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(Translation)

MINUTES *

OF THE 244th 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 APRIL 1990 AT 9.30 a.m.

Those present at the meeting were: the President of the Deutsche Bundesbank and Chairman of the Committee, Mr. Pöhl, accompanied by Mr. Rieke; the Governor of the Banque Nationale de Belgique, Mr. Verplaetse, accompanied by Mr. Rey and Mr. Michielsen; the Governor of Danmarks Nationalbank, Mr. Hoffmeyer, accompanied by Mr. Mikkelsen; the Economic Adviser to the Bank of Greece, Mr. Papademos, accompanied by Mr. Karamouzis; the Governor of the Banco de España, Mr. Rubio, accompanied by Mr. Linde and Mr. Durán; the Governor of the Banque de France, Mr. de Larosière, accompanied by Mr. Lagayette and Mr. Cappanera; the Governor of the Central Bank of Ireland, Mr. Doyle, accompanied by Mr. O'Grady Walshe and Mr. Reynolds; the Governor of the Banca d'Italia, Mr. Ciampi, accompanied by Mr. Dini and Mr. Santini; the Director General of the Luxembourg Monetary Institute, Mr. Jaans; the President of De Nederlandsche Bank, Mr. Duisenberg, accompanied by Mr. Szász and Mr. Benard; the Governor of the Banco de Portugal, Mr. Tavares Moreira, accompanied by Mr. Amorim and Mr. Couchinho Baptista; the Governor of the Bank of England, Mr. Leigh-Pemberton, accompanied by Mr. Crockett and Mr. Price; the Vice-President of the Commission of the European Communities, Mr. Christophersen, accompanied by Mr. Pons. Also present at the meeting was Mr. Dalgaard, Chairman of the Group of Experts. The Secretary General of the Committee, Mr. Morelli, his Deputy, Mr. Bascoul, and Mr. Scheller also attended; Mr. Giovanoli, Mr. Spinnler and Mr. Dagassan, of the BIS, were invited to attend for the discussion of item IV of the agenda.

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* Final text approved at the meeting on 11th June 1990, which incorporates some drafting changes.

I. Approval of the minutes of the 243rd meeting

The Chairman said that because of the urgent work with which the Secretariat had had to content and the length of the document, the draft minutes were not available in the usual languages; they would be distributed shortly and their adoption was postponed until the May meeting.

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

- Preparation by the "Dalgaard Group" and discussion by the Committee of Alternates;
- Statistical charts and tables

A. Statement by Mr. Dalgaard

The exchange rate relations between the major currencies had been dominated by the continued steep decline of the Japanese yen, whereas the rate between the US dollar and the Deutsche Mark had remained almost unchanged. Against these two currencies the yen had weakened by 6% despite heavy intervention totalling approximately US$ 9 billion, of which two-thirds by the Bank of Japan, since the beginning of March. Although from the beginning of 1980 to the end of 1988 the yen had appreciated sharply, from Yen 140 to Yen 70:DM 1, it had depreciated since the beginning of 1989 by more than 25% against the Deutsche Mark and the dollar and in real effective exchange rate terms. There were a number of reasons for this weakness: firstly, the political situation, characterised as it was by scandals, doubt about the outcome of the election and subsequently about the the support being given to the Government by its own party; secondly, the apparent disagreement over monetary policy between the Bank of Japan and the Ministry of Finance; and, finally, worries about an open trade war between Japan and the United States, which had been allayed after the agreement between the two countries, although it remained to be seen whether Japan would be able and willing to abide by its undertakings.

On the economic front the current-account surplus was showing a tendency to fall, as imports had risen sharply while exports had grown more slowly.

Long-term capital outflows had continued, as Japanese investors were finding it cheaper to invest abroad, where yields were higher than on the domestic market. Monetary policy seemed rather weak, with annual monetary growth of 11-12%. The willingness of the Japanese authorities to take the necessary measures to strengthen the yen was in doubt: the Government was apparently more interested in domestic affairs, such as the stock market decline, and this attitude might reflect the fact that foreign trade was less important for Japan than it was for the European countries. It was also possible that the authorities were not too opposed to letting Japanese businesses benefit from a weak yen, thus easing the consequences of any liberalisation which the United States might enforce.

It was unlikely that international co-operation would help Japan much in stabilising the yen. In fact, it would appear that at the recent G-7 meeting the other countries had told Japan that it had to solve its problems itself. It should, however, be stressed that the Bank of Canada had tried to limit the decline of the yen by purchasing more than US$ 1 billion of that currency in March and early April.

