

15th April 1992

Confidential

Final

MINUTES
OF THE 264th MEETING OF THE COMMITTEE OF GOVERNORS
OF THE CENTRAL BANKS OF THE MEMBER STATES
OF THE EUROPEAN ECONOMIC COMMUNITY
HELD IN BASLE ON TUESDAY, 10th MARCH 1992 AT 9.30 a.m.

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The Chairman opened the meeting by welcoming Mr. Christodoulou as a new member of the Committee.

I. Approval of the minutes of the 263rd meeting

The Committee approved the minutes of the 263rd meeting.

II. Monitoring of economic and monetary developments and policies in the EEC based on:

- Preparation by the Foreign Exchange Policy Sub-Committee (Monitoring)
- Statistical charts and tables prepared by the Secretariat

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

The Monitoring Group felt that the US dollar's 6.5% rise vis-à-vis the Deutsche Mark over the past month represented a trend which might continue in the period ahead. The US dollar was still regarded by the markets as undervalued and there was a perception that the recession in the United States had bottomed out. Lower interest rates were not, therefore, envisaged; indeed, Eurodollar interest rates were tending to firm and portfolio managers appeared to be purchasing dollars to cover their short positions.

As regards the Japanese yen, there was strong pressure on the Bank of Japan to lower the discount rate although, even if that happened, the trend of the yen would remain uncertain since it also appeared to be influenced by political factors.

In the EMS, conditions remained stable and interest rate differentials vis-à-vis the Deutsche Mark had declined on average by 0.5 percentage point to about 1%. Some intervention purchases, mostly of Deutsche Mark and private ECUs, had been conducted by Italy, Portugal and Ireland. The spread between the private ECU and the basket ECU had remained largely unchanged within a range of less than 0.1 percentage point. As far as individual currencies were concerned, the Deutsche Mark was relatively weak, mainly owing to the development in wage negotiations, particularly in the bank and public sectors, where wage claims were still around 9.5%. The real economy in Germany remained relatively weak although recent figures on industrial production and the level of orders indicated some improvement. No change in monetary policy was envisaged in Germany in the light of the current rate of inflation and because the growth of M3 was still strong. The French franc had moved away from the bottom of the narrow ERM band as a result of good performances on both inflation and the balance of payments in particular. Interest rates remained firm in France and no

change in monetary policy was envisaged. The Danish krone had weakened, although this had largely been connected with the political debate on the ratification of the EMU Treaty. In the wide ERM band, some tensions had developed between the pound sterling and the Spanish peseta and modest marginal interventions had been made by the central banks in both countries. In Spain, interest rates had been lowered by 25 basis points in the light of the inflation performance and to moderate the strength of the peseta. However, no further easing of monetary policy was envisaged. The recent decision to liberalise capital movements completely had had little impact on the Spanish currency. In the United Kingdom, market conditions were influenced by expectations concerning the budget; while the UK economy was still sluggish, and inflation had declined more than expected, most market participants expected some fiscal stimulus.

2. Discussion by the Committee

Mr. Leigh-Pemberton said that, with the exception of oil and gas, output in the United Kingdom had fallen for the last six consecutive quarters and there was little in recent data to suggest that a recovery was yet under way. There was speculation that the Chancellor would present a "give-away budget", although it was more likely that the fiscal adjustment would be moderate. The budget should be assessed against the Government's expenditure plans which, traditionally, were published each November. Although the Government's borrowing requirement for the current fiscal year would be above the original forecasts, it would not be at an unacceptable level in terms of its ratio to GNP. However, it would be considerably higher the following year, which could be accepted, given that the United Kingdom economy had been in recession for some time and on the understanding that the Government's original strategy of balancing the budget over the medium term was observed. Furthermore, there was considerable pressure for an interest rate cut, although this was subject to two constraints. Firstly, the pound sterling had been at its limit against the Spanish peseta in the wide ERM band for some time and, secondly, and more immediately, the markets' reaction to the news of the increased borrowing requirement would have to be assessed. Only if either the budget or the announcement of an imminent general election settled some of the uncertainty surrounding the United Kingdom's present situation might it be possible to ease monetary policy.

