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MINUTES
OF THE 274TH MEETING OF THE COMMITTEE OF GOVERNORS
OF THE CENTRAL BANKS OF THE MEMBER STATES
OF THE EUROPEAN ECONOMIC COMMUNITY

HELD IN BASLE ON TUESDAY, 9TH MARCH 1993

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I Approval of the minutes of the 273rd Meeting

The Committee approved the minutes of the 273rd meeting.

II Monitoring of economic and monetary developments and policies in the Community

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

The Monitoring Group had focused on the following issues. Firstly, the recent remarks made by President Delors in Spain on the implications of the high rate of unemployment for a country's participation in EMU and the publication of data showing an increase in Spanish unemployment to 20% had triggered sales of the Spanish peseta based on rumours that it would leave the ERM. The Banco de España had countered the pressure by using the Basle/Nyborg instruments, in particular, short-term interest rates were increased and intramarginal interventions carried out. The situation in the markets was currently calmer but interest rates remained high. Secondly, the tensions affecting the Portuguese escudo had partly reflected the weakening of the peseta and had been partly the result of the disappointing inflation performance in Portugal. As in Spain, interest-rate increases and interventions had restored stability in the markets. Thirdly, interest-rate differentials between EMS countries and Germany remained high on average. Despite the decline in German interest rates since the beginning of the year, interest rates in a number of countries such as Denmark, France and Italy were likely to remain at current levels in view of the uncertainties still persisting in the foreign exchange markets; reductions could only be envisaged in the context of further interest-rate cuts in Germany. The Bundesbank had indicated its intention to lower interest rates only as far as the evolution of inflation and monetary aggregates in Germany would allow; a more aggressive relaxation was out of the question for the time being. Finally, the Group had reviewed the implication of the outright forward interventions conducted by the central banks of Belgium, Spain and Italy, which had been made with the aim of supporting their respective exchange rates by less visible means than the use of the spot market and without having an immediate impact on official reserves.

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

The Alternates' discussion had confirmed the Monitoring Group's view of interventions in the forward market. These had been carried out so as to influence the spot market discreetly since the interventions would not immediately be recorded as changes in reserve holdings. In Spain, forward interventions had been used to avoid the immediate liquidity impact of spot interventions given the already hard-pressed liquidity situation in the banking sector. The forward interventions carried out in Belgium and Italy had been followed by higher spot market quotations of the respective currencies. It was recognised that other factors may have contributed to this improvement and it was felt premature to make a final assessment of the use of this instrument.

3. Discussion by the Committee

Mr. Hoffmeyer reported on Denmark's experience of the speculative pressure on the Danish krone and made four points. Firstly, the pressure had arisen during the afternoon of 3rd February and had led to substantial intervention, amounting to approximately half of Denmark's official foreign exchange reserves. In order to reduce pressure, the Danmarks Nationalbank had increased the discount rate and its key deposit rate, effective 4th February, and had cut off market participants' automatic access to liquidity facilities; on the same day, key interest rates in Germany had been lowered. Although it was difficult to evaluate the effectiveness of the measures taken, it appeared that the unconditional support of the newly-appointed Danish government for the fixed exchange rate policy had probably been most important. The government had been willing to give the central bank a free hand regarding intervention and interest rates. Secondly, available statistics suggested that the speculation against the Danish currency had been largely carried out by foreigners. Only 20% of the interventions in support of the Danish krone on 3rd February had been carried out in Denmark; the bulk had been made in the Netherlands, Belgium and, to some extent, Germany. Turnover statistics for the Danish market showed that foreigners had taken positions against the krone amounting to twice the size of those taken in favour of it by Danish residents. Foreigners are assumed to have accounted for sales of Danish krone outside Denmark since Danish residents are unlikely to have used foreign markets to any significant extent to sell the krone. Thirdly, it had been calculated that, as a result of the subsequent reflow into the krone amounting to about 65% of the total amount sold on 3rd February, the markets had made a loss of approximately DM 200 million, around 2% of the currency sold, and the central bank had made a similar gain. Fourthly, in a recent public-opinion poll, only 7% had said that the krone should have been devalued while 65% had been against devaluation. The support for the authorities' fixed exchange rate policy, irrespective of the effects on unemployment, was evenly shared among supporters of all of the main political parties in Denmark. That expression of support had strengthened the government 's determination to pursue its policy.

Mr. de Larosière said that, in a recent public-opinion poll in France, the question had been asked whether it was preferable to have a stable exchange rate or whether it would be better for the economy and unemployment to devalue the currency. 72% had said that they were against devaluation and only 11% had been in favour. The determination of the French government had been the most important factor in resisting the pressure on the French franc in the last six months. The measures taken, such as intervention and the use of the fluctuation band, interest rates and statements of support had played an important, but secondary, role.