These comments on the yen were preliminary, and the "Monitoring Group" would continue to follow movements in the Japanese currency closely.

Within the EMS the further decline of the Deutsche Mark and Dutch guilder had been the main feature. There had been a general lowering of interest rates. The Deutsche Mark rates had come down somewhat from their high levels in February; interest rates on the other EMS currencies had also fallen by as much, and by even more in a number of cases, leading to a narrowing of interest rate differentials vis-à-vis the Deutsche Mark, which had also been supported by intervention. In early March there had been some concerted intervention to weaken the dollar. Later some central banks had continued intervention purchases in Deutsche Mark to the extent accepted by the Deutsche Bundesbank. These purchases had been made, in particular by the Banca d'Italia, to prevent the lira from reaching its upper limit, and by the Banque de France and Danmarks Nationalbank, to replenish reserves lost during the fourth quarter of 1989.

The experts had taken note of the recommendations made by the Bundesbank concerning monetary union with the GDR. The conversion rate proposed for the two German currencies should make it possible to maintain the Federal Republic's budget within reasonable limits and to avoid major problems, given that the budget was at present almost balanced and that it should benefit from an increase in revenue in connection with higher growth and a reduction in certain items of expenditure. The German trade surplus, which had declined during 1989, had grown sharply since the beginning of 1990, which was hardly compatible with a weak Deutsche Mark. Substantial long-term capital outflows were clearly directly responsible for the present weakness and could be accounted for by market uncertainty regarding German unification. Another reason for these outflows was the relatively low level of interest rates in the Federal Republic, in a situation where there was no expectation at all of a realignment. It was therefore helpful that interest rate differentials had been reduced in March and early April. It had been noted, however, that the weakness of the Deutsche Mark should not be exaggerated; although over the last three months it had on average fallen by 1.5% against the other ERM currencies, it had appreciated by 9% against the Japanese yen, by 2.3% against the pound sterling and had remained stable against the US dollar.

The Italian lira had remained firm; the Banca d'Italia had had to make intervention purchases totalling approximately US$ 1.6 billion in order to prevent the lira from reaching its upper limit. Interest rates had, however, declined, especially at the end of March, which had eased the pressure, and since that period the Banca d'Italia had not had to intervene again and the width of the fluctuation band had narrowed.

The Danish krone had been rather firm until late March, and interest rates had fallen. Danmarks Nationalbank had nevertheless been able to make intervention purchases totalling US$ 1.4 billion, thereby recovering the outflows recorded in October 1989; it had also lowered its official lending rate by 1/2 point at the end of March, and after that the krone had been less strong and intervention had stopped.

The French franc had also shown a very satisfactory development; its strength had been used to let the exchange rate appreciate, to lower interest rates and to make some foreign currency purchases, which had partly offset the outflows of the fourth quarter of 1989.

The Spanish peseta had appreciated since mid-March and in particular in early April as a result of the abolition of some temporary restrictions on the payment of interest on non-resident peseta accounts.

The pound sterling had fluctuated considerably, this being linked to the Government's political situation. Thus, after a 5% fall at the beginning of the period, the effective exchange rate had subsequently increased by 2%.

The Greek drachma had experienced serious difficulties; the effective exchange rate had declined by 1.5% in March, the annual inflation rate had reached 18% and the current-account deficit had deteriorated dramatically. The Bank of Greece had taken a number of measures, including raising interest rates, but far-reaching fiscal measures were necessary, and it was to be hoped that the new Government to be formed after the recent election would be able to take them.

B. Statement by Mr. Rey

The Alternates' discussions could be summarised under four headings: the Japanese yen, the German situation, interest rate developments within the EMS and the fundamentals in certain EEC countries.

1. The yen

As the Japanese situation had been a topic of the G-7 deliberations, the Alternates had not entered into a lengthy discussion on this subject. It had been felt that the main thrust of the G-7 conclusions had been a recommendation to the Japanese authorities to put their house in order. Some Alternates had stressed in this respect that mere technical moves, such as intervention or interest rate adjustments, would be counter-productive unless they were supported by other measures which would demonstrate the Japanese authorities' unambiguous attachment to monetary stability. Efforts to curb the rapid monetary expansion in Japan would probably be a more efficient way to enhance stability and confidence. It would be useful for the "Monitoring Group" to keep a close eye on developments in the yen in the near future.

