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Confidential

MINUTES

OF THE 247th MEETING OF THE COMMITTEE OF GOVERNORS

OF THE CENTRAL BANKS OF THE MEMBER STATES

OF THE EUROPEAN ECONOMIC COMMUNITY

HELD IN BASLE ON TUESDAY, 10th JULY 1990 AT 9.30 a.m.

Preliminary Remarks

The Chairman welcomed Mr. Baer as the new Secretary General of the Committee of Governors. Apologies for absence were received from Mr. Delors and Mr. Christophersen, President and a Member of the EC Commission, respectively, who were both attending the Economic Summit in Houston, Texas. In view of this and exceptionally, the Chairman had invited Mr. Ravasio, Director-General, Economic and Financial Affairs, to attend the meeting.

I. Approval of the minutes of the 246th meeting

The minutes were approved.

II. Appointment of the Chairmen of the Sub-Committees

Following a proposal made by the Chairman, the Committee agreed to postpone the issue of the appointment of the Chairmen of the Sub-Committees until June 1991. Meanwhile, Mr. Dalgaard, Mr. Raymond and Mr. Quinn would continue to serve as the respective Chairmen of the Foreign Exchange, Monetary Policy and Banking Supervisory Sub-Committees. It was noted, however, that Mr. Quinn had been appointed in February 1990 as Chairman of the recently formed Banking Supervisory Sub-Committee for a period of three years.

It was agreed that when reviewing this matter, the Governors would consider the term of appointment (a period of three years was suggested by the Chairman), the question of re-appointment and the possibility of staggered rotation of appointment, in order to preserve continuity by avoiding a simultaneous change in the chairmanship of all three Sub-Committees.

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

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

IV. Examination of Report No. 38 prepared by the Group of Experts, chaired by Mr. Raymond, on current monetary policies in EEC member countries

Given the severe time pressures on the work of the Committee, it was agreed to combine discussion of these two agenda items.

A. Statement by Mr. Dalgaard

Since there had been only very moderate changes between the US dollar, the Japanese yen and the Deutsche Mark, the Monitoring Group had concentrated its discussions on two possible problem areas within the ERM; firstly, the development of the Deutsche Mark and, secondly, the tensions between the strong and weak currencies of the System.

The Deutsche Mark had performed relatively well against the US dollar but was still relatively weak within the ERM, although its weakness should not be exaggerated since it was around par against most other currencies in the narrow band. The weakness of the Deutsche Mark was certainly not caused by fundamental features, which were favourable, but rather by market perceptions of the possible consequences of German economic and monetary union. Although experience was short, developments so far had been very satisfactory. East Germans had withdrawn smaller amounts of Deutsche Mark notes than expected, indicating only a moderate increase in demand. Furthermore, the first unification bond issue had been a success, which suggested little difficulty with regard to financing. Although the Deutsche Bundesbank did not see a risk of an increase in inflation, this view might not be fully supported by the market, which seemed to be more pessimistic about the prospects for industry in eastern Germany and the possibility of a steep rise in unemployment. The market also perceived risks of increased financing requirements, which might lead to higher interest rates. The Deutsche Bundesbank was reasonably satisfied with the level of the Deutsche Mark against the US dollar, but less so with regard to the Deutsche Mark's position within the ERM. The Deutsche Bundesbank considered that a stronger Deutsche Mark would facilitate the adjustment process and that the high rates of interest in other Community countries, such as Italy, Spain and the United Kingdom, had contributed to the relative weakness of the Deutsche Mark. It was somewhat surprising that the markets were not paying greater attention to the potential exchange risk, even against ERM currencies, where there was now room for some considerable changes; for example, the Italian lira could now theoretically weaken by more than 4% against the Deutsche Mark and the Spanish peseta by about 12%.

Since the beginning of June 1990, tensions within the ERM between the Italian lira and the French franc had gradually eased and the spread between the two currencies had narrowed and was now about 2%; interventions had ceased. The principal reason for this was the narrowing of interest differentials between the two currencies. A further explanation was that the economic fundamentals in France were quite strong and gave no reason for pressure against the French franc. In the recent past, pressure had been generated by fears of a government crisis and then by rumours of a sharp increase in minimum wages. As these rumours proved groundless, the market had stabilised and towards late June the French franc had moved close to the other currencies in the lower part of the band. The attractiveness of the Italian lira was linked not only to high interest rates, but also to the perception that inflation was declining and consequently interest rates would fall, thereby giving rise to possible capital gains. At the same time, the nature of the fiscal deficit had gradually changed and it now consisted almost entirely of interest payments. Thus, a lowering of interest rates would reduce the deficit, a development which had been perceived by the market.

Mr. Dalgaard drew the Committee's attention to a recent innovation in the ERM. The substantial interventions in May and early June, when the Banque de France had sold large amounts of Italian lira, had been covered immediately by purchases of other currencies, mainly the Deutsche Mark but also the US dollar. This had been done in order not to influence the total amount of foreign exchange reserves of the Banque de France. This had shifted the supporting effect from the French franc to the currency purchased in the cover operation. The reason for this strategy had been that pressure on the French franc had been expected to be temporary, and it had been feared that publication of a significant reduction in the exchange reserves could aggravate the situation. Total intervention sales had amounted to about one-quarter of the reserves of the Banque de France. A consequence of this new intervention policy had been an increase in the Banca d'Italia's holdings of French francs to approximately 7% of total reserves, more than would normally have been preferred by this Central Bank. The Monitoring Group would discuss further both this and other consequences of the new intervention technique.

The easing of tensions between the Italian lira and the French franc had given way to some tensions between the Spanish peseta and the French franc. In the past three months the peseta had strengthened against most other ERM currencies by 4 to 5% and it had reached the intervention limit against the French franc, although interventions had been moderate. The strength of the peseta had been attributed to the very high interest rates in Spain, which were about 6 percentage points higher than those in Germany. A tight monetary policy in Spain had been necessary to dampen domestic demand. Demand growth had been progressively reduced from about 8% during 1989 to 4% in the first quarter of 1990, but in the second quarter of this year growth seemed to have accelerated again. The Spanish authorities had therefore found it necessary to continue with a tight monetary policy. Fiscal policy had also been tightened in recent years and the public deficit had declined from 7 to 8% of GNP in the mid-1980s to about 2% now. Experience had shown, however, that the market was sufficiently aware of the risks associated with capital inflows, but given the prevailing high interest rates the continuation of such inflows could not be excluded.

The risks in the ERM, therefore, at present related to the situation with regard to the Deutsche Mark and to the possibility of large capital inflows into Spain and, to a lesser extent, Italy. In Belgium, Denmark and Ireland it had been possible to lower interest rates and make some intervention purchases. In the Netherlands there had been no interventions and interest rates had been declining and were now at the same level as, or in some cases lower than, in Germany. Outside the ERM, the pound sterling had continued its steady rise from DM 2.75 to almost DM 3.0; this strength was associated with expectations that sterling would join the ERM in the near future, combined with the high level of interest rates prevailing in the United Kingdom. Official remarks on the possibility of Portugal joining the ERM in the near future had resulted in strong capital inflows in June 1990, which had continued after it had been made clear that the link to the ERM was not imminent. In total, the Banco de Portugal had made intervention purchases of close to US$ 2 billion over a two to three-week period. To curtail the inflows and to allow the exchange rate to appreciate for a short period, the Banco de Portugal had introduced a number of temporary restrictions: a prohibition against swap transactions without a commercial basis and a deposit requirement for financial borrowing. These measures had succeeded in halting the inflow and had even resulted in a small outflow for a few days.

The Greek drachma had continued to exhibit a more stable development, largely because the Government had convinced the market that there would be no devaluation in the near future. Other contributory reasons were seasonal factors and a recent tightening of monetary policy by the Bank of Greece.