Mr. Schlesinger agreed that there had been indications at the beginning of 1992 that the German economic situation was improving but the outlook for the year remained uncertain. There were, in particular, concerns about the budgetary situation. While regular budget expenditures were

restricted, outlays for special purposes, such as the support for the Treuhand, were rising. On the other hand, it was important to note that the level of value added tax would be increased by 1 percentage point to 15% in 1993. Although the response in Germany to the Maastricht Treaty had been relatively critical, the parliamentary opposition had said that they would support its ratification and would also approve the necessary two amendments to the German constitution. These amendments would enable foreigners from other Community countries to participate in communal elections and allow the transfer of functions, which were currently carried out by the Deutsche Bundesbank, to the ECB. However, the opposition parties had emphasised that the Treaty should be improved, including the aspects of political union, and that the German Parliament should be consulted before the Deutsche Mark was replaced by a single European currency.

The Chairman said that the Danish authorities were considering changing their monetary policy instruments and that he would be providing the members of the Committee with written details in due course.

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 February and the first few days of March 1992

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

IV. Adoption of the Annual Report

1. Statement by Mr. Rey, Chairman of the Committee of Alternates

The Alternates had welcomed the draft Annual Report and thanked the Secretariat/Economic Unit and the Editorial Group for their work. A few small drafting changes had been accepted by the Alternates, including the deletion of quantified measures of dispersion from the tables in the chapter on Economic Developments and Monetary Policy Implementation. However, there was one issue outstanding, which related to the first sentence at the bottom of page 49 of the report, which commenced: "At the start of Stage Three, the conversion rates at which participating currencies shall be irrevocably fixed and at which the ECU shall be substituted for those currencies shall be adopted....". Although the draft used Treaty language, the German Alternate had favoured deleting the sentence as it was not closely linked to the institutional features dealt with in the chapter. Other Alternates had preferred to retain the sentence as they wished to make some reference to the role of the ECU in Stage Three. In

addition, the Alternates had agreed that the method of producing translations should be reviewed before the production of the next annual report.

2. Discussion by the Committee

Referring to page 45, Mr. Schlesinger suggested deleting the paragraph which read "Looking ahead, the amendments to the Treaty which confirmed the metamorphosis of the ECU into the single currency of the Community, have generally been well received by markets and have underpinned confidence in the future development of ECU markets". Indeed, there was a great deal of uncertainty in the market over how the transition from national currencies to the ECU would be achieved. Furthermore, he had two objections to the paragraph referred to by Mr. Rey. Firstly, it was out of place given that the rest of the section dealt with institutional issues. The second objection related to the debate which was currently going on in Germany concerning what "ECU" really meant.

After some discussion, the Committee agreed to delete the whole of paragraph on page 45 referred to by Mr. Schlesinger and to replace the sentence of Section III, part 1 on page 49 by the full text of Article 1091(4).

Turning to the presentation of the report, the Chairman said that the Committee had to decide on the date of publication and the question of relations with the press.

Mr. Rey said that each central bank would manage the relationship with the press in its respective country. Following receipt of the final copies of the report from the Secretariat, each central bank would send copies to the press under embargo. A request had been made that no embargo copies should reach the press before late evening of 9th April 1992, in order to ensure that no leak occurred before the general election in the United Kingdom.

Mr. Christophersen congratulated the Committee and the Secretariat on the work which had been done in producing the report. He suggested that the Chairman consider presenting it to the ECOFIN Council, perhaps at its meeting in May.

With respect to the question of how the report should be released to the press, the Committee agreed that the Chairman should present it in a press conference.

The Chairman asked the Secretariat to make arrangements for him to hold a press conference at the BIS on 14th April 1992.

Mr. Christophersen suggested that some of the journalists who attended sessions of the European Parliament should be invited.

V. Preparatory work for the move to the final stage of EMU

1. Functions and structure of the EMI

(a) Statement by Mr. Rey, Chairman of the Committee of Alternates

The Alternates had reviewed the functions and structure of the EMI on the basis of three notes by: Mr. Borges on the monetary policy functions; Mr. Lagayette on the tasks to be performed in relation to the ECU; the Secretariat on operational functions. While there were broad areas of agreement among the Alternates, a number of issues required further clarification; the Alternates would prepare a written report for the Governors' meeting in April.

There was agreement on some features. While national central banks would remain responsible for monetary policy in Stage Two, the EMI should act as a catalyst for all preparatory steps leading towards the final stage. The structure of the EMI should take account of identified priorities whilst retaining flexibility.

With regard to the functions of the EMI, those that would involve essentially research-type activities were the least controversial. In the area of monetary policy, the EMI would take over the Committee of Governors' co-ordinating role but would also devise the instruments and procedures necessary to carry out the single monetary policy in the final stage. Several related functions were also identified, including the screening of money market intervention techniques, the harmonisation of accounting practices and the collection of statistics. The EMI would also be involved in the work relating to payment systems and banknotes and would have to discharge advisory functions.