Mr. Schlesinger noted that poll results had to be interpreted with caution. For instance, had people been asked whether they would be in favour of a devaluation if this would lead to a reduction in unemployment the answer might have been different; if people were simply asked whether they favoured devaluation, a negative response was likely.

Mr. Hoffmeyer agreed that economic questions posed in such a simple way made it more difficult to draw conclusions from the responses. However, it could be concluded that the public preferred stability and that it was ready to accept short-run inconveniences of the fixed exchange-rate policy in the interest of the long-term advantages of this policy.

Mr. Doyle said that in the last quarter of 1992, opinion polls in Ireland had shown around 70% support for maintaining the parity of the currency. However, public support for the government had disappeared when the unemployment effects of maintaining the parity had begun to appear in January; the interest-rate reduction in the United Kingdom had suggested that the position would be made even worse. A recent poll had shown that approximately 70% now felt that devaluation of the Irish currency had been the right thing to do. Public support for devaluation was related to its effect on unemployment; if this was perceived to be significant, public support would not be forthcoming no matter what official statements were made.

Mr. Christodoulou said that Greek M3 had decelerated in December and January to an annualised rate of 15%, well below the 18-19% level recorded in the second half of 1992, partly as a result of substantial sales of government securities to the non-bank private sector. Monetary policy in 1993 aimed to contain M3 within a range of 9% to 12%, while domestic credit was projected to expand by 6% to 8%. These targets were consistent with the government's objective of reducing inflation to below 10% by the year-end, and were based on the expectation that nominal interest rates in Greece would not decline faster than the rate of inflation. On 5th March, the Bank of Greece had abolished the minimum interest rate on savings deposits; banks were now free to set deposit rates according to market conditions. Following the recent introduction of a Lombard-type facility against the collateral of government paper and a rediscount facility for commercial bills, there was no reason to maintain the administered interest rate. Its abolition was unlikely to result in a decline in bank interest rates; the sizable sales of Treasury bills to non-banks were keeping money-market interest rates at high levels (the real yield on twelve-month Treasury bills was currently around 8%) and the Bank of Greece would maintain interest rates at the levels required to reduce money growth in support of the Greek government's anti-inflationary policy.

Mr. Schlesinger made two remarks concerning the economic situation in Germany and the recent measures taken by the Bundesbank. Firstly, economic activity was weak in western Germany where manufacturing production during the fourth quarter of 1992 had decreased considerably and industrial orders were declining; the slight improvement in January indicated a correction of the December figures rather than a turnaround in the prevailing trend. Overall, there was unlikely to be any growth in western Germany in 1993, although it was hoped that there would be an improvement during the second half of the year. With regard to eastern Germany, order books for manufactured goods had been rising since the middle of 1992 and there was a slight upward trend in manufacturing with a stronger growth in food production; most other industries were having difficulty in regaining former production levels. The building sector had been booming since 1991 with demand exceeding by far production capacity. Overall, the pessimistic press reports of the situation in eastern Germany were not accurate. Secondly, the Bundesbank had cut the minimum reserve requirement on 1st March by one-third which had liberated DM 33 billion for the German banks. That had been offset only partly by the issue of the Bundesbank's liquidity paper. Nevertheless, during the first few days of March, money market tension was caused by the fact that the small banks, savings banks and co-operative banks had benefited most from the reduction in reserve requirements, whereas the large banks, which operated to a greater extent in the money market, had benefited less. Apparently, arbitrage was hampered as the small banks had not worked out the consequences of these measures. Under these conditions, the Bundesbank had organised a five-day tender on 5th March at a rate of 8.4%, below the rate (8.5%) that had applied to the previous tender, and had announced that the next fourteen-day securities issue would take place at a fixed tender rate of 8.25%. The one-month tender was to continue to carry a variable rate. The measures had attracted much attention because the conditions which applied to repo transactions were normally announced on Tuesdays; the recent announcement had been made on a Friday so as to avoid tensions emerging within the EMS. The reduction in the minimum reserve requirement had made it more difficult for the Bundesbank to control money market developments on a daily basis. However, the Bundesbank's monetary policy would not be affected and the measures taken did not imply that similar initiatives would be taken in the future. Interest rates on one-year to ten-year paper in Germany were now below 6.5%; nominal interest rates in Germany had only been at that level on three occasions during the past twenty years, but at times when the inflation rate was between 0% and 2%. Careful consideration had to be given to the consequences of any further steps which might be taken.