2. The German situation

With reference to the proposals submitted by the Deutsche Bundesbank to the Federal Government, the German Alternate had stressed the following points:

- the recommendation on the conversion rate constituted a reasonable middle road. Given the low rate of productivity in the GDR, even a conversion rate of 2:1 might give rise to major problems in terms of the economy's competitiveness and aggravate the labour situation, even though the prospects of a rapid improvement in productivity were good. The importance of widening the differentiation in wages had been underlined;
- an assessment of the impact of these proposals on the value of the savings of GDR residents was complicated by the impact of various compensation schemes, which in fact would add to the purchasing power of GDR residents;
- the Government of the Federal Republic had not committed itself to a given amount of budgetary transfers and would rely primarily on the transfer of private capital. Moreover, the fact that

productive capacity in certain key sectors, such as construction, was being fully utilised imposed physical constraints, which might also set limits on the extent of the financial transfers required.

3. Monetary and interest rate developments

The German Alternate had felt that the Bundesbank's proposals on monetary union had already helped ease matters to some extent on the interest rate front. However, at the moment, the Deutsche Mark had suffered from a rather unfavourable press.

While the Deutsche Mark's relative weakness within the EMS - which should not be overdramatised - had facilitated a narrowing of the interest rate differentials, it was also fair to say that the lowering of interest rates had also been made possible by positive economic news in other EMS countries, particularly France and Denmark.

Some Alternates had felt that persistent Deutsche Mark weakness would call for interest rate reductions in other countries rather than for an increase in Germany. Other Alternates had cautioned against sending out the wrong signals in an environment characterised by widespread demand for, but scarcity of, capital.

4. Changes in fundamentals in some EEC countries

(a) Italy

The Italian Alternate had stated that, on the basis of present developments, the budgetary outcome for 1990 might exceed the target by 1.0% of GDP. Corrective measures would be taken but the nature of such measures was still uncertain and would become clear only after the local elections, which were due to take place in May. The Banca d'Italia hoped that these measures would, together with some decline in inflation, pave the way for a reduction in interest rates.

(b) United Kingdom

Owing to the effect of the community charge and the recent rise in mortgage interest payments, the inflation rate, as measured by the consumer price index, could climb to close to 10.0% in the coming months. Although the markets had already partly discounted such a rise, there was still a risk that this temporary acceleration in inflation would trigger adverse reactions. If no further increase occurred in the underlying inflation rate, and provided that the temporary acceleration did not become embedded in wage and price bargaining, the annual inflation rate could fall to below 5% in 1991.

(c) Greece

The Greek Alternate had reported on the substantial worsening of the economic and monetary situation in his country. He had noted the fairly positive reactions of the main political parties to a three-year programme that had been prepared by a group of experts. This could be seen as a hopeful sign that a consensus might be reached after the elections on implementing a serious recovery plan.

C. Discussion by the Committee

Mr. Hoffmeyer referred to the yen and observed that the fear of instability was causing outflows of capital that more than offset the surplus on the current accounts. One might wonder, however, why such a fear existed, for there were no inflationary pressures, no increase in investment and no reduction in the level of saving.

The Chairman stated that the fears related to the exchange rate. The deterioration in the terms of trade would sooner or later increase the price of Japan's imports, and concern about the risks of inflation was therefore justified. Except for the Japanese, the participants at the G-7 discussions, had unanimously stated that intervention was not the right response to the problem of the yen, whose weakness was largely attributable to the low level of interest rates compared with those obtaining in the United States and Europe. The G-7 meeting had had no appreciable or lasting effect on the yen; however, there was no need to be too concerned. The yen had already lost more than 30% of its value in relation to other currencies since 1989; a reaction would have to occur sooner or later, since the fundamentals were still very sound: there was a large foreign trade surplus and the inflation rate was still very reasonable. The situation on the Tokyo stock exchange could not justify monetary measures, given that prices had been far too high and a correction had been only natural. Moreover, the downward movement had remained an isolated one and had not spread to the European or US stock markets, where prices had, on the contrary, risen. It was to be hoped that the Japanese authorities would take the appropriate decisions and that a turn-round would occur; in the long run it was not in anyone's interest for the yen to remain so weak.

The Deutsche Mark was relatively weak within the EMS but holding firm against the dollar and especially the yen. As had already been said, there was therefore no need to dramatise the situation. However, if the weakness persisted, the question would arise of the interest rate differentials within the EMS; they were perhaps too wide, particularly as no-one expected there to be any realignment, and it would thus be necessary either to raise German rates, or lower rates in the other countries. In this context, the recent fall in French interest rates was entirely welcome; other countries might perhaps act in the same manner if this was necessary. Overall, the situation within the EMS was very satisfactory, if account was taken of the considerable changes which had taken place and of the high degree of volatility of other currencies.