The responsibilities of the EMI for "overseeing the development of the ECU" might give rise to a different emphasis and further work might be needed to clarify the extent of its involvement. With regard to the role of the EMI vis-à-vis the ECU clearing, this could be considered in the light of the forthcoming report by the Ad Hoc Working Group on EC Payments Systems.

The EMI might also exercise operational functions in three areas. Firstly, it was explicitly endowed with the functions of the EMCF. Secondly, it was entitled to hold and manage foreign exchange reserves as an agent for, and at the request of, Community central banks. It might be necessary to determine the conditions under which the EMI could deliver such a service and to assess the demand for it before reaching a view on the implications of this function. Thirdly, the EMI was to have its own financial resources in the form of a lump-sum contribution by the central banks; the implications of this method of funding would have to be clarified.

Finally, the Alternates would address the question of priorities with respect to both the work to be undertaken in the remaining period before 1st January 1994 and the structure of the EMI itself.

(b) Discussion by the Committee

In view of the fact that a written report would be provided by the Alternates which would be discussed at their April meeting, the Committee agreed that it would be premature to start a discussion at this stage.

2. Status of staff members of the Secretariat

(a) Statement by Mr. Rey, Chairman, Committee of Alternates

The Alternates had a short exchange of views on the status of the staff members of the Secretariat based on the note which had been prepared by the Secretary General at the request of the Governors.

The Alternates had noted that most contracts would expire in the middle of 1993, which could give rise to a major disruption in the support provided to the Committee of Governors unless consideration was given to how to ensure continuity. This could be achieved by staggering the departure of staff members seconded from central banks and the BIS. Any changes in contracts should be made in agreement with the individuals concerned and their seconding institutions; in addition, the temporary contracts of those hired from the market could be renewed.

Furthermore, if existing contracts were renewed and contracts for new temporary staff members were concluded, the length of employment would be an important question. Legally, it was not possible to commit the EMI before its establishment, but the problem could be resolved if, at the time of the renewal of existing contracts or the conclusion of new contracts, a "moral commitment" was made to staff members concerning the option of joining the EMI. However, some Alternates felt that it would be important to offer the staff concerned a broad idea of the conditions of employment with regard to the EMI; therefore, work on this should not be delayed for too long.

In addition, the available resources of the Secretariat/Economic Unit were at present fully utilised and there was no capacity to provide adequate support for the additional work relating to the preparation of the move to the final stage. There was general agreement among the Alternates that the Secretariat should be enlarged. The Secretary General had emphasised that any expansion should be combined with the establishment of a more formal organisational structure in order to facilitate management and administration. It was envisaged that such a structure should be modest, comprising three

sections (General Secretariat, Economic Unit, Statistics and Information Systems), each of which should be headed by a senior staff member with the Secretary General retaining overall responsibility. This structure should not prejudice the future organisation of the EMI.

With respect to the follow-up, the Alternates recommended that the Secretary General should be asked to explore with the individual staff members, and their seconding institutions, which of them would be interested in varying their contracts. He should then make a proposal on the desirable size of the Secretariat and its organisational structure.

(b) Discussion by the Committee

The Chairman suggested endorsing the recommendations from the Alternates and that the Secretary General should conduct a survey of the attitudes of the current personnel in the Secretariat. To facilitate this, it would be helpful if the Committee could express its opinion on the request for a moral commitment.

Mr. Tavares Moreira said that, if the Committee of Governors was able to enter into contracts, all rights and obligations of the Committee, including those relating to personnel, would be transferred to the EMI.

Mr. Baer clarified that, given that the Committee did not have legal personality, it was not able to enter into contracts; indeed, all contracts were concluded by the BIS acting on behalf of the Committee. It would be difficult for the BIS to conclude contracts which extended beyond 1st January 1994 when the Committee was to be dissolved. For this reason, some moral commitment by the Governors to offer an option with regard to Stage Two would be helpful to future, as well as existing, staff members.

After a further short discussion, the Committee agreed that a moral commitment would be given to the staff of the Secretariat in respect of their positions vis-à-vis Stage Two. The Secretary General was requested to explore with the individual staff members, and their seconding institutions, which of them would be interested in varying their contracts, and to make a proposal on the desirable size of the Secretariat and its organisational structure.