Finally, Mr. Dalgaard said that owing to the heavy workload of the Secretariat, preparation of the Group of Experts' report on the Commission's proposal for the association of third currencies had been delayed.

B. Statement by Mr. Raymond

Mr. Raymond said that economic growth was continuing even though towards end-1990 it might not prove to be quite as strong as in 1989. The strength of economic growth was, in particular, attributable to investment demand. Consumption had remained firm, households had benefited from wage increases and job creation had continued, and there had been tax cuts in Germany. Moreover, German unification had perhaps given an impulse to the economies of the Community and, in particular, to the West German economy. The Group's view of the risks associated with developments in this area had already been described in Report No. 37 and therefore had not been repeated in the present document.

Monetary expansion had slowed during the last few months, and in those countries which had set monetary targets they had been achieved.

Despite these positive developments, the experts considered that a number of other factors made it necessary for central banks to continue to be vigilant:

- inflationary pressures persisted in the wake of capacity constraints, and inflation differentials remained large. Current-account disequilibria were sizable and in some countries, namely Spain, Portugal and Greece, the external situation had been worsening. During the last few months, monetary policies had been relaxed somewhat, but it should be recalled that these policies had been tightened several times in 1989, and the recent relaxation represented a moderate correction of earlier trends in the light of the deceleration in the growth of monetary aggregates. In view of the inflationary pressures and the full utilisation of production capacity, the experts had concluded that it would be premature to proceed to a general lowering of interest rates;

- there was a need to encourage higher savings in the economies of the Community and this should incline the authorities to reduce their public sector borrowing requirement. On the contrary, however, it should be noted that policies in several Member States pointed in an opposite direction. The budget deficit would increase considerably in Germany - owing to tax cuts and the cost of reunification - and in Portugal; the surplus in the United Kingdom could also be expected to decrease. At the same time the deficits had reduced slightly in Italy, Belgium and the Netherlands. The experts had pointed out that a better policy mix was essential if interest rates were to be reduced without triggering a new bout of inflation;

- as ERM parities had become credible, the countries which participate in the ERM had been unable to use domestic interest rates to their fullest extent to combat inflation. In these countries, but also in those outside the ERM, more active use should be made of fiscal policy. The exchange rate constraint had become more binding by the fact that virtually all exchange controls had been removed. It was feared that if convergence remained poor the market might eventually consider the present situation unsustainable. This might trigger an exchange crisis, which would either endanger the existing parity grid or make it more difficult for the currencies outside the ERM to join it.

C. Statement by Mr. Rey

In their discussion of recent developments and the main policy issues for the short and medium term, the Alternates had reviewed many of the concerns highlighted by Mr. Dalgaard. In this context, the Alternates had discussed the situation in Germany and also focused on developments within the ERM, which had been characterised by a strong position of the Italian lira and the Spanish peseta, whereas the other currencies moved together at the lower end of the band. While interest rates had clearly played a role in bringing about exchange rate polarisation, differing views had been expressed about how to assess the underlying factors.

Some Alternates had emphasised the role of expectations. In Italy, the prospect of lower interest rates had attracted funds into high-yielding long-term bonds which offered the chance of capital gains, whilst uncertainty about interest rates in Germany had probably exerted the opposite influence. Other Alternates had pointed to a serious dilemma which arose in an environment of de facto fixed exchange rates and free capital movements, but with incomplete convergence and with too much reliance placed on monetary policy. So far, the situation had been managed through prudent use of interventions and limited interest rate movements which had avoided giving wrong signals. Moreover, improving trends had been observed recently in some countries. In Italy, the inflation rate appeared to be declining and in Spain the net borrowing requirement had been reduced significantly. Furthermore, although the French franc had temporarily weakened in the band, the fundamentals were strong.

The Alternates had agreed with the concerns expressed by Mr. Raymond about insufficient convergence in the Community, especially with regard to inflation performance. It raised some difficult issues given the free movement of capital and the market perception of quasi-locked exchange rates within the ERM. The Alternates had agreed that demand and cost pressures called for the continuation of anti-inflationary policies, and the general view had been that monetary policies should not be relaxed under present circumstances and that fiscal policy should be more supportive of the anti-inflationary policy stance. Fiscal policy was felt to be insufficiently tight in some countries and that had contributed to an overburdening of monetary policies.

Fiscal policies, however, should not be viewed as a short-term fine-tuning device but viewed in the medium-term framework. On the other hand, this should not prevent fiscal adjustment in the face of an unsustainable policy mix. Some Alternates had also emphasised the positive immediate effect of an announcement of a reorientation of fiscal policy. Moreover, other policies, for example structural measures or measures designed to influence income developments where they were deemed useful, could also help relieve monetary policy. However, whatever contribution an improved policy mix might make, it had been stressed that it could not be expected that monetary policy would be freed completely from pursuing anti-inflationary policies, and this served to demonstrate how important it was that better convergence should be attained before making exchange rate commitments more stringent than hitherto.

With the start of Stage One of EMU, it had been suggested that the Committee of Governors might consider involving itself more actively in examining a number of issues: firstly, the question of the policy mix and the appropriateness of the fiscal policy stance. Secondly, a review of the monetary policy implications of free capital movements and exchange rate commitments, which the markets regarded as tantamount to locked exchange rates. Thirdly, the issues regarding intervention policies and the holding of Community currencies in the reserves of Member States. In this connection, it had been suggested that there was a case for greater diversification of currency holdings. Fourthly, these issues might be approached, perhaps through specific country studies, in a more systematic manner. It had been mentioned that the Economic Unit could perhaps be asked to study such issues.

D. Discussion by the Committee

Mr. Chalikias reported that during the last two months pressures on the Greek drachma had eased considerably and that the current-account deficit had narrowed significantly. These positive developments reflected, to some extent, seasonal and special factors and the reversal of expectations concerning the drachma's exchange rate. They were also a response to the effects of a progressive tightening of monetary policy, which had resulted in substantial increases in a broad spectrum of domestic interest rates. These measures were also dampening growth in demand for credit by the private sector, which appeared to be decelerating from the high level of about 20% experienced at the end of 1989. The effectiveness of monetary policy would depend critically on the policy mix as had been rightly emphasised in Report No. 38. In Greece, the very high budget deficits of the last two years had placed considerable constraints on the conduct of monetary policy and had undermined its effectiveness and underscored the need for the fiscal authorities to become more aware of the implications of their actions for the effectiveness of monetary policy and the process of convergence. The rise in the twelve-month rate of inflation to 21.7% in June 1990 had been partly attributed to increases in VAT rates, in excise taxes on tobacco, fuel and alcohol, and in public utility tariffs. However, it was expected that this would be temporary, primarily because of an expected reduction in the public deficit and the present restrictive policy which would contribute to pressures on prices from the demand side. Two other factors would also contribute: the modification of the wage indexation system which was now under way, and the run down of stocks accumulated last year and during the early months of 1990 in anticipation of a depreciation of the drachma.

Mr. Tavares Moreira said that the speculative inflows of capital mentioned at the last meeting had continued strongly and had had an extremely negative impact on the control of domestic liquidity. Since it would have been inappropriate to ease the monetary policy stance, further vigorous action had been required. Thus, the main sources of foreign capital inflows not related to real transactions had been curtailed. Firstly, transactions with non-residents in Portuguese escudos had been suspended for ninety days. Secondly, a deposit requirement of the equivalent of 40% of each foreign loan taken up by resident companies, both private and public, had been imposed. These measures, coupled with other actions in the domestic money market, had proved effective and in the last two weeks a net outflow of capital of some US$ 250 to 300 million had been recorded. At the same time, the too certain development of the exchange rate coupled with the high nominal interest rates had led to the decision to change the exchange rate adjustment rule that had been followed in the past and introduce some degree of uncertainty, and allow the rate to fluctuate within a snake along the downward path defined by the exchange rate target.

