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10th May 1993 Confidential Final

MINUTES

OF THE 275TH MEETING OF THE COMMITTEE OF GOVERNORS OF THE CENTRAL BANKS OF THE MEMBER STATES OF THE EUROPEAN ECONOMIC COMMUNITY

HELD IN BASLE ON TUESDAY, 20TH APRIL 1993

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The *Chairman* opened the meeting by welcoming Mr. Delors and asking Mr. Beleza to extend the Committee's warmest wishes to Mr. Borges and its gratitude for the valuable work he had done as Chairman of the Monetary Policy Sub-Committee. He added that, at a restricted meeting which had preceded the current meeting, the Governors had agreed to appoint Mr. Papademos as the new Chairman of the Monetary Policy Sub-Committee.

I Approval of the minutes of the 274th Meeting

The Committee approved the minutes of the 274th 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 discussed the following issues. Firstly, it had been noted that the sharp depreciation of the Italian lira at the end of March and beginning of April had been due to political uncertainties in Italy. The markets had seemed to have ignored the significant improvement in the fundamentals, particularly as regards price and wage developments and export growth. The Banca d'Italia had reacted with small, but visible, exchange market interventions and had maintained a firm monetary policy stance. Once the exchange rate had crossed the Lit.1000 per Deutsche Mark level, which was regarded as a significant chart point, there had been a reversal of market sentiment as profit-taking had prompted strong repurchases of lira against the Deutsche Mark, both in Europe and in the US. In Spain, pressure on the peseta had arisen following the Spanish government's decision to call an early general election as the markets had expected the exchange rate to depreciate further despite the positive behaviour of export prices. In Portugal, tension affecting the escudo had partly reflected the weakening of the Spanish peseta and had partly been a consequence of the market's perception of a possible change in the Portuguese government's stance towards growth-oriented policies.

The second issue discussed had been the trend of interest rates in the Community. With the exception of countries where exchange market tensions persisted, a general easing of interest rates was occurring. Market reaction to the Deutsche Bundesbank's decision to cut its discount rate but not the Lombard rate had been mixed, but the easing of the German repo rate from 8.25% to 8.11% had been regarded as an indication that the policy of gradually reducing interest rates in Germany would continue. The reaction of the markets to the reduction in interest rates in France after the general election was positive; the franc had strengthened and significant inflows had occurred.

Thirdly, the picture of economic activity in the Community was mixed: there were signs of a deterioration in some countries such as Germany, and evidence of a recovery in others, for example, the United Kingdom where a number of economic indicators pointed to a pick-up in economic activity in a situation of low inflation and moderate wage growth. The observation had been made in the Group that growth prospects in the countries whose exchange rates had depreciated were improving with little or no impact on domestic inflation. Although it was too early to draw conclusions, it seemed that the continuing anti-inflationary stance of monetary and income policies in these countries was making an important contribution.

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

The Governors' attention was drawn to the new format of the Small Green Book, to be used with effect from the following month, which included the forecasts provided by central banks in the framework of the ex ante and ex post co-ordination exercises together with some additional tables.

Four points had emerged from the Alternates' discussion of exchange market developments. Firstly, with regard to the two currencies which had temporarily left the ERM, a rebound had materialised when the depreciation of the currencies had overshot the required adjustment. This had occurred first in respect of the pound sterling as there was evidence that a recovery was taking place and more confidence existed that inflation was being constrained. Inflation had also remained moderate in Italy where there were indications of an export-led recovery in some sectors of the economy, especially among small and medium-sized enterprises. However, these positive signs had temporarily been obscured by political events and the lira had strengthened only recently. Secondly, there had been some discussion of the tensions surrounding the Spanish peseta and the Portuguese escudo. In Spain, political developments had given rise to pressure on the peseta in spite of improvements in inflation, the fiscal situation and the current account, although wage developments were still a cause for concern. Inflation in Portugal was also declining, but the escudo had nevertheless weakened owing to the pressures on the peseta, but also to emerging doubts about the resolve of the Portuguese authorities to pursue tight monetary and fiscal policies. In both countries a balanced use had been made of the Basle/Nyborg instruments to counter pressure on their respective currencies. Thirdly, there had been further signs of a return to calm with regard to other ERM currencies, as evidenced by gradually declining interest rates and a narrowing of interest-rate differentials vis-à-vis the Deutsche Mark. Finally, concerns had been voiced that the sharp deterioration in fiscal policy in a number of Community countries might reflect not only the working of automatic stabilisers, or action linked to the current business cycle, but also the inability of authorities to prevent a structural deterioration in the fiscal balance over successive business cycles.