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 1993 and the first few days of March 1993

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

IV Review of the EMS Exchange Rate Mechanism

The Chairman said that Chapters I, II, III and IV of the Alternates' report could form the basis for the Committee's report to be presented to the ECOFIN Council at its informal meeting in May. He proposed that the Governors should settle the remaining differences which appeared in these chapters. More important divergences of view appeared in Chapter V of the Alternates' report. While this chapter should also be discussed, some issues might be presented orally to the Finance Ministers. He would agree the substance of his oral report in advance with the Governors.

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

The draft report included a number of formulations which were a compromise between the preferred but divergent versions of several Alternates and had been circulated with the proviso that the Alternates could still make last-minute adjustments. One such amendment had been made at the request of the Banca d'Italia to the second paragraph of Chapter V, section 1, which now read: "Furthermore, in the opinion of most of these Alternates". The Banca d'Italia had accepted the requirement of mutual agreement for decisions on the width of the fluctuation bands but did not agree that there should be a presumption that, as long as a country had not made sufficient progress towards convergence, it should participate in the ERM only with a wide band. Mr. Rey then made three comments about the report:

a) The question of whether it would be possible for central banks to suspend intervention obligations during the day had been omitted given its market sensitivity. Experience had shown that during a trading day massive intervention could take place even though a situation was not tenable and the authorities were prepared to initiate a realignment or to withdraw from the ERM. A timely suspension of intervention commitments would attenuate the reserve losses in debtor countries and reduce the difficulties of liquidity management in creditor countries. The foreign exchange risk linked to the financing of intervention would also be diminished.

However, the proposal to suspend intervention obligations during the day based on a collective decision-making process raised a number of points. Firstly, there was no precedent; when such a step had been taken on 18th July 1985, the decision had been made unilaterally by the authorities responsible for the currency under pressure. Secondly, since a decision to suspend intervention obligations would also involve the Finance Ministers, a procedure which would allow for decisions to be made quickly would be needed. Thirdly, a suspension of intervention could result in an overreaction by market participants leading to a "fait accompli" in respect of realignment rates. Fourthly, market perception that the suspension of intervention was possible might lead to a disruption in the functioning of the market: banks might present their balances on account of customers transactions as quickly as possible to the central banks; spreads could widen significantly; or trading might cease in the currency concerned. Finally, there was a question of whether the suspension of intervention could conflict with third parties' rights and imply possible claims for damages. No complaints by third parties had been received when intervention obligations had been suspended during the day in 1985 although the issue might have to be examined by legal experts.

b) Ways of enhancing speculators' perception of two-way risk had been examined by the Foreign Exchange Policy Sub-Committee. The Alternates had endorsed the Sub-Committee's main conclusions. There was agreement that all of the Basle-Nyborg instruments should be used to enhance the perception of a two-way risk, although views differed on the optimal combination of instruments to be used; this would depend on the prevailing circumstances during periods of tension and on conditions in Member countries. Although there was no agreement on a specific strategy, the Alternates had appreciated the Sub-Committee's analysis. Enhancing two-way risk was indeed a learning-by-doing process; the Alternates had requested the Sub-Committee to keep the matter under review by updating the available statistical material and by considering the subject in the EMS Annual Review.

c) The Alternates had also discussed how to proceed. One suggestion, which had been generally supported, was that both a written report, which was unlikely to escape publicity, and an oral report covering the more sensitive issues, be presented to the Ministers. The oral report should make mention of the new procedure whereby Governors would meet in restricted session to assess the sustainability of central rates, but it might be useful to avoid giving the impression that Ministers should arbitrate on the different views held by central banks on issues which were their field of competence. Subject to Governors' guidance, the Alternates would present the Committee at its April meeting with concrete proposals for its report to the Ministers.

2. Discussion by the Committee

The Committee then went through the Alternates' report focusing on those issues on which no agreement had been reached.

(a) Chapter I - The causes of the recent exchange rate crisis

Mr. Rojo said that the Spanish Alternate had insisted on maintaining the paragraph at the top of page 3 which stressed the importance of speculative operations in generating market pressures on currencies. As the existing paragraph might be too detailed, he suggested an alternative text: "As part of these capital movements, purely speculative operations can become a most notable destabilising force. Not only may this make desirable parity realignments dramatic and excessive but serious problems may also arise for currencies whose parities are considered sustainable, thereby imposing sizable costs on the countries concerned." The third conclusion on page 3 referred to the effects of speculative pressures even though no reference to them was made in the preceding paragraphs. While it was difficult to make distinctions in practice between speculative and hedging operations, and while any study might lead to the conclusion that it was difficult to take any measures which would affect only the former, such a study would nonetheless be worthwhile.