Mr. Ciampi agreed with the remarks made by the Chairman and by Mr. Rey and Mr. Dalgaard. There was a large interest rate differential in favour of the lira; it was a nominal, not a real differential, but it was clear that in a system where realignments were not expected, nominal differentials had their full effect. The Banca d'Italia had made intervention purchases only occasionally and for limited amounts. Compliance with budget estimates was currently one of the main problems in Italy. On the basis of the latest results, the target would be exceeded; the Government was aware of this and had announced measures that would have to be taken in May. Monetary policy therefore had to await those measures and also see whether the slowdown in the expansion of bank lending observed in recent months would be confirmed.

Mr. Ciampi informed the Committee of the structural measures taken recently by the Banca d'Italia to liberalise the opening of new bank branches. Previously, an Italian or foreign bank which wished to set up a branch had to request authorisation from the Banca d'Italia; every three or four years it had opened its own offices to deal with the applications and grant the authorisations according to the number of banks on Italian territory. During the intervening periods, nothing had happened. From now on, the rule "silence gives consent" would be applied, i.e. a bank wishing to set up a branch would notify the Banca d'Italia and, if the latter had failed to react within sixty days, it could be taken for granted that the establishment of the new branch could go ahead. Permission could be refused only on the grounds that the applicant's security, capital, soundness or organisational arrangements were inadequate but not on the grounds that there were already enough banks. These new arrangements applied to Italian banks, those from other Community countries and also those from countries with which reciprocal arrangements existed. In the case of foreign banks the Banca d'Italia could, where necessary, contact the parent bank in order to obtain the appropriate information. This liberalisation measure marked an important step in the restructuring of Italy's banking landscape.

Mr. Duisenberg wondered whether, after 1992, the central banks would still have the power to influence the establishment of commercial banks on their territory.

Mr. Christophersen thought that the central banks would no longer have that power as from 1991, for, according to the Second Banking Directive, a commercial bank whose head office was in an EEC country would be entitled to establish subsidiaries or branches throughout the territory of the Community and those subsidiaries or branches would be subject to banking supervision by the authorities of the country in which the bank had its head office.

Mr. Christophersen added that, if the Governors so desired, he could ask the Commission departments to supply documents giving information on this matter.

Mr. Leigh-Pemberton made some remarks on the situation in the United Kingdom. As had been stated, the annual inflation rate was likely to reach 10% in the near future. This rise did not really reflect a general increase in inflation but would result more from the increase in government-determined prices, i.e. from government decisions concerning, for instance, the poll tax (responsible for 1%), council house rents, electricity charges and rail fares. To these had to be added the increase in the mortgage rate. The inflation rate should therefore peak in the summer and decline thereafter. This situation entailed the risk, however, of affecting pay negotiations (at the time when the price index would be high) and thus leading to more insistent and more lasting inflationary pressure.

Against this background, the pound stood, oddly enough, 2% above its level a month before, after fluctuating sharply, largely reflecting the various political events that had occurred during that period, such as the Conservative Party's poor by-election results or the poll tax demonstrations. The market had at first reacted fairly badly to the budget presented by the Chancellor in mid-March but had then considered that the budget was appropriate; in fact, it could be regarded as satisfactory and would make a useful contribution to monetary policy and the fight against inflation. Furthermore, the slowdown in economic activity confirmed that the present policy would bear fruit, and more encouraging figures could be hoped for in various areas in the autumn.

Mr. de Larosière made some observations concerning the action taken by the French authorities regarding interest rates. First of all, it had to be remembered that French interest rates had been raised, in isolation, at the end of 1989 to counter the weakness of the French franc and the unfavourable foreign trade and price results. Some weeks ago it had been possible to lower the rates by 1/4 percentage point, i.e. half the amount by which they had been raised at the end of last year, given that the franc was firmer and the inflation and foreign trade figures more satisfactory. Consequently, the short-term interest rate differentials compared with the Federal Republic of Germany had narrowed, from 3 points at the end of 1989 to 2 points at present. A cautious approach to the lowering of interest rates was nevertheless necessary, for, at just over 12% per annum, credit was expanding slightly too fast in France and, while M_2 growth, which was within the lower part of the target range, was moderate, the broader aggregates such as M_3 or L were increasing more rapidly. The interest rate measures taken recently in a number of countries (France, Denmark, Belgium and the Netherlands) demonstrated that monetary policies had been well co-ordinated and that convergence was improving, given that the opportunities for lowering interest rates had been exploited within the limits inevitably imposed by the fight against inflation. These cuts had helped prevent an increase in the German rates. This was an example of fine tuning of a system resembling a monetary union in embryo, and it was necessary for the partners to continue to keep one another informed and warn one another of what their intentions were, as had been done during the past few weeks. With that in mind, Mr. de Larosière stated that the Banque de France intended to make, obviously with the agreement of the Deutsche Bundesbank, some intervention purchases of Deutsche Mark; the losses recorded at the and of 1989 had still not been made good, and replenishment of the Deutsche Mark reserves was certainly favourable to the EMS.