Mr. de Larosière said that the situation in the Community was somewhat paradoxical in that the currencies which had a tendency to appreciate most on the foreign exchange market were those with the highest rate of inflation. This originated from the market's extreme sensitivity to interest rates in an environment in which the exchange risk had diminished because of the existing exchange rate arrangements or because of expectations that these arrangements might apply to a particular country. The day-to-day situation could of course be handled through co-operation, and in this respect Mr. de Larosière thanked Mr. Ciampi for the full co-operation given by the Banca d'Italia during the past weeks. The present situation was manageable as far as it did not have a negative effect on the position of those countries with sound fundamentals. However, as the Community had entered Stage One of EMU, the situation was not satisfactory, especially in the medium term. Report No. 38 had explained the situation frankly. Mr. de Larosière said that it was the collective responsibility of all central banks to reduce inflation. Therefore, the Committee of Governors should consider how to obtain a better policy mix, taking into account contributions from fiscal, structural and incomes policies. The present situation necessitated positive action and in view of the fact that Stage One had begun on 1st July 1990, some clear warning by the Chairman of the Committee to the Ministers of Finance was required.

The Chairman agreed that the present situation was worrying. The EMS created some inflationary pressures in those countries with low inflation rates because of factors emanating from those countries which had relatively high inflation rates. This aspect had been discussed previously in the context of trade and current-account imbalances. Furthermore, those countries which had relatively high inflation rates, very high interest rates and strong currencies were at the same time losing competitiveness. While there was certainly a need in those countries to improve competitiveness, there was also a mutual interest in ensuring that the adjustment process avoided tensions within the System. As mentioned in Report No. 38, there were some countries, mainly within the ERM, such as Spain and Italy, which had already made great efforts to reduce their rates of inflation. Countries outside the ERM still had exchange rate flexibility and were not creating technical problems for the functioning of the EMS.

Mr. Rubio explained that, compared with a year ago, there were clear signs of improvement in the Spanish economy. For example, the growth of real domestic demand had slowed from 9% in the first half of last year to an estimated rate of 5% at the present time. Imports had continued to expand but the rate of increase had been reduced and in the first half of 1990 there had been a reduction of 2 percentage points in GNP growth compared with the same period in 1989. Price performance had also improved, and in May 1990 the increase in prices had been zero. A strict monetary policy had to be maintained and the policy mix needed to be adjusted. It was forecast that the budget deficit would be reduced from 2% of GNP this year to 1% in 1991. He emphasised that fiscal policy needed to play a more significant role in dampening demand.

Mr. Ciampi observed that there is now more confidence about the stability of exchange rates than there had been in the past. This was due to the fact that inflation was slowing and was now predicted to settle at about 5%. It was also attributable to the exchange policy, which had become more credible as a result of the decision to liberalise the capital movements and to join the narrow band of the ERM. As long as this confidence was maintained, capital inflows would continue in response to the interest rate differential. Over a period of time domestic interest rates would reduce in response to capital in-flows so that the differential would narrow further. However, it was crucial to preserve confidence in the stability of the exchange rate and this could be eroded if the rate of inflation failed to fall to that of the most stable countries. In order to achieve this objective, the Banca d'Italia had called for a tightening of income and budgetary policies in Italy.

With respect to the current situation, Mr. Ciampi asked whether the Chairman could take the opportunity of the ECOFIN meeting in September 1990 to make a statement outlining the concerns of the Committee of Governors.

The Chairman agreed with Mr. Ciampi and thought that it would be a good opportunity to state the common view on these matters. If tensions would develop in the ERM in the course of the next year or so, it could be a severe setback for all the efforts to achieve a more institutional structure for the EMS. The Chairman asked the Secretariat to prepare a two-page speaking note which would draw the Ministers' attention to problems that might arise if the present policy mix in some countries remained uncorrected; at the same time, recognition should be made of the efforts already undertaken by some countries. When speaking at the last ECOFIN meeting in Luxembourg, the Chairman explained that he had been uneasy for he had not been in a position to say a great deal, since it had not been his wish to raise expectations concerning the work in progress in the Committee of Governors. The Chairman apologised for any misunderstanding that had arisen following his comments concerning the possibility of not all partners signing the amendments to the Treaty at the same time.

V. Common framework for monitoring monetary policy

The Chairman invited Mr. Rey to introduce the item.

Mr. Rey said that the Governors would recall that in May 1990, following their discussion of the Special Report on the Common Framework for the Monitoring of Monetary Policies, prepared by the Group of Experts chaired by Mr. Raymond, a number of questions had arisen in connection with certain analytical and policy issues as well as the proposed publication of a press communiqué. The Alternates had been asked to examine these issues further and to report their conclusions at the July 1990 meeting. The Committee of Alternates, in conjunction with Mr. Raymond's Group, had produced a combined report which was now before the Governors.

Section 3.3 of the Report of the Alternates recommended the adoption of a two-stage process, whereby in November of each year the Committee would assess the appropriate orientation of monetary policies for the next year with particular emphasis on their consistency. The targets, as appropriate, would then be determined in accordance with existing national procedures, taking into account the results of the November exercise. There were differing opinions amongst the Alternates with respect to the degree of publicity the exercise should subsequently receive. Therefore, the draft communiqués shown in Annexes 1 and 2 of the Report should be regarded merely as suggestions at this juncture. The Alternates had agreed that the issue of publicity largely depended on the outcome of the ex ante co-ordination exercise. In particular, this would be the case in the context of the first co-ordination exercise. It was also suggested that the Economic Unit should look into the question of how to assess the consistency of monetary policy targets. A first report on conceptual issues could be prepared for the September 1990 meeting of the Committee of Governors, and then the Monetary Policy Sub-Committee would draw up a forward-looking report in preparation for the November 1990 meeting.

The Chairman thanked Mr. Raymond, his Group of Experts, Mr. Rey and the Committee of Alternates for the excellent reports. The timetable proposed by Mr. Rey was accepted. The Chairman recommended that, at this stage, there should be no publicity. The Economic Unit should be invited to start working on an operational concept; with particular emphasis on how the consistency of monetary targets and other indicators could be assessed?

Mr. Raymond mentioned that in the Special Report the Group had pointed out that some central banks would be required to alter, to a certain extent, their monetary aggregate. It was therefore essential for the Economic Unit to work in close co-operation with central banks in order to devise new aggregates which could serve as a basis for targets for 1991.

Mr. Ciampi said that since the first exercise would be undertaken on an informal basis, he would not have to request a change to the institutional procedures in Italy. These presently required the Banca d'Italia to submit the proposed targets by end-September in the context of the budget discussions for the coming year. However, once the exercise had been formalised, these procedures would require amendment.

Mr. Duisenberg said that there was a similar problem in the Netherlands and he welcomed the present informal approach.

Mr. Leigh-Pemberton made a similar observation concerning the current situation in the United Kingdom where the targets for the coming financial year (April 1991-March 1992) were discussed in February. He too welcomed the fact that the exercise would be informal.

VI. Draft Statute of the European Central Bank System

(Version dated 3rd July 1990, see Annex for copy of draft Articles)

VII. Exchange of views on the United Kingdom's suggestions concerning institutional progression beyond Stage One

Given the severe time pressures on the work of the Committee, the discussion of these two agenda items was combined.

The Chairman thought that it was unlikely that the Committee of Governors would have the opportunity to meet prior to the informal ECOFIN meeting in Rome. He emphasised that the objective of the Intergovernmental Conference was to set up a legal framework for the transfer of decision-making powers to the Community in the area of monetary policy. The aim was to create a single currency for the Community or for those countries participating in the Monetary Union. This would necessitate a single monetary policy. The policy objective of an institution responsible for the single currency had to be price stability with all its implications for independence and the availability of instruments to achieve the policy objectives, i.e. instruments which would allow it to determine the price and quantity of money. If the members of the Committee could not agree on these points, such disagreement would have to be mentioned in the report on the structure and arrangements of a future European Central Bank System.