3. Discussion by the Committee

Mr. Schlesinger said that the reduction in interest rates in France had not been directly connected with the decline in those in Germany, but reflected the reduction of the hitherto high risk premium on the French franc as the consequence of the continuance of the "franc fort policy"; France's experience had shown that if a country managed its currency correctly, it was able to reduce the level of its interest rates towards or even below those prevailing in Germany. With respect to the trend of inflation, he added that Germany now had the highest rate of inflation among the G-7 countries.

Mr. de Larosière said that there had been a significant reduction in interest-rate differentials between France and Germany; at the end of March, the difference in short-term interest rates had been around 300 basis points and currently stood at approximately 80 basis points. The Banque de France had been extremely cautious in its policy, aimed at restoring confidence in the French franc, rebuilding the official reserves and allowing interest rates to fall. The central bank had

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adopted the practice of not operating in the markets each day to force down short-term interest rates, rather official interest rates had accompanied downward movements of market rates. This policy of self-restraint had led to a very significant reflow of capital, which had helped the Banque de France to replenish its reserves, and market interest rates had fallen from 11% to 9% within a few days accompanied by reductions in official interest rates; at the same time, the French franc strengthened from 3.3980 against the Deutsche Mark to around 3.3780, thereby entailing severe losses for speculators who were unwinding their positions. He agreed with Mr. Schlesinger that the reduction of the interest-rate differential between France and Germany had been to a large extent the result of the policies pursued in France; the statements made by the new French government concerning the continuation of the "franc fort" policy and indications of a medium-term restoration of fiscal equilibrium had dispelled the doubts about the course of monetary and economic policy voiced in the markets in the run-up to the recent French general election. Given favourable fundamentals in France, the remaining interest rate differential via-à-vis Germany was expected to narrow further.

Mr. Ciampi said that when the Bundesbank had reduced its official interest rates in March, two countries had not been in a position to follow: France, because of the impending elections; and Italy, because its general political situation made it inappropriate to reduce interest rates. The Banca d'Italia had kept interest rates unchanged to indicate to the markets that a prudent and cautious policy was being pursued. He hoped that following the recent referendum in Italy concerning electoral reform, an early solution to the political crisis would be found with the appointment of a government which would take firm measures in order to improve the general economic situation.

Mr. Leigh-Pemberton said that he shared the Alternates' concern about the development of fiscal deficits in Community countries; the financing of recurrent expenditure through borrowing was likely to give rise to serious problems in the future. With regard to the present situation in the United Kingdom, he mentioned that there were currently signs of improved economic activity, whereas inflationary pressure had not reasserted itself despite the devaluation of pound sterling. This was due to the lack of demand in the economy and better control being exercised over industrial costs; for the first time in many years, unit labour costs in the United Kingdom had fallen. However, since the inflationary effects of a devaluation emerged only after a lag, it was important that the pound sterling should continue to strengthen. He added that the British government had committed itself to a formal inflation target and to a much more open process for presenting macro-economic policy which would put pressure on it to adhere to its target.

Mr. Schlesinger said that while the Deutsche Bundesbank had recently cut the German discount rate, the Lombard rate had not been lowered. Under prevailing circumstances, the Lombard rate did not play any role in the determination of market interest rates; however, it had been kept relatively high in a situation in which some banks had found it difficult to adjust to the recently reduced minimum reserve requirements in Germany and had resorted to the Lombard facility. Reductions in official interest rates were being made in small steps so as to avoid the risk of endangering the credibility of German monetary policy and the decline in long and medium-term interest rates which are of great importance for industrial investment. Contrary to what had happened some twenty or thirty years ago, a lowering of short-term official interest rates would not necessarily

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bring down long-term interest rates; it had been observed that relatively high short-term rates in Germany had contributed towards increasing the credibility of the Bundesbank's policies, as reflected in falling medium and long-term rates. He then asked Mr. Delors for his view of the apparent contradiction between the report in that morning's Financial Times that the Commission had called for a two percentage point cut in short-term interest rates in the Community and had urged an easing of German monetary policy to stimulate economic recovery, and comments made by the German Minister of Finance in the Frankfurter Allgemeine denying that the Bundesbank had been asked to cut the German discount rate in order to stimulate growth. He noted that Mr. Christophersen had been quoted in the Financial Times as having said that a cut in short-term interest rates by two percentage points, would lower long-term interest-rates by one percentage point and would increase growth in the Community by 0.7%. Germany's past experience had shown that there were no such automatic relationships.

