17.05.1988 18:54 TELEFAX

COMITÉ DES GOUVERNEURS DES BANQUES CENTRALES
DES ÉTATS MEMBRES DE LA
COMMUNAUTÉ ÉCONOMIQUE EUROPÉENNE

Banque Nationale de Belgique
A l'attention de M. Rey

Bâle le 17 mai 1988

Comme suite à notre conversation téléphonique, je te prie de trouver ci-après le texte du rapport oral que le Président du Comité monétaire a présenté au Conseil ECOFIN informel, le 14 mai 1988. Ce texte a été remis à Travemünde aux membres du Comité monétaire participant à la réunion.

Amicalement
André Bascoul

Annexe: √ pages

TELEFAX

INFORMAL ECOFIN: LUBECK: 14 MAY 1988

ORAL REPORT BY

CHAIRMAN OF THE MONETARY COMMITTEE

The Committee has had only one discussion of this subject, but it was long and thorough. We had the benefit of a paper by our French colleagues supplementing M Balladur's letter and paper of February; we also took note of memoranda circulated since then by Sr Amato, yourself and M Poos, as well as our knowledge of other recent documents on the subject.

As a preliminary observation the Committee emphasises the need to remember and hold on to what has already been achieved and to continue to build on this solid ground. The management of the EMS Exchange Rate Mechanism has been highly successful in recent times and particularly during the troublesome months since your Nyborg meeting. Proposals for new refinements of the system need not and should not be rushed; time should be allowed for the full benefits of the changes agreed last September to become clear.

The Committee has discussed positively a wide range of ideas, with a view to identifying ones which may deserve to be pursued. We found it convenient to consider them in three groups:

- ideas which could in principle be implemented at a relatively early stage within present institutional arrangements and the Treaty as it stands;
- ideas which relate to a much fuller form of monetary (and economic) integration and would of course require Treaty changes and significant institutional developments;
- possible intermediate moves which might pave the way to fuller integration.

I emphasise that these are not proposals. They are ideas which command as much doubt as support. But the Committee feels that it (and the Central Bank Governors' Committee) might, subject to your views, usefully explore some of them over the coming months. I shall list them briefly and, if you wish, can elaborate them more in writing in my report for the June ECOFIN.

Early Steps

Under the heading of possible early steps, we identified the following questions:

- While the Committee believes that adjustment processes in the EMS should be orientated to best performance rather than to the average, there remain questions whether a greater symmetry could be achieved in intervention - particularly when pressures seem to arise from causes outside the Community?
- A partly related question is whether intervention to maintain equilibrium within the Community, including some intra-marginal intervention, could be more effective in Community currencies, rather than in dollars?
- Again partly related is the question whether it would be right to encourage greater cross-holdings of Community currencies by members?
- Is there a case for further encouragement of the private ecu, in particular by deliberately fostering its use by monetary authorities in the Community, for intervention and as a reserve asset?
- When can the present Exchange Rate Mechanism be completed by full participation of all members of the Community on the same terms?

- Would it be useful and timely to explore possibilities of closer cooperation on objectives of economic policy? For example, while continuing our efforts to converge on price stability, we might cooperate more closely in order to improve fiscal performance, and to cultivate more vigorous and even growth potential?

Long-term

Before turning to possible intermediate steps I touch briefly on long-term objectives.

The Committee noted that recent ideas for a common currency and a single central bank raise issues which were propounded nearly two decades ago in the Werner Report and in the Resolution of the Council and of the Representatives of the Member States of 22 March 1971.

I draw four elements from the Committee's discussion.

First, there are deep problems of parallelism between progress on the monetary and other fronts. A common currency and central bank could for example be uncomfortable, to say the least, without centralised control of national budgets.

Secondly, on the institutional level there are important issues for debate over the objectives of a central bank (how the balance between price stability and other objectives should be struck), its degree of independence (from national and Community institutions), and its structure (federal or other).

Thirdly, the dominant economic issue for the Community over the next few years is the achievement of the 1992 single market.

In the Committee's view that certainly requires the full capital liberalisation to which we have been giving due priority. It may well also create both pressures and opportunities for closer monetary integration. But the Committee's discussion reached a clear view that the single market can be established on the basis of present monetary arrangements: there is no operational reason to associate with it - as a prior, parallel or even subsequent condition - a completely unified monetary system.

Fourthly, if there is a political momentum for further early exploration of the implications of full monetary integration the Committee would respectfully suggest that it would be better undertaken by those responsible in Finance Ministries and Central Banks (which means ECOFIN, Monetary Committee and the Committee of Central Bank Governors) than by any outside group of 'wise men'.

Intermediate Steps

Finally, our discussion gave rise to several suggestions for possible future development, falling well short of integration but more ambitious than those described as possible early steps. We view them at present as 'asking some of the right questions', rather than 'giving the right answers'.

These include:

- much broader development of the ecu, for example as an instrument for Community government borrowing;
- development of the European Monetary Cooperation Fund, not in the direction of issuer of currencies or ecu, but perhaps as clearing-house and as agent for some interventions vis-a-vis third currencies.

As I have indicated, some of these ideas can be developed further in my report for the June ECOFIN.

Conclusion

To conclude, if the full freedom of capital movements seems to call for monetary changes, these should build on our present arrangements. There is no justification for delaying any aspect of the planned completion of the internal market, while waiting for further progress with monetary integration. And should a be political momentum develop for fuller integration, the necessary basic work should involve the competent committees.