The Chairman stated that the action envisaged by Mr. de Larosière was welcome and should contribute towards stabilising the Deutsche Mark and maintaining confidence in the EMS, which was very important given that the process of monetary union in Germany would inevitably entail a certain amount of upheaval on the markets. This process, which was only in its early stages, would certainly not be without difficulty (e.g. unemployment, social conflicts), and it was therefore important to demonstrate that the European system operated properly. It was also necessary not to be too optimistic with regard to inflation, for pressures did exist and the inflationary impact, if any, of monetary union, in Germany and in the other countries, was not yet clear.

Mr. Duisenberg stated that De Nederlandsche Bank had in fact lowered its rate for special advances to banks in small stages of 0.3 percentage point over four weeks. This process was sometimes inhibited by the fact that it was possible to hesitate to reduce the rate one week if it would have had to be raised a few days later. That was the whole problem with "fine tuning".

The Chairman felt that a scenario was conceivable whereby, in the light of the existing inflationary pressures, there would be no move towards a general reduction in interest rates in most EMS countries, but rates would be raised solely in Germany.

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 March and the first few days of April 1990

The Chairman took note of the Committee's adoption of the "concertation report", which would be sent to the EEC Ministers of Finance in the usual way.

IV. Continuation of the discussion on proposals concerning a liquidity facility for the private ecu clearing

A. Statement by Mr. Rey

At its March meeting the Committee had asked the BIS to draw up its own proposals to assist the smooth working of the private ecu clearing and settlement system. The Bank of England and the Banque de France had agreed to postpone the implementation of their facilities. The paper produced by the BIS had been discussed by the Alternates on the Monday, and the conclusions could be summarised in accordance with the following three points:

1. There was still a broad consensus on acknowledging the need to secure the present clearing system against the risk resulting from a situation where a member of the system found itself short and unable to obtain sufficient funds to cover its position from a long bank. Of the three options referred to in the BIS paper, option C - which basically consisted of recycling surplus ecus - had been considered an interesting and useful scheme. The great majority of the Alternates felt that the Governors should give the BIS a mandate to implement this scheme as soon as possible.

2. The Alternates, however, were not in agreement as to whether option C could, in itself, provide a sufficient safeguard or should be considered as a first line of defence. While some held the view that no further facility was needed, the majority considered that a further line of defence, in the form of a collateralised facility, was required. There was also disagreement as to whether such a facility should be provided through decentralised arrangements, comprising facilities set up by national central banks, or through a centralised system, to be set up under the auspices of the BIS, along the lines of option A, in which case further studies would be required.
3. Those central banks which favoured decentralised facilities felt that the necessary arrangements could be implemented without impinging on the March 1983 guidelines and that formal authorisation of the Committee was not in fact required. Other Alternates marked their preference for a BIS scheme.

In any case, however, it had been stressed that any liquidity facility that central banks might establish should contain appropriate disincentives with regard to utilisation and that the characteristics of that facility should be notified to the Committee of Governors.

B. Discussion by the Committee

The Chairman considered that option C was a good solution and should be implemented as soon as possible. He doubted whether any additional facility was necessary and thought it would be likely to weaken the significance of option C. If experience showed that this single option was not satisfactory in practice, the Committee might review the situation, say, in six months' time.

Mr. de Larosière was satisfied with the substantial progress made since the Committee's last meeting and thanked all those involved in the work. He also considered that option C was a good scheme but that it would not resolve the problem entirely. Indeed, since banks were likely to limit their risk exposure the potential of option C might be reduced with the result that even after activation of scheme C a substantial amount of short positions would remain a possibility. A second line of security was thus indispensable. This was not only the view of the Banque de France, but also of the French banking community involved in ecu business. The second line of security could be organised by the central banks which were interested in the smooth functioning of the ecu clearing system in their markets. For this purpose, the Bank of England had put forward a scheme based on collateral in the form of ecu-denominated government securities, whereas in the Banque de France's proposal ecu deposit accounts held by commercial banks with the central bank would serve as collateral. The mechanisms could be either incorporated in the functioning of the ecu clearing system by establishing a link between the accounts of the Bank of England and the Banque de France, on the one hand, and those of the ecu clearing system, on the other, or run on a strictly national basis. In the latter case, no prior authorisation would be needed.