The Chairman said that it should be possible to accommodate Mr. Rojo's suggestion.

Mr. Doyle remarked that the effect of speculative transactions could be disproportionate in the case of a small currency.

(b) Chapter II - The assessment of the sustainability of central parities

The Chairman said that the main issue was how far the Committee could go in assessing the sustainability of the exchange rate grid. It was stated at the end of section 3 that some Alternates felt "that every effort should be made to arrive at a consensus on such an assessment in view of its important policy implications". He asked Mr. Rey to what extent that was controversial.

Mr. Rey said that it was controversial according to the conclusions which would be drawn from any consensus reached. Some Alternates had felt that this should entail a presumption that the co-operation of other central banks in the defence of a currency's central rate would be available when pressure built up against it.

Mr. Christodoulou said that he did not object to the qualification implied by "every effort".

Mr. Ciampi said that member countries had to behave collectively in the interest of the system. A common assessment of the sustainability of parities would be a condition for progress being made towards a better management of the system.

The Chairman said that this sentence should not cause difficulties as long as it was clear that the consensus on the assessment of parities was to be reached in the Committee of Governors.

Mr. Schlesinger said that the sentence promised too much. The preceding sentences correctly stated that any assessment was a difficult task and that it would not always lead to an agreed conclusion that a parity had become unsustainable, or otherwise provide a seal of approval of existing parities. He queried how the Committee could recommend that a consensus had to be reached on assessments which would have a wide margin of uncertainty and important political implications. He suggested that the last sentence be deleted.

Mr. Rey suggested that, given the concern about publicity being given to the regular assessment of parities which the Governors proposed to conduct in restricted sessions, the section could end after the second sentence ending with "timely realignment". That would show that the Committee intended to look at exchange rate relationships as part of its regular surveillance exercise, but the outcome would be in the hands of the Governors and not those of the Finance Ministers.

Mr. de Larosière and Mr. Ciampi agreed with Mr. Rey's suggestion.

Mr. Doyle said that while not much would be gained by retaining the last sentence, the preceding sentence cautioned against unrealistic expectations being built up as a result of the assessments.

The Chairman said that the cautionary note could be covered in the oral report.

Mr. Leigh-Pemberton said that he could agree to the retention of just the first two sentences of section 3 in the written report as long as the remainder was covered orally. Otherwise, it would appear that the Governors would be making judgements on parities without saying anything about the collective action that would be necessary to support those judgements.

Mr. Doyle said that the cautionary nature of the third sentence would lose its impact if it was only presented orally. Even if the report was published, he was not clear how the markets could view the sentiments expressed as anything other than realistic.

Mr. Christodoulou said that the principal issue was to restore credibility in the system. He favoured retaining the whole section in the written report.

Mr. Schlesinger queried whether it would be useful for the Committee to hold restricted meetings if it was intended to make that known in the report; that would be counterproductive as questions would be asked about the outcome.

Mr. Leigh-Pemberton said that restricted meetings should be held to clarify issues but the conclusions would need to be reported in the Governors' formal meetings.

Mr. Jaans said that the first two sentences of section 3 stated that views on the sustainability of parities were to be brought closer together. The following sentences added a qualification about the conclusions which might be reached. Given that the Committee had not yet undertaken such an exercise to date, the Governors should be as vague as possible in their written report and delete the last two sentences.

Subject to changing "the assessment" to "an assessment" in the first sentence at the suggestion of Mr. Schlesinger, the Committee agreed to retain the first two sentences in the written report and omit the last two. The nature of the latter would be reported orally to the informal ECOFIN Council meeting in May.

(c) Chapter III - Procedural Questions

Mr. Rey said that the only query was whether this chapter should be dealt with in the oral report rather than the written report.

The Chairman noted that the proposed procedure was not controversial and that it should be mentioned in the oral report only.

(d) Chapter IV - Policy responses to stabilise exchange rates

With respect to section 1, the Chairman noted that there was broad agreement among the Alternates that intramarginal interventions had in the past proved useful in certain circumstances, but views diverged on whether such intervention should be compulsory.

Mr. Rey said that none of the Alternates had proposed that intramarginal interventions should be obligatory or automatic. A subtle division of views was expressed in the chapter. Some Alternates had favoured introducing concerted intramarginal intervention as a feature of the system, even though they recognised that the circumstances for such action could not be pre-determined. However, most Alternates had felt that it should not be a permanent feature of the system but did not rule out that it might prove useful in certain circumstances, as had been the case in the past.

