that point, it might be recalled that the Government may eventually decide to use the Treasury access to credit from the Bank of Spain to which it is legally entitled. Under present provisions, the resulting Treasury's outstanding borrowing from the Bank at the end of the fiscal year is limited to 12% of the year's total budget outlays.

Exchange policy

The basic medium term orientation and objectives of exchange policy are set jointly by the Government and the Bank of Spain. The Bank is thereafter sole responsible for

2.

the management of exchange policy, including intervention and regulation of foreign exchange markets. The Bank of Spain is equally sole responsible for the management of external reserves.

As you are aware, obligations stemming from the exchange rate mechanism of the EMS do not currently apply to Spain. Such obligations could however be accepted in the future without need of changes in the present Spanish legal setting.

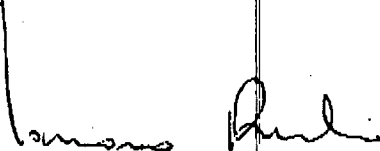
Fiscal policy

All decisions on taxation and on the Public Budget must be enacted by Parliament under the proposal of the Government.

Additional observations

There is a need for further clarification of the meaning of "coordination of policies" since it is unclear whether coordination might or might not involve the transfer of sovereignty to the Community body where policies would be coordinated. I have, therefore, left unanswered column 4 of your table.

Yours Sincerely,

VM


Please specify: Governor, Central Bank Board, Minister, Cabinet, Parliament,
CB GOV P

TOTAL P.04

The Governor

Bank of England
London EC2R 8AH

8 December 1988

Dr Erik Hoffmeyer
Governor
Danmarks Nationalbank
DK-1093 Copenhagen K
Havnegade 5
Denmark

Dear Erik,

I was very interested to see the pro forma on economic policy measures and instruments which you enclosed with your letter of 11 November. I had seen the table, together with a copy of your letter of 26 October to President Delors, before our November meeting and I had hoped that we might have been able to discuss it then. The completed example you have given does appear to provide a clear picture of what degree of consultation or co-ordination is already possible in the case of Denmark and what would require more difficult political steps. Unfortunately it is very difficult for the situation in the United Kingdom to be

Bank of England. Any decisions involving the creation of new issues of Government debt rest ultimately with the Government. All of these decisions could in principle involve prior communication, consultation or co-ordination with EC partners; only the creation of new Government debt is a matter directly governed by national legislation, which gives very wide scope for discretionary decisions by the Government.

Exchange Rate Policy

Those questions relating to the exchange rate mechanism of the EMS are not currently applicable to the UK. As with monetary policy, exchange rate policy is formulated jointly by the Government and the Bank of England and executed by the Bank. It nevertheless has to conform with the statute governing the operations of the Exchange Equalisation Account so that, whereas prior communication, consultation or co-ordination of operations with EC partners could take place, decision-making power could not be transferred without a change in legislation.

Fiscal Policy

All decisions on taxation must be enacted by Parliament, which also has to approve the supply of money to finance most items of public expenditure. In both cases, the proposals are made by the Government, which will guide them by the formulation of a fiscal strategy - as currently, in the MTFs. The strategy to be followed by Government could, without change to national legislation, be a subject for consultation or co-ordination with EC partners. Individual tax proposals could not be the subject of prior open discussion, because of the risk of forestalling.

I am sending copies of this note to other members of the Committee.

Yours sincerely,
Robin