M. de Larosière said his preference was for the first alternative but if its realisation raised problems the scheme should be run on a national basis. Of course, contacts would still need to be maintained between the BIS and the central banks which were ready to provide national facilities.

Mr. Leigh-Pemberton agreed with M. de Larosière. Even if, thanks to the good offices of the BIS, option C was implemented, there would still be a need for a further collateral-based facility when limits under the recycling facility were inadequate, which was possible under certain circumstances. Whether the facilities offered by the individual central banks should be linked to BIS's option C appeared to be a matter for the banks in question, which could, in certain circumstances, opt either for the scheme offered by their national central bank or the one which seemed to offer the most suitable collateral base.

Mr. Duisenberg mentioned that Dutch banks had asked De Nederlandsche Bank to create a facility in Amsterdam but this had been resisted since it was felt that the creation of national facilities would introduce an element of competition between central banks. Furthermore, BIS's option C would be far preferable since, unlike the national facilities, it excluded additional ecu creation. For these reasons, he supported the proposal made by the Chairman, which was to implement scheme C and to evaluate after, say, six months the need for a supplementary facility.

The Chairman reminded the Committee of the Governors' agreement of March 1983, according to which the creation of the ecu clearing system should not entail a lender-of-last resort function for EEC central banks. BIS's option C raised no objection in this respect and should therefore be implemented. The implementation of additional national facilities did not necessitate prior approval, but the central banks which intended to offer them should be aware of the consequences of such a step since it would require other central banks to follow suit, thus creating competition between Community central banks.

Mr. de Larosière considered that the facilities proposed by the Bank of England and the Banque de France did not contain a lender-of-last resort element. Lender of last resort meant unsecured lending to banks which had already exhausted all existing borrowing possibilities in the clearing system. In contrast, the facilities proposed by the Bank of England and the Banque de France were fully collateralised either by public securities under custody with the Bank of England or ecu accounts held with the Banque de France. If these facilities could not be linked with the ecu clearing system under option C, they would be run on a national basis.

Mr. Leigh-Pemberton felt that the collateral-based facilities were neither designed nor likely to create ecus. They would simply serve to facilitate the completion of the clearing in a situation where the long bank was unwilling to undertake unsecured lending to the short bank within the cycle. He was able to accept option C but reserved his position in case the Bank of England could be of assistance to the ecu banking community through some sort of collateral-based operation. This approach was consistent with the general policy stance adopted for Stage One of EMU of encouraging the use of the private ecu.

Mr. Ciampi shared the view expressed by Mr. de Larosière and Mr. Leigh-Pemberton. Option C was useful but it should not guarantee the completion of the ecu clearing in all circumstances. A supplementary facility would thus be required but the remarks made by Mr. Duisenberg about the risk that the implementation of a national scheme would result in competition between central banks could not be ignored. Mr. Ciampi therefore suggested that the matter should be studied further with a view to reaching unanimous agreement at the next meeting.

Mr. Verplaetse agreed with Mr. Ciampi. A delay of, say, a few months would permit the further study of the technical aspects of a supplementary facility and its link with the ecu clearing system.

The Chairman pointed out that the matter under consideration was far from being a simple technical question. The systems offered by the Bank of England and the Banque de France had the characteristics of lender-of-last resort support and thus were of greater moment than had been initially perceived. The Chairman felt that the proposal made by Mr. Ciampi and Mr. Verplaetse to defer the decision was not acceptable to other Governors who were in favour of an immediate decision. The Chairman proposed that a decision be taken today to implement BIS's option C and to evaluate the need for a supplementary scheme in two months, say. If in the meantime, some central banks introduced national schemes they would make such a step in the full awareness that views on this matter differed within the Committee.

Mr. de Larosière said that he would continue his negotiations with the banks. If experience suggested the usefulness of linking existing national facilities to the BIS's ecu clearing system, the Committee could resume its discussion.

Mr. Leigh-Pemberton suggested that the term "lender of last resort" be clarified. It appeared that this concept varied substantially between Community countries according to different traditions and experience. The matter would become very important in the framework of greater convergence in banking supervision.

The Chairman thought that the matter could be studied by the Alternates or the respective groups of experts or, even better, the forthcoming Economic Unit.