Mr. Ciampi said that, if it could be agreed that the system needed to be strengthened, and that this implied more concerted action, it would be relatively easy to find an agreement on the text. While no agreement could be reached that intramarginal interventions should be made compulsory, the report could express the willingness to undertake such interventions when a speculative attack was mounted against a single currency whose central parity was considered to be sustainable.

The Chairman noted that the second paragraph of section 1 represented common ground. To overcome the disagreement in the third paragraph, he suggested that the text could state that from past experience it had in some instances been demonstrated that intramarginal interventions could serve a useful role. A caution could follow that such interventions had to be on an ad hoc basis provided that they did not conflict with the objective of price stability. Such a text would imply that intramarginal intervention was already a feature of the system.

Mr. de. Larosière said that he agreed with the Chairman's suggestion.

Mr. Schlesinger wondered how that suggestion would be interpreted by the Ministers who might conclude that if intramarginal intervention had been undertaken in the past why should they not ask the central banks to undertake them in the future. The impression should not be given that this was an instrument which could be institutionalised and used in any magnitude. Germany was suffering from a deterioration in its domestic monetary conditions with the money stock having increased at an annualised rate in September and October 1992 of more than 25%; that was not consistent with the objective of price stability.

The Chairman said that the second paragraph, which stated that there could not be an automatic and mechanistic response to market tensions, would remain in the text as would the majority view expressed in the third paragraph that the appropriateness of action would have to be judged in the light of several aspects, including the liquidity impact in the country issuing the intervention currency.

Mr. Ciampi suggested that the sentences: "Some Alternates ..... in advance", "Most Alternates .... price stability" and "Moreover, these Alternates .... their effectiveness" be deleted.

Mr. Leigh-Pemberton obtained confirmation that the written report to the Ministers would not have references in it to the differing views of the Alternates.

Mr. de Larosière said that, if the sentence: "Most Alternates ... price stability" was deleted, reference to the ad hoc nature of the interventions, and the need to undertake them without conflicting with the objective of price stability, would be lost.

Mr. Schlesinger said that he wished to see included mention that action should not conflict with domestic monetary conditions and the objective of price stability.

Following further interventions by Mr. de Larosière, Mr. Ciampi and Mr. Leigh-Pemberton, the Chairman said that a revised proposal would be prepared in time for the April meeting.

With regard to the reference to interest rates in section 2, it was stated at the top of page 7: "Some Alternates consider that the way to engineer changes in interest-rate differentials may involve increases in rates in weak currency countries and/or lowering of rates in strong currency countries." The Chairman noted that this was a symmetry argument and that the Governors might have to consider this issue again if agreement could not be reached at the current meeting.

Mr. Schlesinger said that he could not accept any proposal which would prevent a country from pursuing its stability-oriented monetary policy or which would undermine it. A country should not be forced to assume a less stability-oriented policy so as to ease the pressure on other currencies as this would lead to the average rate of inflation in the Community tending to rise. The primary consideration was price stability rather than stable exchange rates. If the focus was on the latter, the former would not be achieved. There could not be symmetry if policies led to inflation in the Community.

The Chairman suggested that the text might indicate that a lowering of interest rates in a country could be considered provided it did not infringe on the objectives of price stability and sound monetary conditions.

Mr. Schlesinger said that the Bundesbank was responsible for price stability in Germany; Finance Ministers would not primarily consider the dangers for inflation of lowering interest rates. Care should be exercised to formulate a text which could not be misinterpreted.

The Chairman concluded that if the Governors were to delete the two sentences: "Some Alternates .... downward pressure" at the top of page 7, the next paragraph would still include: "the use of the instruments should be decided in line with the objective of achieving price stability". The Governors could go no further than that. With regard to sections 3 and 4, he noted that the usefulness of public statements was doubted by all Governors, and that there had been little support among the Alternates for the proposal to widen the fluctuation band as an instrument to increase the scope for exchange rate movements. He suggested that these two sections be deleted.

(e) Chapter V - Institutional and technical arrangements governing central bank co-operation in the framework of the EMS

With regard to section 1, the Chairman asked if it could be concluded that the consensus of all participating countries' (central banks included) should be required when determining the width of the band.

Mr. Rojo said that a system should not be introduced which modified the Maastricht convergence criteria, one of which referred to the maintenance of a currency's exchange rate within the narrow ERM band for at least two years without being devalued. If a currency was prevented from entering the narrow band, which it might feel was the most appropriate policy for it to follow, it would also prevent that country from joining monetary union.

The Chairman suggested that the text could state that one factor in determining the appropriateness of the band vis-à-vis individual currencies could be the degree of convergence that had taken place. Mr. Rojo's view was that determination of the width of a currency's fluctuation band was a unilateral decision to be taken by the country in question. However, others held the view that the band implied a contract and had implications for all of the members of the system.

