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| To Dr. G. Baer, Assistant Manager Bank for International Settlements CH 4002 <u>Basle</u> Schweiz | |
| From Governor Erik Hoffmeyer | |
| Text | |
| | Signature <i>Erik Hoffmeyer</i> |



Copenhagen, March 28, 1989.

Dear Colleague,

I appreciate very much Governor de Larosière's letter which I have studied with great care.

As we are under great time pressure and as it seems difficult to reach unanimity I take the liberty of presenting a few basic points.

Within each stage towards EMU steps have to be taken in order to make progress and our task is to recommend appropriate steps to the Heads of State.

During our discussions we have singled out the following four steps in the first stage as being of particular importance.

1. The Heads of State should as a precondition secure full or almost full membership of the EMS (including complete liberalisation of capital movements) and they should initiate measures producing better convergence of economic performance.
2. The Heads of State should invite the Committee of Central Bank Governors to elaborate a system of improved monetary policy coordination and, in particular, support this by changing national legislation in order to make their central banks politically independent.
3. The Heads of State should revive the obligations under the 1974 Council Decision.
4. The Heads of State should decide on a procedure for negotiations of a Treaty change before entering stage two.

The veto problem (whether legally or politically) applies to all four points, but has in our discussions only been mentioned as regards 1 and 4. This leads to the two speed aspect into which our Chairman at an early point of time has asked us not to lose ourselves.

It is very important to clarify how these four points should be weighted. It is a matter of judgment, not of logic.

Yours sincerely,

Riik Hoffmeyer