Mr. Leigh-Pemberton said that he was prepared to discuss the draft Statute for an ESCB which would become operational in Stage Three, but could not, at this stage, commit the UK Government. In this context, he said that it would be an appropriate juncture to describe the United Kingdom's recent proposal concerning institutional progression beyond Stage One.

It was with regard to the transition to Stage Three that the UK Government had put forward the proposal for the Hard Ecu. This proposal should be viewed as being consistent with Stage Three and perfectly capable of leading to that Stage, assuming that the Community was going to Stage Three via a Stage Two.

The Delors Committee had rightfully pointed out the danger of a parallel currency being a source of excessive monetary creation. However, the Hard Ecu scheme met this argument in a concept whereby the national central banks would guarantee the value of the currency against which a Hard Ecu bank, described as the European Monetary Fund, would issue Hard Ecu or, alternatively, whereby the national central banks would be eligible to repurchase the currencies which they had used to acquire Hard Ecu. This ensured that there was no additional money creation. If it was guaranteed that the Hard Ecu would be as strong or stronger than the strongest currency in the ERM, this would also be counter-inflationary and it could be an extremely effective instrument in the hands of the central institution for exerting pressure on individual national central banks. The proposal would produce an institution which could be wholly consistent with an ESCB. It would probably have the same Council and some sort of Managing Board. It should have a commitment to price stability and should be independent of government interference. Mr. Leigh-Pemberton acknowledged that the proposal drew on some ideas which had been suggested by Mr. de Larosière in the preparation of the Delors Report but which had not been adopted.

Mr. Leigh-Pemberton suggested that the proposal should be studied by the Alternates, who should report their conclusions to the Committee of Governors. It was the intention of the UK Chancellor of the Exchequer to present the Hard Ecu proposal to the ECOFIN meeting on 23rd July 1990 and possibly to put it on the table for the Intergovernmental Conference in

December 1990. The other members of the Committee were asked whether they would receive a senior delegation from the Bank of England to discuss the proposal.

The Chairman took note of the fact that Mr. Leigh-Pemberton regarded the proposal of the UK Government not as an alternative to the Statute but rather as a scheme for the transitional period. Owing to the high priority of other work, it was decided that the UK proposal would be discussed by the Committee of Governors in November 1990. Upon suggestion by Mr. Ciampi, it was agreed that the Committee of Governors should focus its attention on the draft Statute of the ESCB, which related to Stage Three, and afterwards analyse the United Kingdom's proposal, which concerned possible transitional measures from Stage One to Stage Three.

The Committee subsequently proceeded to an examination of the draft Statute which had been prepared by the Committee of Alternates. The Chairman thanked the Committee for such a high-quality and professional document. The frankness of the document was welcomed.

Mr. Rey said that the draft Statute was the result of three meetings of the Committee of Alternates. In undertaking their work, the Alternates had made two assumptions:

- there would be a chapter on Monetary Union in the Treaty which would contain the essential provisions. This had not been discussed as such so far since the essential provisions were already contained in the Statute and could be transposed;
- the Statute would have the legal force of a Treaty, probably in the form of a Protocol. Firstly, it should be noted that this was not the only conceivable legislative technique, although it met with the broad approval of the Alternates. Secondly, if the Statute was to be a self-contained piece of legislation it would have to include not only constitutional provisions but also provisions of a more technical nature, such as those contained in Chapter IV (Operations) which it should be possible to revise somewhat more flexibly than by recourse to a change to the Treaty. This could be done in due course by identifying precisely the provisions subject to a more flexible procedure and by inserting the corresponding amendment procedure in the Treaty.

The document before the Governors was subject to a number of limitations. Firstly, owing to time pressure, the Alternates had not had time to review the final wording of the text. Secondly, not all the provisions had been discussed in the same degree of detail; for example, Article 6 (International co-operation) had not been discussed at all and an alternative version of Article 13 proposed by the German Alternate had been inserted after the discussions; Chapter IV (Operations) was certainly by no means final. Thirdly, the Alternates had only had a preliminary discussion of the chapter concerning financial provisions the previous afternoon. The discussion had revealed that it would probably be necessary to have greater harmonisation of the statutes of the national central banks than initially envisaged. Fourthly, the legal experts had not so far been consulted and, therefore, the Alternates had not gone very far in discussing the implications of the draft Statute with regard to the legal personality of the System and its components.

With regard to the substance of the document, Mr. Rey highlighted two points:

- the structure of the System had proved to be one of the most divisive issues so far. Two main questions had arisen, namely, the relationship of national central banks to the System (see Article 13) and the location of power within the System. The answer to this latter question would also impinge on matters such as the frequency of meetings, number of members of the Executive Board, representation on the Council and the Executive Board and voting powers. There was full agreement amongst the Alternates that monetary policy was indivisible and that there was no scope for monetary policy decisions remaining with national central banks. However, there had been a range of opinions as to the extent to which national central banks should be the channel for executing monetary policy decisions. There was also the question of how far the national central banks would keep a residual sphere of autonomy and be able to exercise other duties either outside the System or as part of it. The appointment of the governors of national central banks also constituted a major issue. Other unresolved matters included the name of the System, the legal status of national central banks and the balance sheet structure of the System;

- given the likelihood that not all countries might wish or be able to join the Monetary Union at the same time, the question arose of whether there should be coincidence between participation in the Union and participation in the European System of Central Banks. On the other hand, should it be assumed that all national central banks would participate in the System at the outset, whether or not they took part in the Union; this would imply that the System might have to cope with different arrangements according to the status of the various currencies. Moreover, some central banks might have restricted rights and obligations until they actually participated in the Union.

Mr. Rey mentioned that the informal ECOFIN meeting would take place on 7th and 8th September 1990 and that it was likely, according to the Italian Alternate, that the deadline for introducing documents for the preparation of the Intergovernmental Conference would be 8th October 1990.

Mr. Leigh-Pemberton considered that the timetable was extremely tight and that the Governors should try to secure a less strict deadline.

The Chairman agreed and felt that given the importance of the institutional changes within the Community no rushed or hasty decisions should be taken. It was agreed that the Chairman would make a report on the Committee's work on the draft Statute at the ECOFIN meeting in September 1990. This report would be along the lines of Mr. Rey's statement.

Before opening the discussion on the Articles, the Chairman made two preliminary remarks. Firstly, he felt that if no full agreement could be reached, the Governors should not try to seek compromises where fundamentally divergent views existed; rather the draft Statute should then contain brackets and options. Secondly, the Governors should see themselves not as representatives of their governments but as central bankers, and it was from this angle that the draft Statute should be prepared. The Governors should seek to design a concise System; without doubt the provisions would be weakened through the process of negotiation.

Mr. Doyle asked what form the final document would take when sent to the Intergovernmental Conference. The Chairman said that the text would certainly contain some commentary, especially with regard to the bracketed items. However, the comments need not necessarily be the same as those in the present draft. Mr. Leigh-Pemberton said that the Governors should be cautious in disclosing their comments and only those approved by the Committee of Governors should be included in the document sent to the Intergovernmental Conference.

CHAPTER I: CONSTITUTION

Article 1: The [ESCB][ECBS]

(a) Name of the System

The Chairman, in his capacity as the President of the Deutsche Bundesbank, said that the term ESCB was unacceptable and that he would prefer ECBS; the difference was one of substance.

Mr. de Larosière said that he favoured the original formulation used in the Delors Report, which had become a phrase widely used by the Ministers of Finance, parliaments and the media.

Following a suggestion by Mr. Leigh-Pemberton, the word "System" was adopted as a temporary solution.