Mr. Duisenberg said that only two Dutch banks were members of the ecu clearing system, whereas all other Dutch banks only participated in the clearing indirectly through the intermediary of these two member banks. If De Nederlandsche Bank was to establish a national facility, it could not be limited to those two banks but would have to be open to all banks which were active on the ecu market, and this could result in a clearing system that was completely different from the present one.

Mr. de Larosière confirmed that the Banque de France would negotiate solely with the French banks which were members of the ecu clearing system.

Mr. Leigh-Pemberton pointed out that the question of membership of the ecu clearing system had been discussed last May by the Governors who had expressed their desire to see a balanced and satisfactory expansion of membership of the ecu clearing system.

V. Follow-up to the informal ECOFIN Council meeting

The Chairman stated that, since all the Governors had participated in the Ashford Castle meeting, he could confine himself to the following few remarks and proposals. On the whole, the gap between the national positions on Economic and Monetary Union had narrowed; it was, however, regrettable that in its paper the Commission had made suggestions regarding the future European central bank system which had been discussed by the "Delors Committee" but had not been the subject of agreement. Even though they had not been called upon, prior to the informal meeting at the end of March, to present a report, the Governors should now get down to work, in accordance, moreover, with the wish expressed by the Finance Ministers at Ashford. Their work should concentrate on the following two points:

Firstly, the Committee should give greater thought to the range of monetary indicators and targets. The experts' report, scheduled for the May meeting, would probably emphasise the problems rather than put forward definitive solutions, but it was important to make rapid progress towards establishing a kind of matrix of indicators in order to make monetary policies more compatible.

Secondly, the Governors should prepare a contribution for the Inter-governmental Conference; this did not mean drawing up a new document describing the problems - that had already been done in the Delors Report - and there were the Monetary Committee and Commission documents. The Governors should go a step further and draft the statutes of the future European central bank system, which would, for instance, cover matters such as the organisation, functions, instruments, voting rights and accession to such an institution.

The Governors should not enter into real negotiations, which might last for a very long time, but could present a text with alternatives, enabling the governments to be aware of the consequences of transferring powers to a central institution.

The Chairman stated that before the May meeting he would send out a list of questions which would serve as a basis for preliminary discussions by the Governors, following which a procedure would have to be established: either the task could be given to the Alternates or the preparation of draft statutes could be entrusted to a small group consisting of, say, five persons. Such a contribution from the Committee could form part of the Treaty, and it should be useful and carry a certain weight within the context of the Inter-governmental Conference.

Mr. Duisenberg appreciated the Chairman's proposal but noted that the statutes of the European central bank system could not govern important related matters. For example, in order to be able to establish and conduct a common monetary policy, it was essential to lay down rules concerning budgetary matters; such rules would not be able to be incorporated in the statutes of the European central bank; an accompanying document would have to be drawn up, and it would be desirable to include in the list of topics the subject of parallelism between the different policies.

Mr. Ciampi remarked that there was no difference between the approaches advocated by the Chairman and Mr. Duisenberg; the draft statutes of the European central bank could be augmented either by an accompanying document or by notes referring to the different articles, which would indicate the rules that would have to be added. The procedure involving a small ad hoc group seemed appropriate.

Mr. Jaans agreed on the two major topics referred to by the Chairman, namely the range of monetary indicators and the statutes of the European central bank, but wished to add the matter of the transition, which would be studied by the Monetary Committee. The Delors Committee had not considered it possible to describe Stage Two, and it would be useful for the Committee of Governors to express an opinion on the possibility of such a Stage Two, with a gradual transfer of powers. This possibility had been referred to in the latest Commission paper and had been proposed by Mr. Ciampi within the Delors Committee; as it directly concerned the central banks, the Governors should deal with it.

The Chairman stated that the reference to a Stage Two in the Delors Report had been a big mistake, which was attributable to the fact that the Delors Committee's mandate spoke of achieving EMU in stages. In fact there could be no gradual transfer of monetary policy decisions, and this point would have to be made clear in the statutes of the European central bank.