Mr. Delors said that, at his request, the document concerning the so-called European growth initiative which the Commission had recently submitted to the Ministers of Finance had included no reference to lower interest rates in the Community; he had been surprised to read the report referred to in the Financial Times. Mr. Christophersen's statement on the likely impact of a cut in interest rates on economic growth had been made by reference to official statistics and models. Mr. Delors said that personally he had some doubts on such calculations; there was no empirical evidence that a cut in short-term interest rates would necessarily bring about a fall in long-term rates.

Mr. Doyle said that official interest rates in Ireland had been cut seven times in eight weeks, each time by not less than 0.5 percentage point. As in France, the Irish authorities had followed downward movements in market interest rates, which had been caused by the reflow of capital into Ireland. A major contributory factor to the speed of the reflows and the resultant ability to cut interest rates, which were now at a level last seen in the spring of 1989, had been that the central bank had held out for so long in defending the Irish currency during the recent ERM turmoil. He did not feel that the devaluation of the currency had been brought about by market pressures, rather it happened because the political consensus for defending the currency had disappeared by the end of January. As a result, there had been no point in continuing the defence of the Irish pound although this would have been possible technically. He said that he was satisfied with the current level of the short-term interest-rate differential of the Irish pound vis-à-vis the Deutsche Mark of around forty basis points. The current exchange rate of £0.99/I£1, compared with £0.9125 prior to the Danish referendum, implied an appreciation of 9% within a time span of 9 months but did not seem to be causing any difficulties for Irish traders or industrialists.

Mr. Verplaetse said that in February and March the Belgian franc had suffered two small crises owing to political circumstances. The first had been caused by uncertainty as to whether Belgium was moving from a centralised towards a federal state on the German model, and whether or not that would be successful. The second related to the state of Belgium's public finances. At the end of 1992, the public sector deficit had announced to around 7% of GDP, and for the three years to the end of 1994 real growth was forecast to be approximately 0.5% p.a. Discretionary measures had been taken over the past fifteen months to the tune of about 4 percentage points of GDP in an endeavour to

reduce the deficit to between 4.5% and 5.3% of GDP in 1994, depending on the rate of economic growth. The central bank expected that for 1993 and 1994 together the real rate of growth would be only 0.7%. One third of the projected reduction of the fiscal deficit was due to expenditure cuts whereas the remainder reflected measures to increase fiscal revenue. The fiscal pressure would thus increase but this should be seen against the background of tax cuts in recent years. He felt that it ought to be possible to achieve a reduction in the deficit to 3% of GDP in 1996, as required by the Maastricht Treaty, once growth returned to the Belgian economy. The financial markets were rather doubtful about the ability of the present coalition government to achieve this target although he felt that the figures were realistic. The Belgian authorities had perhaps been extremely cautious in their interest-rate policy but had indicated the intention not to abandon the Belgian franc's link to the Deutsche Mark. That morning the Belgian one-month interest rate was slightly below that in Germany and the three-month rate was slightly above its German equivalent. Once the Belgian parliament had decided whether or not Belgium was to become a federal state, which was not likely to be determined before June 1993, a period of calm in the Belgian market and confidence in Belgian economic policies was likely to follow.

Mr. Beleza said that following the weakening of the Portuguese escudo, the Banco de Portugal had raised official interest rates sharply and had carried out limited interventions. These actions had stabilised the exchange rate and interest rates in Portugal had been allowed to fall during the past two weeks. He felt that confidence was now being restored in the markets, reinforced by encouraging inflation figures; the twelve-month inflation rate in March was 7.3% (8% in February) and was expected to fall further in the coming months as the effects of the VAT increase in 1992 declined.

