

*renies aut Suppl. au rapport, sous-ent.)
le 15.6.87*

Committee of Governors of the
Central Banks of the Member States
of the European Economic Community

14th June 1987

OUTLINE OF SEPTEMBER REPORT TO INFORMAL ECOFIN

I. INTRODUCTION

II. ANALYSIS

1. New features of the economic environment

- (a) increased convergence, notably of inflation rates; however, full convergence has not been achieved in a number of areas;
- (b) weak dollar: how it affects EMS;
- (c) increased capital mobility and integration of financial markets;
 - less room for independent course of monetary policy,
 - increased dangers for EMS cohesion of inconsistent/divergent monetary policy courses.

2. Functioning of EMS arrangements

- (a) working of the System on the whole satisfactory, but: excessive emphasis on interventions under pressure; insufficient use of interest rate differentials, sometimes rigid defense of exchange rates; lack of co-ordination in responses to external shocks;
- (b) interventions;
- (c) financing mechanisms;
- (d) monetary policy co-ordination.

3. Main conclusions of analysis

- (a) increased likelihood of financial shocks, of a short-term nature, owing (i) to developments in the dollar; (ii) to the continuing need for some time for central rates realignments;

- (b) increased costs/risks of unco-ordinated policies/policy responses for EMS cohesion;
- (c) need for further reduction of inflation differentials and convergence of fundamentals as a way of progressively eliminating the recourse to realignments.

III. POLICY RECOMMENDATIONS

1. Economic convergence; medium-term monetary targets geared to reducing inflation differentials; supportive policies in other areas.
2. Need for fuller use by each country of available monetary instruments to maintain EMS cohesion, also because of possible external shocks; more co-ordinated use of these instruments.
3. Appropriate policy response should be assessed within a strengthened joint monitoring procedure
 - of internal EMS developments;
 - of third currencies' developments and effects on the EMS.
4. Adaptation of EMS procedures and operational mechanisms.
 - (a) realignment procedures: realignments small and less predictable; less frequent;
 - (b) co-ordination of interventions; greater willingness to accept in the very short-run the domestic monetary consequences of interventions;
 - (c) financing of interventions: access to VSTF for intramarginal interventions; use of the ECU (acceptability); holdings of Community currencies.
5. Implications of liberalisation of capital movements for credit mechanisms: duration and quotas for renewal of VSTF, size of STMS and debtor quotas; other (?).

6. Recognition of foreign currency status for the ECU. Issues raised by a possible link between the official and the private ECU.

7. Full participation in EMS exchange arrangements by all members(?).