(b) Participation

The Chairman considered that the word "participating" should refer to those national central banks which accepted the objectives and fulfilled the conditions of the System. In his view "participating" would mean that those countries had surrendered their right to use the exchange rate as a policy instrument.

Mr. de Larosière agreed with the Chairman but added that arrangements should be made for those countries which for transitional reasons, while fully accepting the objectives of EMU and having a clear intention to implement Stage Three, should also be considered participating countries even if they had to avail themselves of transitional arrangements. Naturally, there would have to be provisions regarding voting rights. A participating country should be defined by two criteria: firstly, it should fully accept all the objectives of the Union and, secondly, it should be committed to obtaining the objectives as soon as possible.

The Chairman said that a distinction had to be made between two groups of country, firstly, one whose government or parliament was not prepared to surrender its powers to a supra-national institution and, secondly, one which was not able to participate for the time being. Staggered participation was not a new concept in the context of the Community; for example, not all the members of the European Monetary System participated in the Exchange Rate Mechanism. He felt that some equivalent procedure needed to be established. It was necessary to define what rights and duties were required for a participating member.

The possibility of linking participation to share-ownership as a clear expression of ultimate political will was suggested by Mr. Jaans. However, some of the members felt that this might not necessarily provide the appropriate degree of commitment to Monetary Union and consequent loss of autonomy unless a distinction was drawn between types of share. Shares should only be allocated following an agreement to participate in the System. Mr. Jaans agreed that those countries which had not committed themselves to the objectives of Stage Three and its implementation should not participate, for example, in voting on monetary policy decisions; it was inconceivable that they should vote on interest rates.

It was agreed to delete the square brackets around the word "participation" and expand the comments to reflect the points raised in the discussion. The matter should be discussed again by the Alternates and reviewed at the next meeting.

(c) Central institution

It was agreed that the words "central body" should be replaced by "central institution".

CHAPTER II: OBJECTIVES AND TASKS

Article 2: Objectives

It was agreed to remove the square brackets around the word "Community" and to delete the reference to Union.

The brackets around Article 2.2 were removed, it being agreed that it would be more reasonable to keep this provision where it was rather than in Article 12 (Independence).

Article 2.3 was deleted, it being felt that this aspect was more appropriately dealt with under Article 3.1, seventh indent (see below).

Article 3: Tasks

(a) Article 3.1, second indent

With respect to the question of note issue, Mr. de Larosière sought confirmation that Article 3.1 allowed for the possibility that bank-notes could be issued by national central banks for some time at the beginning of Stage Three when parities were locked irreversibly and national currencies continued to circulate, and before a single currency was available. Progression towards the issue of notes of a single currency would take time.

The Chairman said that he could conceive of such a system at the beginning, but the amount of cash in circulation would have to be decided by the central institution.

Mr. de Larosière and Mr. Hoffmeyer felt that the demand for bank-notes would not necessarily be uniform throughout the Member States and could not be determined in advance by the central institution.

Mr. Leigh-Pemberton considered that the purpose of the provision had been to enable the System to issue bank-notes whereas the extent to which the System could do so would be governed by the primary objective of price stability.

Following an intervention by Mr. Doyle, who suggested that it would be more appropriate to deal with this aspect under Article 15, the reference to note issuance was deleted (see discussion of Article 15 below).

(b) Article 3.1, third and fourth indents

Following an observation by Mr. Duisenberg, who suggested replacing these indents with a single phrase "to conduct foreign exchange operations in accordance with the established exchange rate regime of the Community", Mr. Rey said that the Alternates had identified three general types of decisions relating to exchange rates. Firstly, the exchange rate regime which was normally decided by government, and which had to be notified to the IMF (i.e. floating exchange rates or fixed parities as in the EMS); secondly, the exchange rate policy which had little scope in the System similar to the EMS but was important in a floating regime. The text proposed by the Alternates tried to associate central banks with the formalisation of such policies; and, thirdly, the conduct of foreign exchange operations, which was clearly a central bank function.

The Chairman commented that he was not in favour of distinguishing between exchange rate regime and exchange rate policy, essentially because in practice this could result in government decisions to defend a certain exchange rate, which could prove to be inconsistent with monetary policy objectives.

Mr. de Larosière observed that the System could not completely abstract itself from the fact that the exchange rate was also a matter that concerned government. To make no allowance for the notion that the System should consult other relevant bodies about the formalisation of exchange rate policies went too far and would not be acceptable. For example, for the time being the established general rule was that devaluation or revaluation was the prerogative of the government. The word regime referred only to the nature of the system, i.e. whether it was fixed or floating. Thus the governments would lose any say about exchange rates except if they decided to change the regime.

Mr. Hoffmeyer considered that the word regime included exchange rate obligations and exchange rate orientations.

The Chairman said that the implementation of, for example, a G-7 agreement to stabilise volatile exchange rates was only possible in so far as it did not jeopardise the System's first priority of price stability.

Following further discussion, it was agreed to use a formulation proposed by Mr. Duisenberg, but substituting the word "established" with "prevailing" and including a reference to Article 4.3 which defined the notion of exchange rate regime. The agreed text reads as follows: "To conduct foreign exchange operations in accordance with the prevailing exchange rate regime of the Community as referred to in Article 4.3.".

(c) Article 3.1, fifth indent

The Chairman noted that the indent focused specifically on the question of ownership of foreign exchange reserves. It was pointed out that in some Member States such reserves were not owned by the national central bank but by the Treasury.

Mr. de Larosière observed that it was difficult to foresee how the reserves were to be pooled and how the obligation to pool reserves was to be formulated.

The Chairman said that a situation where the national authorities were still entitled to buy or sell foreign currency against national currencies should be avoided because of its effects on monetary policy.

Mr. Doyle was not in favour, at this juncture, of describing what constituted foreign exchange reserves owing to the extremely complex nature of the subject matter.

The Chairman concluded by suggesting that the Alternates reconsider this item and discuss the implications more fully. For instance, if there was a decision to pool all reserves then it would be rational for the System to be the only holder; if it was agreed to pool only part of them then the management should be in the hands of the central institution but it should not necessarily be the holders.

(d) Article 3.1, seventh indent

The majority of Governors agreed that a reference should be made to the concept contained in this indent, but that any suggestion that the System would undertake rescue operations in favour of individual banks should be avoided. However, it was recognised that measures might have to be taken in order to cope with sudden developments in the financial markets. It was agreed to change the word "preserve" to "support" and "integrity" to "stability". However, at the request of the Chairman, the square brackets around the indent were retained. It was agreed that the issue should be discussed further.

(e) Article 3.1, eighth indent

As national central banks and other supervisory authorities were becoming increasingly involved in other areas of supervision, such as insurance and securities operations, it was agreed to change the word "banking" to "prudential".

(f) Article 3.2

The value of such a provision was acknowledged, as it gave the System the possibility of assuming new tasks as and when circumstances required. In the absence of such a clause it might be necessary to resort to a Treaty amendment. It was agreed to change the word "initiative" to "proposal". Mr. Rey pointed out that this provision would also have to be inserted in the new Treaty.

<u>Article 4: Advisory functions</u>

(a) Article 4.1

To ensure that the System would always be consulted regarding draft Community legislation in the monetary, banking or financial fields the words "on the initiative of the Commission" were deleted.

(b) Article 4.2

Following a remark by Mr. Duisenberg, who considered that the ability to publish its opinion would add weight to the advice of the System, it was agreed to remove the last sentence from this article and make it a separate Article, Article 4.4.

(c) Article 4.3

Following the discussion of Article 3.1, third and fourth indents, the word "objectives" was changed to "policies".

Article 5: Collection of statistical information

Apart from the removal of the word "the" at the end of Article 5.1, no amendments were made.

Article 6: International co-operation

Mr. de Larosière said that, in the context of the IMF, it would seem logical under a single currency system to have one quota. However, this would be a complicated matter, because it was the national governments which were members of the IMF and not the central banks, but he felt that a single quota would better reflect the de facto situation.