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 1993 and the first few days of April 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

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

The Alternates had reached agreement on the text of the draft written report which was to be presented to the ECOFIN Council at its informal meeting in May. They had also had an extensive exchange of views on the first draft of the Chairman's oral statement which covered more delicate questions. On many of these questions the Alternates had reached broad agreement, although the issue of the possibility of suspending intervention obligations, before the commonly agreed hour at which central banks normally withdrew from the market, was still unresolved. The current draft presented two alternative texts: firstly, that consideration the given by the Ministers to the possibility of establishing a procedure whereby, when a situation was deemed to be untenable, an early suspension of intervention obligations could take place; and, secondly, that the Committee was discussing the merits and drawbacks of early suspension and that its implications should be carefully considered. Many Alternates supported the first alternative although they could also go along with the second. One Alternate, however, opposed any reference being made in the oral statement to the issue of early suspension of intervention obligations on the basis that this would run counter to the fundamental principle of unlimited intervention at the fluctuation margins, would damage the credibility of the system and would prove very difficult to achieve in practice. All Alternates had supported the view that decisions relating to the width of the fluctuation band should be preceded by close consultations with a view to reaching consensus among central banks, provided it was understood that it was not an invitation for the Ministers to reconsider the current EMS rules, according to which decisions pertaining to the width of the band rested with the respective national authorities. The statement in the oral report reflected this consensus.

2. Discussion by the Committee

a) Written report

Following a short discussion, the *Committee* approved the written report without amendment to the draft proposed by the Alternates. It was agreed that the report would be sent to the Finance Ministers in the next few days and would not be published by the Committee

b) Oral report

The *Chairman* noted that the Committee had to choose between the extensive text on page three of the draft oral report relating to suspending intervention obligations during the day or the shorter one which stated that the Governors were studying this issue.

Mr. de Larosière said that the issue referred to would make the obligation of intervention at the limits, which was the foundation of the ERM, void. The ERM was an accord by which the monetary authorities of the member countries had committed themselves to enforce the limits of the fluctuation band. Introducing the possibility of suspending interventions during the course of the day would amount to eliminating the foundation of the system and, thereby, its credibility. The principle should be maintained that a fluctuation limit was to be defended; if the only way that a currency could remain in the system would be by altering its parity this could only be done either during a week-end or during the night before the reopening of the markets, otherwise the system would become a floating system. Any proposal to suspend intervention obligations, or even the announcement of a study on suspension, could lead to destabilisation in the markets once it became known. Changes in the rules of the ERM in this fundamental point would require a unanimous agreement among Community countries. If there was a desire to make such a change, it would be preferable to begin by having informal discussions rather than launching a study which would create speculation as to its outcome. Therefore, he would prefer that the Chairman did not make any reference to the issue in his oral report.

The *Chairman* said that he had sympathy with Mr. de Larosière's suggestion. However, no change in the system was required since Finance Ministers already had the power to suspend interventions during the day. What would be new would be to study the possibilities and to announce that this was being undertaken.

Mr. Schlesinger said that during the recent ERM crisis, the Deutsche Bundesbank had entered into unprecedented levels of obligatory interventions amounting to around DM 37 billion in support of the pound sterling during the course of one day, and DM 26 billion spread over a few days in the case of the Italian lira; this had created a number of problems for the central banks both in the debtor and creditor countries. If obligatory interventions could have been suspended during the day, the magnitude of intervention, and thus the subsequent exchange losses, could have been reduced significantly. With regard to the sentence in the last paragraph on page 2 of the draft oral report which said, "the Governors are therefore in full agreement that any amendment to the EMS rules which would formally limit this commitment would not be appropriate since this would be likely to create additional uncertainty in the markets", he could accept this sentence because of the word "formally". In practice that had not been the case as the need for obligatory interventions had ceased on the departure of two currencies from the system. However, it could be necessary for a country to suspend its intervention obligations during a day even if that meant that a currency which was under attack had to float in the interim. In this respect, he recalled that the Banca d'Italia had withdrawn from the market at 2 p.m. on one occasion a few years previously. Such action would not necessarily prejudge the question of whether the currency would leave the system the next day or whether it would change its central parity. If the Governors felt that this could be a realistic procedure which could be followed in exceptional periods of very strong tensions, then central banks should be able to pursue such a course of action in case of need. However, given the delicate nature of the matter, it would not be appropriate to mention that in the oral report.