3. Mandate for the Ad Hoc Working Group on "printing and issuing a European banknote"

(a) Statement by Mr. Rey, Chairman, Committee of Alternates

The Alternates had reviewed the draft mandate for the Ad Hoc Working Group on "printing and issuing a European banknote" ("Group") which had been prepared by the Secretariat on the basis of President Duisenberg's letter, dated

27th February 1992, to the Chairman of the Committee of Governors. It was recognised that the issues to be addressed by the Group were predominantly of a technical nature, but there were also important policy aspects which had to be identified. Some of the Alternates felt that the Group might need to meet in different compositions depending on whether technical or more political issues were considered. However, the text of the draft mandate made it clear that questions relating to the interpretation of the Treaty were to be outside the Group's remit; such questions should be dealt with at the level of the Governors and Alternates.

(b) Discussion by the Committee

Mr. Duisenberg said that he recognised that the words "identify the policy implications" were sensitive, although he stressed that this did not extend to monetary policy. It recognised the fact that the design and production of a banknote would take between six and eight years and that it would require decisions for major investments, and maybe even capital losses, in many countries. He suggested that it might be helpful if the word "policy" was deleted.

Mr. de Larosière said that it was clear that the Group would have to make a number of assumptions in carrying out its work concerning, inter alia, the design, issuance and sorting of banknotes, all of which would have policy implications. The Group should not be confined to purely technical questions of production.

Mr. Schlesinger said that the Group should only identify a number of possible scenarios. He felt that the reference to policy implications should be deleted because the Governors would have to discuss such matters.

Mr. de Larosière suggested that the word "identify" was important since the Governors would need the Group to identify the problems involved so that the Committee might be in a position to take the necessary decisions.

Mr. Leigh-Pemberton agreed that the Group should not pre-empt policy decisions. These would probably be taken following consultation between the various central banks and their respective national governments because the question of banknotes was a highly critical public policy matter. Furthermore, the composition of the Group would need to consist of not just those who were experts in the printing of banknotes, but also of those with technical knowledge of their issuance; this would not necessarily be the responsibility of the same person. Finally, he suggested that the work of the Group, which would be technical and of a background nature, should be conducted on a low-key basis, at least in the early stages.

Mr. Doyle suggested that the chairman of the Group should be asked to make regular reports to the Governors on its progress, rather than leaving any interim report until the Group had been in existence for, say, a year.

Mr. Ciampi said that each central bank should select as its representative on the Group the person who was responsible for putting banknotes into circulation, who could be assisted from time to time by a technical expert.

Mr. de Larosière said that he had found it hard to accept the suggestion that the major emphasis with regard to the composition of the Group be placed on the Chief Cashiers since one of the most difficult issues which would have to be dealt with pertained to the production process. The Group should, therefore, be flexible in its composition and be comprised of experts appropriate to the various questions that would need to be considered.

Mr. Schlesinger said that the matter would depend on the situation of each of the central banks, noting that, in Germany, banknotes were printed by a private company and a state-owned printing plant.

Mr. Rey said that the point made by Mr. Doyle had been raised during the Alternates' discussion. Although the draft mandate provided for the Group to present an interim report no later than one year after it was established, the Governors and Alternates would be free to invite its chairman to report periodically on progress.

Mr. Duisenberg drew the Committee's attention to the suggestion which he had made in his letter that it might be helpful if the Secretariat could be reinforced by a technical expert from one of the central banks.

The Chairman said that the chairman of the Group should be allowed to organise the Group's work, which would include the use of central bank experts. He asked the Committee members to consider whether they could recommend a suitable candidate to chair the Group and, if so, they should send him details. The Committee could either discuss the prospective candidates at its next meeting, or it could be handled by written procedure.

Mr. de Larosière said that the chairman of the Group would need some logistical support to cope with what would be a heavy workload. He suggested that, given the lack of expertise in this field in the present composition of the Secretariat, this question should be considered when appraising the overall staffing needs of the Secretariat.

Mr. Baer confirmed that he would make some suggestions in this respect for the Committee's consideration at its next meeting in April.

VI. ECU clearing

Referring to the Secretariat's note dated 4th March, the Chairman noted that this item had been withdrawn from the agenda.

VII. Other matters falling within the competence of the Committee

1. Expenses incurred by the Committee of Governors and the EMCF in 1991 and estimated expenses for 1992 (note by the Secretariat dated 18th February 1992)

(a) Statement by Mr. Rubio, Chairman of the Committee on Financial Matters

In accordance with Section 5.2 of the decision relating to its establishment, the Committee on Financial Matters had examined the statement of annual expenses incurred by the Committee of Governors and the EMCF during 1991. The total expenses were well within the projections in spite of the fact that the creation of the Ad Hoc Working Group on EC Payment Systems had involved unforeseen expenditure of about Sw.fr. 430,000. The Committee had found the statement to be in good order and recommended its approval by the Committee of Governors.