It was decided that the Alternates should consider again the contents of this Article.

CHAPTER III: THE GOVERNING BODIES

Article 7: Decision-making bodies of the System

No amendments were made to this Article.

Article 8: Responsibilities of the governing bodies

Mr. Rey explained that in both options the Council would be the supreme body and would lay down decisions necessary for the performance of the tasks of the System. The difference started with the degree of specifity in the monetary policy tasks entrusted to the Council or to the Executive Board. Option A reflected a more centralised approach and Option B a decentralised one. In addition, there was the issue of residual powers. Under Option A such powers would rest with the Executive Board, under Option B they would lie with the Council.

Mr. Leigh-Pemberton said that if Option B was chosen it would always be within the discretion of the Council to delegate further powers to the Executive Board. If Option A was adopted, however, more functions would be delegated directly to the Executive Board and to retrieve those powers would require an amendment to the Articles, which would be a cumbersome process. As, therefore, the position of the Council was better preserved under Option B, he felt that this was the correct approach. Mr. de Larosière and Mr. Jaans also considered that Option B was politically more realistic. Mr. Hoffmeyer supported the adoption of Option B on the basis that it enabled the Council to delegate powers to the Executive Board and this he considered more appropriate and politically acceptable. Mr. Tavares Moreira advised against presenting two options and favoured the evolutionary approach of Option B. Mr. Ciampi favoured putting forward both options, leaving the final decision to be made at a political level.

At the suggestion of Mr. Doyle the final sentence of Article 8.1 of both options was changed to: "The Council may delegate such powers as it may specify to the Executive Board and may at its discretion revoke such powers".

The Chairman considered that neither Option A nor Option B was adequate because the Executive Board would be left virtually without any real powers. The System required some leadership, with the power to take initiative and make proposals. For this reason the System would work more efficiently if it had a strong Executive Board, a strong Chairman of the Board and representatives who were independent national central bank governors. The System implied in Article 8 was very loose and favoured decentralised operations which raised doubts about its ability to pursue a consistent monetary policy for the Community, owing to possible divergent interests of the national central bank governors represented on the Council. Therefore, he could accept neither option and would propose an alternative solution in due course. The question was whether there should be a very decentralised System with very powerful national central banks or a powerful, efficient European Central Bank.

Mr. de Larosière said that the issue did not concern the transposition of one particular existing national system; the matter had to be viewed separately from the national setting. He agreed that it was essential for the Governors of the Council to be independent; if the components of the System were independent and there existed a simple rule for voting, then the problem alluded to by the Chairman would not occur. He favoured keeping the two alternative versions and urged caution with respect to including a third proposal.

It was agreed to place Article 8 after Article 10.

Article 9: The Council

The order of the members of the Council in Article 9.1 was amended to give more emphasis to the Executive Board.

It was decided to introduce the provision of a quorum, and in the first sentence of Article 9.2 the words "take part in the voting" were changed to "have the right to vote".

Mr. Leigh-Pemberton thought it appropriate for each member to have one vote, it being understood that the central bank governors attended not as delegates of their country but as responsible central bank governors taking a corporate, objective view of Community monetary policy. A weighted vote would not be consistent with the spirit of co-operation. He observed that "one man one vote" would operate against his personal interests as the Governor of the Bank of England, in that his voting power would be considerably less than under a weighted voting scheme.

Mr. de Larosière observed that the acceptance of a "one man one vote" system was a major step. If the institution was not to be regarded as a representation of different intergovernmental alliances it would be more logical to have such a voting procedure. He said that in an organisation such as the IMF, whose membership consisted of a large number of countries, a system of "one man one vote" would have been totally impracticable. However, the situation was very different with regard to the System and a common monetary policy. One had to be careful, however, that there should be no abuse of the voting system. Weighted voting was a very political issue and could probably be resolved only in a political forum.

It was agreed to remove the square brackets from the third sentence of Article 9.2.

Article 10: The Executive Board

In Article 10.1 Mr. Tavares Moreira preferred to limit the number of other members to four. The Chairman supported three or four members. Mr. Leigh-Pemberton favoured three members and pointed out that this issue was again political, as the members would be seen acting independently and detached from national representation. The number of four was agreed as a compromise.

In Article 10.2, it was agreed that the President would be appointed for a period of eight years by the European Council and the words "after consultation with the European Parliament" be placed in square brackets. It was agreed that the President should not be re-appointed. The idea that the President was appointed on the proposal of the Council of the System was supported by Mr. Hoffmeyer, but several other governors felt that such a provision might raise difficulties.

In Article 10.3 it was agreed that the Vice-President and the other members of the Executive Board should be appointed by the European Council for a period of eight years and should be eligible for re-appointment once.

A new provision was introduced into the text which stated that with the exception of the President, no member of the Executive Board should hold office beyond the age of sixty-five.

Article 12: Independence

Article 12.2 was deleted (see Article 2 above).

Article 13: National central banks

Mr. Leigh-Pemberton felt that it would be unwise to go into great detail when referring to the compatibility of the statutes of the national central banks with the Statute of the System.

The Chairman, however, saw the issue of compatibility as an essential consideration. If the national central bank governors had neither the necessary degree of independence nor the same status as the members of the Executive Board, it would be very difficult to accept, for instance, the rule of "one man one vote" and, in particular, the proposal to give the Council the far-reaching powers envisaged in Article 8, Option B. He could not support the original formulation of the text, preferring the alternative version suggested by the German Alternate.

Following a discussion, Articles 13.1 and 13.2 of the alternative version and Articles 13.3 and 13.4 of the original text were used as the basis for discussion.

To strengthen the text, the first sentence of Article 13.1 was made into a separate provision and the words "[adapted to]" deleted. The contents of the remainder of the Article (which on redrafting became Article 13.3) were endorsed.

In Article 13.2, it was agreed that the national central bank governors should be appointed by the respective national authority following consultation with the Council of the System and not, as suggested, by the Council on a proposal of the Member State. The concepts expressed in the remainder of the Article were supported, in particular, that the term of appointment for a Governor or President would be no less than five years.

Referring to the principle of subsidiarity and in the context of Articles 13.3 and 13.4, Mr. de Larosière said that the execution of some of the tasks of the System should remain entrusted to national central banks on terms the System shall lay down. He said that the Governors should avoid creating a super central bank that would perform every function. This view was supported by Mr. Leigh-Pemberton.

The Chairman agreed and said that this implied a Council and Executive Board without a large number of operational and supporting staff and with the national central banks acting as an operational arm of the Council. The Secretariat was asked to improve the clarity of Articles 13.3 and 13.4 in order to reflect these observations.

Article 14: Inter-institutional co-operation

Mr. Doyle considered that the last sentence of Article 14.3 was a matter for the European Parliament and not the System. He also considered that the System could not insist that the President should be invited to participate in meetings of the European Council. However, the Chairman and some other members felt that it was desirable to retain the provision, partly for psychological reasons and especially in the context of accountability. Mr. Leigh-Pemberton considered that there would be no harm including it, even if it were to be deleted at a latter stage for constitutional reasons.

It was agreed to remove the square brackets from the final sentence of Article 14.3.

With respect to Article 14.4, Mr. Duisenberg felt that he could not accept the notion of accountability to the Dutch national Parliament.

Mr. Leigh-Pemberton considered that the provisions could be interpreted as permissive and not as a command to appear before national parliaments. At the same time, there was a technical issue regarding the President, Vice-President and the members of the Executive Board, who are the full-time employees of the System and, to that extent, supposedly not subject to the jurisdiction of national parliaments. If it was agreed to countenance their appearance before national parliaments, a permissive provision would be required. The Chairman suggested that the principle of subsidiarity should prevail and the decision left to national legislation; Section 14.4 was deleted from the Article.