Mr. Hoffmeyer suggested that it should be sufficient if a country were to meet the three other Maastricht convergence criteria and be allowed in any case to enter the narrow band.

Mr. de Larosière suggested that the text could state that the width of the band was a matter of common interest and, thus, any decision pertaining to it must be the subject of a consultation amongst all of the members.

Mr. Ciampi agreed that the width of the band was a matter of common interest but felt that it should be discussed at the same time that consideration was given to the parity which should apply to a currency wishing to enter or re-enter the system.

The Chairman agreed with Mr. Ciampi; the linkage should be expressed in the text. However, Mr. de Larosière had not denied that the parity and the width of the band were of common concern but had said that they required consultation among the members of the system. He suggested that the reference to the convergence criteria be deleted from the text although they would doubtless be considered during future consultations.

Mr. Schlesinger suggested that the text could state that the width of the band was of common interest and that consultations held among all members should include consideration of how the convergence criteria would be fulfilled.

Mr. Rey said that the first paragraph of section 1 stated that discussions about the desirable width of the band should take place among central banks. However, the second paragraph discussed whether this issue should be subject to the same procedure as the setting of central rates, i.e. consultations in the Monetary Committee and decisions by the Finance Ministers and central bank Governors.

Mr. Jaans suggested that it would be wise to recall the existing rules, which dated back to 1979, according to which the determination of the width of the band was the competence of individual countries. It could then be stated that the experience gained since then had shown that wider bands could be a useful way of entering the system and that the band, just as the central rates, were a matter of common concern. The Governors would thus give their view of the appropriateness of the current rules and leave it to the Ministers to conclude whether or not they should be changed.

Mr. Hoffmeyer queried whether the width of the band and the parity were connected; if a country fulfilled certain conditions its currency could enter the narrow band, but if there was uncertainty the width of the band would need to be discussed by the Governors.

The Chairman confirmed that he agreed with Mr. Ciampi that these two features were linked, although it would also be useful to follow Mr. Jaans' suggestion to refer to the origin of the rules and state that circumstances had since changed.

Mr. Doyle said that he agreed that there had to be unanimity on the central parities, but the Governors should not give the impression that consensus meant unanimity, nor should they lay down rules for new entrants or re-entrants which did not apply to those already in the system. He noted that a number of countries which were members of the system did not fulfil the Maastricht criteria at the current time.

Mr. Christodoulou said that was the reason why reference to the Maastricht criteria should be deleted.

With regard to section 2.1 on interventions, the Chairman noted that there was little support among the Alternates for a proposal to set thresholds beyond which consultations in the Committee would automatically be triggered, although ad hoc consultations could be held when substantial and prolonged interventions took place.

Mr. Schlesinger said that this problem particularly concerned Germany which had undertaken obligatory interventions amounting to DM 60 billion in support of the British pound and Italian lira, four times the amount which it had carried out in support of the lira in 1987. While the suggestion of a threshold to limit the size of obligatory interventions seemed to be a crude instrument and could be seen as a negative feature of the system, it had to be recognised that under present arrangements two countries had had to leave the system last September. The other possibility would have been for Germany to have left the system. The Bundesbank had considered from the start of the EMS that there could be situations in which it would have to ask the German government to free it from its intervention obligations. Any solution to this issue should not be publicised, but he wondered what was meant by "when substantial and prolonged compulsory interventions were taking place, the issue could be discussed in the Committee, if necessary, on short notice", since the decisions ultimately rested with the political authorities.

Mr. de Larosière said that the matter should not be addressed in a written report since this might be counterproductive.

The Chairman said that the Committee should consider in April whether the issue should be reported orally to the Finance Ministers.

Mr. Ciampi said that he agreed with Mr. Schlesinger; he had never considered that the notion of unlimited obligatory intervention could mean that there were no limits to the amount of intervention over time. However, the circumstances experienced in the autumn of 1992 had been exceptional, linked as they had been to the ECOFIN meeting in Bath and the French referendum. In such situations, meetings should be called immediately to find a solution, as had been attempted on 15th September.

Mr. Hoffmeyer said that, if a creditor country's monetary base was increased by interventions, ways could be found to neutralise this effect.

The Chairman concluded that this issue should not be included in the written report. The issue of when to limit intervention had been faced in the past and could not be dealt with by amending the existing rules but only on an ad hoc basis.

Mr. Schlesinger said that in future situations of this kind, the Ministers would have to be prepared to act on the common opinion expressed by the Governors without a meeting of the Monetary Committee.