Mr. Ciampi said that he shared the opinions expressed by Mr. Schlesinger and Mr. de Larosière and felt that it was not necessary to deal with this issue extensively in the current draft oral report. He confirmed that the Banca d'Italia had withdrawn from the market on one occasion in 1985 when speculation had built up against the lira against the background that Italy intended to ask for a realignment. However, fifteen minutes had been wasted whilst the authorisation of the Italian Finance Minister to close down the market had been obtained. As a result of that experience, he had convinced the Finance Minister to issue a decree which empowered the Governor of the Banca d'Italia to close down the Italian foreign exchange market if circumstances justified such action and to inform the Minister subsequently. Withdrawal from the market during the day was a complex procedure involving the central bank Governor and the Finance Minister and the time factor was critical. He suggested that it would be wise either not to refer to this issue at all or, if a reference was deemed necessary, to keep it very short.

Mr. Leigh-Pemberton pointed out that the document being considered was a draft text of what the Chairman should report orally; the Committee's anxiety about confidentiality was probably rather exaggerated when the issue was seen expressed on paper. However, if the Finance Ministers were told that this was a matter about which the Governors had been thinking, without going any further, then that would seem both to meet the concerns expressed by Mr. de Larosière and to satisfy the need to mention to the Finance Ministers that the issue should be kept in mind.

Mr. Hoffmeyer said that Mr. Schlesinger seemed to agree that obligatory interventions were a formal requirement and that if a country wished to withdraw from the markets within the day,

it should only occur after negotiations with partner countries and not done unilaterally. He added that the Committee should not indicate that it was discussing any change in the formalities of the system; comments of that nature would be misinterpreted both by the Finance Ministers and the markets.

Mr. de Larosière said that it would be imprudent to mention that the Governors were considering undertaking a study of suspending intervention obligations during the day, although the issue should continue to be discussed among the Governors.

The *Chairman* said that he would not raise the matter at the ECOFIN meeting, but it should remain under consideration by the Governors.

With reference to the sentence, "However, in practice, it must be recognised that this commitment finds its limits in situations where the obligations accumulating under the VSTF mechanism threatens to exceed the debtor country's repayment capacity and/or where the ability of the creditor countries to maintain domestic monetary stability is seriously impaired", *Mr. Doyle* said that the reference to a debtor country exceeding its repayment capacity, which implied an insolvency situation, overstated the reality of what had happened during the recent ERM turmoil in which some countries had experienced purely temporary liquidity problems. More appropriate might be a sentence which said that the magnitude of interventions could become such that they demanded other solutions.

The *Chairman* said that he would find a different form of words to that in the draft when making his oral report.

Mr. Ciampi said that he considered the written and the oral reports together to be an appropriate response to the serious crisis that had been experienced. He realised that the written report had limitations since it necessarily had to reflect the Governors' unanimous view. However, the weakness, particularly in the oral report, was that it did not emphasise that the EMS represented a system and that problems should be tackled by its members with a view to defending the system. Market operators had gone beyond what was justified by economic fundamentals when they had attacked particular currencies. Although he did not advocate reversing capital liberalisation which had been successfully introduced in all Community countries capital movements had demonstrated that a country's exchange rate was influenced by the degree of confidence which markets had in its policies and the level of interest-rate differentials. Furthermore, it had been referred to in the written report that the resources of the markets to attack a currency exceeded the instruments available to an individual country to defend it. While the defence of a currency was the responsibility of the issuing country, the markets needed to be given the clear impression that a currency that came under unwarranted attack would be supported by other members of the system, as had happened in the case of the French franc. Unless that point was made very clearly, it would be difficult for the EMS to avoid in future the kind of crisis it had experienced in September. With regard to the text of the oral report, he suggested the following amendments: Firstly some reference should be made emphasising the importance of the system as a whole; secondly the phrase "...nor can it, a contrario, provide..." in the third paragraph on page 1 be amended to "...nor, a contrario, to provide...". Finally, he noted that Italy had not been included among countries in which national legislation was being amended to comply with the Treaty provisions relating to the institutional independence of the central bank. He suggested that either reference to specific countries be deleted or the list be made complete.