CHAPTER IV: OPERATIONS

Mr. Rey pointed out that the Alternates had not yet discussed fully the provisions of the Chapter which might, in due time, be referred to the Monetary Policy Sub-Committee for examination. The Governors only briefly examined this Chapter.

Mr. de Larosière said that he would not wish to restrict the number of the monetary policy instruments available to the System which, for example, should include the possibility of imposing minimum reserves. This did not mean that all available instruments would always be used but that a number of diverse instruments should be at the disposal of the System.

The Chairman thought that this was not an insoluble problem.

With respect to the issue of bank-notes (Article 15.1), the Committee agreed that at the start of Stage Three national central banks should for a time be able to issue notes before a single currency is introduced (see the discussion on Article 3.1, second indent). With respect to the issue of coin (Article 15.2), it was felt that it was acceptable to leave the responsibility with the competent authorities.

Mr. Leigh-Pemberton asked that some commercial banks in the United Kingdom, which at present issued bank-notes although they were not legal tender technically, be allowed to continue to do so. The Chairman regarded this as a technical matter.

CONCLUSION

The Chairman said that it would be premature to present the draft Statute to the ECOFIN Council in September 1990. He would report to the

ECOFIN meeting in Rome on the work that the Committee had undertaken so far.

Mr. de Larosière suggested considering the possibility of transmitting some parts of the draft Statute in order to indicate that the Committee's thinking was already well advanced and to forestall any criticism that the Governors could not agree, thereby encouraging competitors. He emphasised that it was important not to lose the momentum behind the work in progress.

The Chairman expressed a preference for an oral report in which he would stress that the Committee of Governors had already made considerable progress but also that there were still some open questions which had to be discussed. He would also indicate that a legal text would be provided within a relatively short period of time. The tone of the statement would be very positive.

Asked to comment on the degree of urgency surrounding the submission of papers and working documents to the Intergovernmental Conference, Mr. Ravasio replied that this depended on the intentions of the Italian Presidency. If it was the intention to have everything ready by 8th November 1990 then there was real urgency. He also indicated that the possibility could not be excluded that the Commission would prepare at the end of August 1990 a document similar to that presented at Ashford Castle.

Mr. Duisenberg thought that the Monetary Committee had so much work that it would be unlikely to be in a position to discuss the legal texts.

The Chairman took note of what Mr. Ravasio had said but thought that it would be regrettable if other institutions competed with the work of the Committee of Governors. He added that he was sceptical with regard to the urgency and felt that the Monetary Committee should accept some division of labour and should concentrate on other aspects of the Conference than those dealt with by the Committee of Governors.

In concluding the Chairman made two comments. Firstly, it was clear that there was a very high degree of unity. Secondly, everything achieved so far, the details and the results, should remain confidential.

VIII. 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 June and the first few days of July 1990

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

IX. Other matters falling within the competence of the Committee

The Chairman mentioned that he had wished to raise the general question of the expenses of the Secretariat, but given the time constraints he would consider raising the issue at the next meeting based on a report by Mr. Baer.

X. Date and place of next meeting

The Committee's next meeting would be held in Basle on Tuesday, 11th September 1990 at 9.30 a.m.

247th MEETING OF THE COMMITTEE OF GOVERNORS

10TH JULY 1990

Those present were:

Chairman of the Committee of Governors	Mr. Pöhl
Banque Nationale de Belgique	Mr. Verplaetse Mr. Rey Mr. Michielsen
Danmarks Nationalbank	Mr. Hoffmeyer Mr. Mikkelsen
Deutsche Bundesbank	Mr. Tietmeyer Mr. Rieke
Bank of Greece	Mr. Chalikias Mr. Papademos Mr. Karamouzis
Banco de España	Mr. Rubio Mr. Linde Mr. Durán
Banque de France	Mr. de Larosière Mr. Lagayette Mr. Cappanera
Central Bank of Ireland	Mr. Doyle Mr. O'Grady Walshe Mr. Reynolds
Banca d'Italia	Mr. Ciampi Mr. Dini Mr. Santini
Institut Monétaire Luxembourgeois	Mr. Jaans
Nederlandsche Bank	Mr. Duisenberg Mr. Szász Mr. Boot
Banco de Portugal	Mr. Tavares Moreira Mr. Borges Mr. Amorim
Bank of England	Mr. Leigh-Pemberton Mr. Crockett Mr. Price
Commission of the European Communities	Mr. Ravasio
Chairman of the Monetary Policy Sub-Committee	Mr. Raymond
Chairman of the Foreign Exchange Sub-Committee	Mr. Dalgaard
Secretariat of the Committee of Governors	Mr. Baer Mr. Scheller Mr. Giles

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

Annex

3rd July 1990

Committee of Alternates

DRAFT STATUTE OF THE [EUROPEAN SYSTEM OF CENTRAL BANKS] [EUROPEAN CENTRAL BANK SYSTEM]

Articles and Comments

CHAPTER I - CONSTITUTION

Article 1 - The [ESCB][ECBS]

A [European System of Central Banks] [European Central Bank System], consisting of the [participating] central banks of the Members States of the Community (hereinafter "national central banks") and a [central body] is hereby established.

For the purpose of this Statute, the Institut Monétaire Luxembourgeois shall be regarded as a national central bank.

CHAPTER II - OBJECTIVES AND TASKS

Article 2 - Objectives

2.1. The primary objective of the ESCB shall be to maintain price stability within the [Community] [Union].

[2.2. Without prejudice to the objective of price stability, the ESCB shall support the general economic policy of the [Community] [Union].]

[2.3. A further objective of the ESCB shall be to preserve the integrity of the financial system.]

2.4. In exercising its functions, the ESCB shall act consistently with free and competitive markets.

Article 3 - Tasks

3.1. The basic tasks of the ESCB shall be:

- to formulate and implement the monetary policy of the Community;
- to determine the supply of money and credit and to issue notes [and coins] which shall circulate as means of payment within the Community;

[- to formulate in consultation with the other relevant bodies of the Community the exchange rate policy of the Community in accordance with the established exchange rate regime];

- to conduct foreign exchange operations;
- to hold and manage [the] official foreign reserves [of the Community];
- to ensure the smooth operation of the payment system;

[- to preserve the integrity of the financial system];

[- to participate as necessary in the formulation and execution of policies relating to banking supervision].

[3.2. Following an initiative by the ESCB, other tasks may be conferred by a decision of the Council of the European Communities in order to promote the primary objectives of EMU whilst respecting the objectives contained in Article 2 of the present Statute.]

Article 4 - Advisory functions

4.1. The ESCB shall be consulted on the initiative of the Commission regarding any draft Community legislation in the monetary, banking or financial field.

4.2. The ESCB may give opinions to any Community or national authority on matters within its field of competence. The ESCB may publish its opinion.

4.3. The ESCB shall be consulted with a view to reaching consensus prior to any decision relating to the exchange rate regime of the Community, including, in particular, the adoption, abandonment or change in central rates or exchange rate objectives vis-à-vis third currencies. [Opinions in accordance with Article 4.3. shall be published unless it is contrary to the best interests of the Community.]

Article 5 - Collection of statistical information

5.1. In order to perform its functions, the ESCB shall collect the necessary information either from the competent national authorities or directly from economic agents. For these purposes, it shall co-operate with the competent authorities of the Community, the Member States or non-member States and with international organisations.

5.2. The national central banks shall carry out, to the extent possible, the tasks described in Article 5.1. The central body shall promote the harmonisation, where necessary, of the conditions governing the collection, compilation and distribution of statistics in the areas within its field of competence.

5.3. The ESCB shall exercise this task and respect the confidentiality of information it receives in accordance with the relevant provisions of Community law.

Article 6 - International co-operation

[6.1. The ESCB shall participate in actions and institutions involving international monetary or central bank co-operation.]