With regard to section 2.2 on financing, the Chairman drew the Committee's attention to the last sentence: "Most other Alternates felt that there was no shortage of financing for intervention and that any extension of the financing arrangements could be seen as loosening the disciplinary effect of the ERM." After obtaining Mr. Ciampi's confirmation, the Chairman said that this sentence could be dropped. He noted that section 2.3 on settlement called for further study to be undertaken into the issue to which no objections had been raised. The conclusions of the report would be redrafted in the light of the Governors' discussion.

Mr. Christodoulou said that he had some further comments on the report which he would send in writing to Mr. Rey.

V Adoption of the Committee's Annual Report

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

The Alternates had reached agreement on the outstanding issues in the Annual Report. A compromise text on the section on exchange rate management had been circulated to the Governors. The Alternates had also agreed to incorporate without amendment the sentence referring to simultaneous intramarginal intervention which had previously been in square brackets on page 28 of the Report. They had also briefly discussed a proposal from the Chairman of the Committee of Governors on the need to avoid any loosening in the Maastricht convergence criteria which was to be incorporated in page 5 of the Report. One Alternate had suggested changing "measures must be taken now" to "measures should be initiated now". Furthermore, the text on the Commission's budget deficit projection had been amended following bilateral discussions between the Secretariat and the Commission. To avoid problems of misinterpretation, the sentence commencing "According to the European Commission" would begin "According to the latest published forecast by the European Commission". Reservations had been expressed by some Alternates about Chart 1 of the Report; it had been agreed to replace it with an alternative version showing separate time series for GDP growth and inflation. The reservation by one central bank on the table on unemployment (R2) had been withdrawn. A few other minor suggestions had been included in the final version of the Report. Finally, a proposal relating to pages 44 and 45, which had been introduced by the British Alternate, had been agreed with the central banks to which it referred.

2. Discussion by the Committee

Mr. de Larosière received confirmation that the revision to page 44 had dealt with his concern about the original text. It would not have been true to say "the central bank would be unlikely to act without the full agreement of the government" since he had on occasions done so without the full consent of the French government. He agreed with the revised text.

The Chairman noted that there was full agreement on the entire text of the Report with the exception of the proposal relating to fiscal policy made by the British Alternate who preferred budgetary consolidation to be "initiated" rather than to be "taken" now.

Mr. Leigh-Pemberton said that the proposal was directed towards what was likely to happen in the forthcoming UK budget which would set out a programme for fiscal rectification; not all of the measures to be announced would be taken during the current fiscal year. Therefore, the word "initiated" better described the nature of the programme. After a further short discussion, he agreed that the word "taken" could be interpreted to include the measures to be proposed in the UK budget.

The Chairman concluded that the text of the Annual Report had thus been agreed unanimously by the Committee. The report would be released on 20th April 1993.

VI Preparatory work for the move to Stages Two and Three of EMU

- **Report by the Working Group on Payment Systems on "Principles for the co-operative oversight on payment systems in EC countries"**

In view of the fact that one central bank still had a reservation about some points in the Working Group's report and since Mr. Padoa-Schioppa, the Working Group's chairman, was unable to attend the meeting, this agenda item was postponed until the Committee's April meeting.

VII Assessment of recent developments in the use of the private ECU

- **Report No. 11 by the Foreign Exchange Policy Sub-Committee: "Recent developments in the use of the private ECU - a review of the issues" together with a "statistical review"**
- **Note by the Economic Unit: "Public authorities and the private ECU"**

Mr. Saccomanni said that the annual review of developments in the ECU market had focused mainly on the episode of tension in the second half of 1992. Until the end of September 1992, bank intermediation denominated in ECU had continued to grow and issuing activity in the ECU bond market had expanded vigorously until mid-1992 when it had come to a virtual standstill. However, a pick-up in secondary market activity and a resumption of ECU bond issuing by sovereign and supranational borrowers had been observed at the beginning of 1993. The Sub-Committee had concluded that the private ECU market had exhibited a significant degree of resilience in the face of the most difficult conditions it had yet experienced. The review had also considered the behaviour of the spreads between the interest rate and the exchange rate of the official and the private ECU in accordance with the request made by the Governors on the occasion of the previous year's review. Spreads had widened considerably during the periods of ERM tension against a background of growing uncertainties about the Maastricht ratification process, difficult liquidity conditions in the money markets of some ECU component currencies and large net intervention sales by some central banks. The spreads had returned to more normal levels by the end of 1992. The Sub-Committee had been unable to reach a consensus on whether a clear link existed between the spreads and central bank sales of ECUs. Some members had felt that a correlation existed but other members had argued that this seemed to appear only with a time lag and, therefore, the spreads might be related to other factors.