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The *Chairman* agreed with Mr. Ciampi's first two amendments and, with regard to the third, suggested making no mention of any individual countries since, by the time that he delivered his oral report to the ECOFIN Council in May, developments might have occurred in other countries, such as France.

With reference to the sentence at the beginning of page two which said, "the results of these examinations (of the sustainability of exchange rate parities) which would be treated with the strictest confidentiality would be transmitted by each Governor to his country's Minister of Finance", *Mr. Jaans* said that, if it was the intention not to set out the Governors' conclusions in writing in order to enhance confidentiality, it would be useful to state that in the oral report.

Mr. Christodoulou asked what would be the Chairman's response if he was asked at the forthcoming ECOFIN meeting whether central banks were likely to end up taking unilateral action if they could not reach unanimity on the steps to be taken when an ERM currency came under severe pressure. If no consensus could be found in a given situation, he wondered how this would be viewed against Mr. Ciampi's concept that the members should be seen as belonging to a system; this was likely to contradict the point made elsewhere in the report about making market operators aware of the risks they ran through speculation.

Mr. de Larosière said that the recent experience had pointed clearly to the insufficiency of surveillance on economic fundamentals. The Committee's report had to be read in its entirety; it was not expected that the crisis situation experienced last autumn would become commonplace. The Chairman could put matters in perspective in his oral report by stating the rules which governed the EMS and pointing out that the extreme circumstances which had been experienced had posed problems both for creditor and debtor countries' currencies. While the Committee was to monitor exchange rate parities on a more frequent basis, he noted that the IMF also had a responsibility for the surveillance of exchange rates. Without involving the IMF in the Committee's procedure, he suggested that the Chairman might consider establishing an informal link with the IMF to seek its view on exchange rates in the Community.

The *Chairman* said that this latter point would be covered in the Nederlandsche Bank's annual report which would be published the following week.

Mr. Schlesinger said that there was no need to include in the oral report reference to the fact that the Governors were to undertake strictly confidential examinations of exchange rate parities the results of which would be brought to the attention of the Finance Ministers. He suggested deleting the sentence at the top of page two, "The results of these examinations ... would be transmitted by each Governor to his country's Minister of Finance".

Mr. Rey said that the sentence to which Mr. Schlesinger had referred had been included for the sake of clarification. The Alternates had felt that the Governors should not give the impression that they were going to take decisions about central parities (which lay with the Ministers) nor did they want the Ministers to expect a formal report on the outcome of the Governors' deliberations.

Mr. Leigh-Pemberton suggested that the sentence could be amended to read "examinations which will be treated with the strictest confidentiality, <u>normally</u> would be transmitted <u>orally</u> by each Governor to his country's Minister of Finance.

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Mr. Doyle said that it was important that the point be made by the Chairman at the ECOFIN meeting as it would no doubt otherwise be raised by the Ministers.

The Chairman said that he would include this matter in his oral remarks.

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

a) Prohibition of central bank credit to public entities

The *Chairman* noted that there had been agreement among the Alternates on the text of the draft letter to be sent to the European Commission on central bank financing of the public sector.

Mr. Christodoulou queried whether the phrase "any other means" (on page 2 of the draft letter) was too loosely worded in that it was open to different interpretations.

Mr. Rey said that the phrase was a compromise between the view of those Alternates who had felt that public undertakings should be defined as those which were subject to any sort of influence by public authorities and those who would prefer to define them according to whether public authorities had a dominant influence. Dominant influence would remain the key criterion but the means by which this would be defined had been tightened.

The *Committee* approved the draft letter which would be sent to the Chairman of the European Commission.

b) Report from the Working Group on Payment Systems on "Principles for the cooperative oversight of payment systems in EC countries

Mr. Padoa-Schioppa said that the Working Group's report represented the follow-up to one of the recommendations contained in its report to the Governors in April 1992. He reminded the Committee that the need for oversight principles arose from the fact that in the single market banks could become members of payment systems of Community countries other than those in their country of origin; there was therefore a need for co-operation among the authorities responsible for overseeing payment systems and the supervisory authorities. The current report contained three changes with respect to the version dated February 1993. The first related to the exchange of information among the authorities of different countries and the procedures that should govern those cases where the authority that supervised banks was not the central bank. Secondly, the revised version made no mention of the EMI in the section dealing with the proposed "observatory". The third change referred to the role that the home central bank of a bank that participated in the ECU clearing system should play in crisis situations; contrary to other existing payment systems, the ECU clearing system was not the responsibility of one central bank which could act as provider of liquidity in case of need. The current report explicitly stated that the Deutsche Bundesbank did not intend, or see the need, to play such a role in relation to an ECU clearing bank of German origin.