As regards the projections for 1992, the Committee recognised that uncertainties in connection with the preparatory work for the move to Stages Two and Three of EMU made it difficult to judge the likely expenditure for the current financial year, although an estimate of approximately Sw.fr. 5.2 million had been made, which was only slightly more than the actual outlay in 1991. This modest rise was attributable to a number of factors, including better information on some categories for which expenses had been overestimated in the 1991 projections. However, travel expenditure had not been adjusted downward because some expenses incurred in the previous year had not yet been billed by the BIS. Furthermore, this budget item might increase in 1992 in connection with special flights for the Committee of Governors.

The overall projection was, however, very tentative and there were three particular items which might give rise to overruns. Firstly, the total cost of the production and distribution of the Annual Report might be in the region of Sw.fr. 75,000 (on the basis of 7000 copies). Secondly, the number of meetings of sub-committees or ad hoc groups might be significantly larger; each additional one-day meeting would add Sw.fr. 16,000 for interpretation (the corresponding figure for a two-day meeting would be Sw.fr. 22,500). Thirdly, the

Secretariat/Economic Unit might have to be enlarged in order to ensure adequate support for the preparatory work with regard to EMU; the implicit need for additional secretaries, research assistants and various other expenses should also be taken into account. On the basis of experience with the Ad Hoc Working Group on EC Payment Systems, the cost of supporting an active working group could amount to about Sw.fr 850,000 per year. Overall, these three factors could lead to additional outlays of at least Sw.fr. 2 million, much above the expenditure projected for 1992.

(b) Discussion by the Committee of Governors

The Committee approved the statement of expenses for 1991 and the projections for 1992. With regard to the possible increase in the latter, the Chairman noted that this was connected with the future size of the Secretariat. He suggested that, once this issue became clear, a revised assessment should be made of the projected expenditure for 1992.

2. The Chairman's meeting with the European Parliament

The Chairman said that he had been invited to attend a meeting of a Committee of the European Parliament on economic and monetary matters and industrial policy on 25th March 1992.

3. Approach from the staff unions

The Chairman said that he had arranged an exploratory meeting with Mr. Vanderschelde, President of the Standing Committee of the European Central Bank Unions, and Mr. Jennings, General Secretary of the International Federation of Commercial, Professional, Clerical and Technical Employees (FIET), in Copenhagen on 31st March 1992. He would report on the outcome of that meeting to the Committee at its next meeting in April.

4. Contact with the Governor of Sveriges Riksbank

The Chairman said that Mr. Dennis, the Governor of the Sveriges Riksbank, had contacted him to say that he would be sending a memorandum with regard to the possibility of establishing a closer connection between the Swedish krona and the EMS currencies. The paper would be distributed to the Committee members as soon as it was received.

Mr. Rey said that this issue was due to be discussed by the Monetary Committee at its next meeting, the following Thursday.

Mr. Christophersen said that Mr. Dennis intended to meet Mr. Delors and himself in the near future to discuss this matter.

After further discussion, the Committee agreed that this matter would need to be given further consideration following receipt of Mr. Dennis' memorandum.

VIII. Date and place of next meeting

The next meeting of the Committee of Governors would take place in Basle on Tuesday, 14th April 1992 starting at 9.30 a.m.

264th MEETING OF THE COMMITTEE OF GOVERNORS

10th March 1992

Those present were:

Chairman of the Committee of Governors	Mr. Hoffmeyer
Banque Nationale de Belgique	Mr. Verplaetse Mr. Rey* Mr. Michielsen
Danmarks Nationalbank	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. Rubio Mr. Linde Mr. Durán
Banque de France	Mr. de Larosière Mr. Lagayette Mr. Cappanera
Central Bank of Ireland	Mr. Doyle Mr. Coffey Mr. Reynolds
Banca d'Italia	Mr. Ciampi Mr. Dini
Institut Monétaire Luxembourgeois	Mr. Jaans
Nederlandsche Bank	Mr. Duisenberg Mr. Szász Mr. Bakker
Banco de Portugal	Mr. Tavares Moreira Mr. Borges Mr. Bento
Bank of England	Mr. Leigh-Pemberton Mr. Crockett Mr. Foot
Commission of the European Communities	Mr. Christophersen Mr. Pons
Chairman of the Foreign Exchange Sub-Committee	Mr. Saccomanni
Secretariat of the Committee of Governors	Mr. Baer Mr. Scheller Mr. Jenkinson

* Chairman of the Committee of Alternates