The Sub-Committee had not discussed proposals currently under study within the ECU Banking Association to introduce a new mechanism in the ECU clearing to re-establish the link between the market and the basket ECU; that fell within the competence of the Working Group on EC Payment Systems. However, the majority of Sub-Committee members saw no need to establish such an institutional mechanism. Finally, it had been difficult to carry out an assessment of the outlook for the ECU markets, particularly in view of the uncertainty still surrounding the EMU process. The Sub-Committee had felt that markets would be positively influenced by: the rapid ratification of the Treaty; progress towards economic convergence; and the restoration of exchange rate stability in the Community. A positive impact could also arise from the continuing involvement of the monetary authorities in the development of the ECU market.

Mr. Rey said that the Alternates had been in broad agreement with the Sub-Committee's report. They had also taken note of the memorandum prepared by the Economic Unit. The Commission representative had stressed that the current statistical base for assessing the commercial use of the ECU did not capture adequately recent developments and might need to be refined. No other points had been raised during the Alternates' discussion. The Alternates recommended that the Sub-Committee's report be kept as an internal document but that the statistical review which accompanied the report be made available, as in previous years, to interested third parties including those non-EC central banks participating in the concertation group.

The Committee endorsed the Alternates' recommendation.

VIII Other matters falling within the competence of the Committee

1. Reply to the request by certain EFTA central banks for closer relationships with the Committee of Governors

Mr. Rey said that no objections had been expressed by the Alternates to the draft letters which had been prepared by the Secretariat.

The Committee agreed that the Chairman should reply to the five EFTA countries in accordance with the drafts provided.

2. Expenses incurred by the Committee of Governors in 1992 and projected expenses for 1993

Mr. Doyle, the Chairman of the Committee on Financial Matters, said that the expenses incurred by the Committee of Governors in 1992 had exceeded the original projection by Sfr. 1 million but had been in line with the amended projection made last autumn. With regard to 1993, a 59% increase in expenditure amounting to about Sfr. 3.7 million was projected, the reasons for which had been set out in the explanatory note that had been circulated by the Secretariat. The increase mainly resulted from the full-year effect of the increase in personnel which had been authorised by the Governors over the last six months, and the increased number of meetings to be held by the Sub-Committees/Working Groups; it comprised: Sfr. 1.7 million for salaries; Sfr 1.2 million for operational expenditure; Sfr. 0.6 million for investment expenditure; and approximately Sfr. 0.3 million in respect of the 10% supplement charged by the BIS. The Committee on Financial Matters would monitor the evolution of the expenditure during the year on a quarterly basis.

Mr. Dini made two observations on Mr. Ciampi's behalf. Firstly, expenditure on interpretation was projected to rise from Sfr. 962,000 in 1992 to Sfr. 1,590,000 in 1993. Mr. Ciampi questioned whether all of that increase was necessary. Page 5 of the memorandum entitled "Expenses incurred by the Committee of Governors and the EMCF in 1992 and estimated expenses for 1993" showed that most (c. Sfr. 1 million) of that did not relate to interpretation facilities for the Committee of Governors itself but to those for the Sub-Committees and Working Groups. Mr. Ciampi wished to re-submit the proposal that the meetings of the Sub-Committees and the Working Groups should only be conducted in English. Secondly, Mr. Ciampi would like more details to be provided on the basis of which salaries were paid to the staff in the Secretariat, particularly in view of the fact that the Committee of Governors was about to examine the question of the salary structure to be applied to the staff of the EMI.

The Chairman said that information on the basis of personnel expenditure in the Secretariat would need to be available to the Governors when they came to consider the structure and remuneration of the EMI staff. On the question of interpretation, he agreed that as much as possible should be done to avoid the necessity for interpretation although that would have an impact on which representatives national central banks could send to meetings.

Mr. Baer said that the salary range for professional staff members in the Secretariat, which the Committee had approved three years ago, had remained valid. It was only adjusted in line with the general increases paid to BIS staff.

The Committee approved the statement of expenses for 1992 and the projections for 1993.

3. Appointment of new professional staff to the Secretariat

The Committee approved the appointment of Mr. Laurent and Ms. Kruse to the professional staff of the Secretariat.

IX Date and place of next meeting

The next meeting of the Committee will take place at the BIS in Basle on Tuesday, 20th April 1993.

MINUTES
274TH MEETING OF THE COMMITTEE OF GOVERNORS
9th March 1993

Those present were:

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

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[1] Chairman of the Committee of Alternates