[6.2. The modalities of this participation shall be in accordance with decisions to be taken by the Council of the ESCB which shall specify in each case the respective roles of the national central banks and the central body.]

[6.3. When representing the ESCB, the national central banks act in accordance with the views of the Council and the Executive Board.]

CHAPTER III - THE GOVERNING BODIES

Article 7 - Decision-making bodies of the ESCB

7.1. The decision-making bodies of the ESCB shall be the Council and the Executive Board.

7.2. The President, or, in his absence, the Vice President shall chair these bodies.

7.3. The President or his nominee shall represent the ESCB externally.

Article 8 - Responsibilities of the governing bodies

OPTION A

8.1. The Council shall take the decisions necessary for the performance of tasks entrusted to the ESCB under the present Statute.
The Council shall formulate the monetary policy of the Community. It shall give the Executive Board the necessary guidelines for the implementation of monetary policy.

(See Article 8.2, last sentence, Option A)

The Council may delegate such powers as it may specify to the Executive Board.

8.2. The Executive Board shall be responsible for implementing the policy decisions entrusted to it by the Council and shall give the necessary instructions to

OPTION B

8.1. The Council shall take the decisions necessary for the performance of tasks entrusted to the ESCB under the present Statute.
The Council shall formulate the monetary policy of the Community and fix the rates, terms and conditions for discounting, advances, loans and other operations which the ESCB undertakes with credit institutions and in the market. It shall give the Executive Board the necessary instructions for implementing monetary policy.
The Council shall act on all matters not expressly reserved for the Executive Board by this Statute or the Rules of Procedure.
The Council may delegate such powers as it may specify to the Executive Board.

8.2. The Executive Board shall be responsible for implementing the policy decisions laid down by the Council and shall give the necessary instructions to national central banks.

national central banks. In so doing, it shall be empowered to fix the rates, terms and conditions for discounting, advances, loans and other operations which the ESCB undertakes with credit institutions and in the market. It shall act in accordance with the Council's guidelines.	It shall act in accordance with the Council's instructions.
The Executive Board shall have responsibility for the preparation of the meetings of the Council. It shall be responsible for administering the central body.	The Executive Board shall be responsible for the preparation of the meetings of the Council. It shall be responsible for administering the central body.
The Executive Board shall act on all matters not expressly reserved for the Council by the Statutes or the Rules of Procedure.	
8.3. The Council shall meet no less than [10] times a year.	8.3. The Council shall meet [every two weeks]. [When an emergency arises and the Council is unable to meet, the Executive Board shall take the decisions necessary for the performance of the tasks entrusted to the ESCB under the present Statutes. It shall report to the Council, at its next meeting, on the decisions taken pursuant to this sub-paragraph.]

Article 9 - The Council

9.1. The Council shall comprise the President of the ESCB, the Governors of the central banks of the Member States of the Community, and the other members of the Executive Board.

9.2. [All] members of the Council present in person shall take part in the voting. Each member has [one vote] [a weighted vote]. [Save as otherwise provided in the Statutes, the Council shall act by a simple majority.] In the event of a tie, the President shall have the casting vote.

[9.3. When weighted voting applies, the governors' votes shall be based on the capital share of their respective national central bank.]

9.4. The proceedings of the meetings shall be confidential. The Council may decide to make the outcome of its deliberations public.

Article 10 - The Executive Board

10.1. The Executive Board shall comprise the President, the Vice-President, and [3] [4] [5] other members.

The members of the Executive Board shall be selected among persons of recognised standing and professional experience in monetary or banking matters.

The members shall perform their duties on a full-time basis. No member shall, without approval of the Board, receive a salary or other form of compensation from any source other than the ESCB or occupy any other office or employment, whether remunerated or not, except as a nominee of the ESCB.

10.2. The President shall be appointed for a period of [5] [8] years by the [European Council] [Council of the European Communities], after the Council of the ESCB has given its opinion, which shall be confidential, and after consultation with the European Parliament. The President may [be reappointed once] [not be reappointed].

10.3. The Vice-President and the other members of the Executive Board shall be appointed, for a period of [5] [8] years by the [European Council] [Council of the European Communities] on a proposal from the [Council of the ESCB]. [They may be re-appointed once.] [They may not be re-appointed.]

10.4. Legal status of the members of the Executive Board (details to be given).

[10.5. All members of the Executive Board present in person shall take part in the voting and shall have, for that purpose, one vote. Save as otherwise provided in the Statute, the Executive Board shall act by a simple majority of the votes cast. In the event of a tie, the President shall have the casting vote. The voting arrangements will be specified in the Rules of Procedure.]

Article 11 - [Permanent central body staff]

(Details to be given).

Article 12 - Independence

12.1. In exercising the powers and performing the duties conferred upon them by the Treaty and this Statute, the ESCB and the members of its decision-making bodies may neither seek nor receive any instructions from Community institutions, national governments or any other body.

[12.2. Without prejudice to the primary objective of the ESCB, referred to in Article 2.1 of the present Statute, the ESCB shall support the general economic policy of the Community.]

Article 13 - National central banks

13.1. The statutes of the national central banks must be compatible with this Statute. [The statutes of the national central banks shall stipulate that the term of office of the Governor or President will be no less than [5] years.] [A national central bank Governor or President may be relieved from duty by the national authority but a decision to that effect must be submitted to the Council of the European Communities for approval.]

13.2. The national central banks shall act in accordance with the policies of the ESCB to the extent necessary for the latter to exercise its powers.

The Council shall take the necessary steps to ensure compliance by the national central banks with the obligations incumbent upon them and in this respect it shall be given all relevant information.

[13.3. The Executive Board [may] [shall usually] entrust the execution of its tasks to national central banks on the terms it shall lay down.]

[13.4. National central banks may continue to perform tasks other than those described in the Statute of the ESCB provided they are not in contradiction with the objectives and functioning of the ESCB. These activities shall not be regarded as being part of the ESCB. The national central banks may undertake new tasks subject to the prior approval of the Council of the ESCB.]

Article 13 - National central banks - Alternative Version

13.1. The statutes of national central banks must be [made compatible with] [adapted to] this Statute so as to ensure that they are an integral part of the ESCB. The national central banks shall act in accordance with the policy guidelines and instructions of the Council or Executive Board.

The Council shall take the necessary steps to ensure compliance with its policy guidelines and instructions, and shall require that any necessary information be given to it.

13.2. In particular, the statutes must provide that the Governor of a national central bank is appointed by the Council on a proposal of the Member State.

The statutes of the national central banks shall stipulate that the term of office of the Governor or President will be no less than [5] years and that he may only be relieved from duty for serious cause resting in his person. A decision to this effect must be submitted to the European Council for approval.

Article 14 - Inter-institutional co-operation

14.1. The President of the Council of the European Communities (ECOFIN) and a Member of the Commission may attend meetings of the Council. They may take part in the Council's deliberations but not in the voting.

14.2. The President of the ESCB shall be invited to participate in meetings of the European Council and Council of Ministers when matters relating to the ESCB's objectives and tasks are discussed.

14.3. The ESCB shall draw up an annual report on its activities and on the monetary policy of both the previous and current year. This annual report shall be transmitted to the European Council, the Council of the European Communities and the European Parliament. The President of the ESCB may present the annual report before these institutions. The President [and members of the Executive Board] may attend meetings of the European Parliament's specialised committees, if circumstances justify.

[14.4. Members of the Council may be authorised to appear before national parliaments.]

CHAPTER IV - OPERATIONS

Article 15 - Notes [and coins]

15.1. As provided by the Treaty, the ESCB shall have the exclusive right within the union to issue notes [and coins] in the Community.

15.2. Except for a transitional period during which notes [and coins] denominated in national currency can circulate alongside the Community currency, the latter shall be the only legal tender.