Mr. Christophersen thought that there was some misunderstanding about the Commission paper which, firstly, was simply a working paper for the Irish Presidency and, secondly, did not propose, during the transitional phase, the creation of ecus or the establishment of a less centralised monetary policy. The preparation by the Committee of Governors of draft statutes for the European central bank would be very useful and make it possible, in particular, to draw up more clearly the more general provisions for the Treaty. With regard to the procedure and timetable, the Commission should transmit to the Foreign Ministers, for their meeting of 7th or 20th May, a paper dealing with the institutional matters connected with Economic and Monetary Union. That paper would concentrate on relations between Parliament, the Council and the Commission, and also tackle relations between the Committee of Governors and the other Community institutions. The Monetary Committee had been called upon to continue to work on the basis of the results of the Ashford Castle meeting and would be able to prepare, for the European Council's June meeting in Dublin, a consolidated version of its first report. In that context, the Committee of Governors would also be able to announce the work it had done and perhaps present some preliminary results. The Commission had promised the Italian Presidency to transmit to it, in July, a fuller document, which should contain in particular an assessment by the Member States of the work done by the different committees and should take account of the academic study entrusted to outside consultants on the costs and benefits of Economic and Monetary Union. It was therefore important for the Commission and the Committee to remain in close contact; the latter's work would be very useful to the Inter-governmental Conference and should provide it with a basis for drawing up, with full knowledge of the facts, the general provisions of the Treaty.

The Chairman stated that the Committee should confine itself to questions which were really a matter for the Governors and should not seek to cover all aspects, including the political ones, with which the Inter-governmental Conference would deal. All being well, the Committee would be able to present, towards the end of the year, a paper on the European central bank, and it would thus be following an approach similar to that it had adopted, in close collaboration with the Commission, in respect of the draft decision amending the May 1964 Decision. There should not be any competition between the Committee of Governors and the Monetary Committee; the latter had a different task and the central banks were represented on it. Of course duplication between the two committees had to be avoided and, as the Finance Ministers had themselves stated, the matter of the European central bank should be left to the Governors.

Mr. Leigh-Pemberton remarked that the matter of the transition or of the criteria that would be applied for the transition from Stage One to Stage Two of EMU remained vague. This could be an important aspect of the process of establishing EMU and, if it were to be incorporated in the Treaty and therefore be the subject of negotiations, it would be desirable for the Governors to discuss the matter and put forward their views.

The Chairman felt that the Governors did not have to fix dates for the establishment of EMU but that they could describe the conditions governing participation in the European central bank system.

Mr. de Larosière endorsed the remarks made by his colleagues, particularly the approach proposed by the Chairman. The Finance Ministers had clearly reaffirmed at Ashford Castle that the Committee had to make a contribution to the Inter-governmental Conference and the Governors were obviously the best qualified, of all the EEC bodies, to prepare draft statutes for the European central bank. The division of the work with the Monetary Committee should be clearly established; the latter, which had the advantage of bringing together the representatives of the Finance Ministers, could concentrate on, for instance, matters of budgetary discipline and the macro-economic conditions which should govern the transition within the EMU process. For its part, the Committee of Governors could confine itself at present to preparing a draft charter for the European central bank of the final stage. The Chairman of the Committee of Governors could perhaps be in contact with the Chairman of the Monetary Committee in order to clarify the distribution of work between the two committees and, of course, the Governors would work in close co-operation with the Commission.

The Chairman stated that he was able to accept this suggestion and that he would make the necessary arrangements.

VI. Other matters falling within the competence of the Committee

1. Worldwide liberalisation of trade in financial services

Mr. Rey reminded the Committee that liberalisation in this area was currently being negotiated under the Uruguay Round of GATT and that the negotiations were now well under way. The Bank of England had drawn the attention of the Alternates to the limited central bank participation in the committee which was advising the Commission in these negotiations and it had suggested that it might be useful to monitor developments, possibly via an ad hoc group of Alternates.

The Alternates had acknowledged the importance of this subject. They took the view that each central bank should keep a close watch on the negotiations on its own account and they had not at this stage felt it necessary to set up a special group. They had, however, welcomed the proposal to rely on the vigilance of the Bank of England, which would point out any specific development that would call for a response from the central banks. The appropriate procedure and response would be decided when the time came. It had also been agreed that the Bank of England would be authorised to invoke a formal request of the Committee of Governors to monitor the GATT negotiations, in order to secure adequate access to the deliberations.

The Chairman thanked Mr. Rey and took note of his statement on behalf of the Committee.

2. The Committee's rules of procedure

Mr. Rey informed the Committee that the Alternates had completed their work on the draft rules of procedure, which would be submitted to the Governors for their May meeting.

Mr. de Larosière expressed the desire that the Chairman would in due course put forward his ideas on the way in which the Economic Unit could deal with monetary problems and on the subjects that it might study.

VII. Date and place of the next meeting

The Committee's next meeting would be held in Basle on Tuesday, 15th May 1990 at 9.30 a.m.