Mr. Rey said that the Alternates were in agreement with the conclusions of the revised report. With respect to paragraph 72 concerning the observatory", the Alternates suggested that the implementation of this recommendation be deferred until the EMI had been established.

The *Committee* endorsed the report's conclusions and proposals and agreed that the establishment of the "observatory" be postponed until the EMI had been set up.

c) Report on Information System requirements for Stages One and Two of EMU

The *Committee* took note of the interim report from the Working Group on Information Systems and, upon recommendation of the Alternates, the following was decided. Firstly, the Committee would welcome an improvement in the reliability of the CEBAMAIL system and approved the request of the Working Group to establish a sub-group to deal with the persistent problems; the sub-group would require neither interpretation facilities for its meetings nor additional staff. Secondly, the issue of setting up a new digital teleconference system, which would take at least two years to implement, should be taken up by the EMI at the appropriate time. Thirdly, while recognising the need for some systems support, the question of hiring the necessary staff for managing and supporting the EMI's information systems should be addressed only once the Treaty had been ratified and the location of the EMI had been decided. Finally, it was agreed that major investment decisions on new information systems should be taken with due regard to costs and benefits.

d) Organisation of consultations in the EMI on issues affecting the stability of financial institutions and markets

The *Committee* noted the report by the Banking Supervisory Sub-Committee and concluded that no decision had to be taken by the Governors at the current time. The report would form part of a dossier of papers on the preparatory work undertaken in the framework of the Committee of Governors to be compiled for the use of the future EMI Council when it came to consider how to organise its tasks.

e) Status of preparatory work

The Committee took note of the Secretariat's status report on the preparatory work.

VI Other matters falling within the competence of the Committee

a) Co-operation with EFTA central banks

Mr. Rey said that there had been a broad agreement among the Alternates on the Secretariat's proposal for a method of distributing technical documents to the EFTA central banks. Some Alternates had requested additional time to examine the proposed list of documents to be released before expressing a view. It was suggested that the issue of which documents could be released be dealt with by written procedure.

The *Committee* endorsed the Alternates' suggestion.

b) Appointment of the Chairman of the Monetary Policy Sub-Committee

At its restricted meeting held the same day, the *Committee* had appointed Mr. Papademos Chairman of the Monetary Policy Sub-Committee.

c) Appointment of professional staff to the Secretariat

The *Committee* extended the terms of appointment of Mr. Baer and Mr. Scheller to the Secretariat until 31st December 1993 and approved the appointment of Mr. Sanders as a professional member of the Secretariat.

VII Date and place of next meeting

The next meeting of the Committee will take place at the BIS in Basle on Tuesday, 11th May 1993.

275TH MEETING OF THE COMMITTEE OF GOVERNORS 20th April 1993

Chairman	Mr. Duisenberg
Banque Nationale de Belgique	Mr. Verplaetse Mr. Rey ¹ Mr. Michielsen
Danmarks Nationalbank	Mr. Hoffmeyer Mrs. Andersen Mr. Hansen
Deutsche Bundesbank	Mr. Schlesinger Mr. Tietmeyer Mr. Rieke
Bank of Greece	Mr. Christodoulou Mr. Papademos Mr. Karamouzis
Banco de España	Mr. 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. Gaspar Mr. Bento
Bank of England	Mr. Leigh-Pemberton Mr. Crockett Mr. Foot
Commission of the European Communities	Mr. Delors Mr. Pons
Chairman of the Working Group on Payment Systems Chairman of the Foreign Exchange Policy Sub-Committee	Mr. Padoa-Schioppa Mr. Saccomanni
Secretariat of the Committee of Governors	Mr. Baer Mr. Scheller Mr. Viñals

¹Chairman of the Committee of Alternates

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