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INSTITUT MONETAIRE LUXEMBOURGEOIS

Answers to the questionnaire on

HARMONISING BROAD MONETARY AGGREGATES

The answers of the Institut Monétaire Luxembourgeois to the questionnaire on "Harmonising Broad Monetary Aggregates" are to a large extent given on the ground of conceptual or theoretical considerations. This means, for instance, that the acceptance of a particular definition of an aggregate does not necessarily imply that this aggregate could be constructed and measured in practice on the basis of existing statistical data. Thus, any harmonised aggregate would almost certainly entail changes to be made within the existing reporting system and the need to be tested against desired properties.

I.   Aggregate composition

The categorisation put forward by the Economic Unit appears to be adequate as a basis to proceed. As a matter of fact, freedom of capital movements as well as increasing substitutability of currencies calls for definitions of aggregates that are sufficiently comprehensive to include most if not all of the financial assets listed in the appendix of the questionnaire.

At present, the broadest monetary aggregate being considered by the Institut Monétaire Luxembourgeois is M2. Data for M2, as well as data for narrower aggregates, are compiled on a quarterly basis. The Luxembourg M2 aggregate comprises only a limited number of elements whose definitions and share-of-GDP figures have been provided earlier for the Raymond Group's "Special report on a common framework for the monitoring of monetary policies". When contemplating the use that is made of the Luxembourg monetary statistics one has to bear in mind the small size of the country, the extreme openness of its economy and some peculiarities arising from the monetary association with Belgium. The combination of these features implies that monetary policy as such, i.e., the attainment of final goals via the control of the monetary stock becomes irrelevant. Therefore, data on any aggregates are essentially meant to provide information on monetary developments, but they do not serve as an indicator or even a trigger for any monetary policy action. The current definitions of monetary aggregates seem to be adequate for the purpose of providing the basic information that is requested. No changes are presently planned. It appears to be logical, however, that if a certain harmonisation within the EC is to be achieved, a number of changes will have to be introduced. Preferably this should be done with due regard to the changes that will also be introduced into the reporting system in the context of harmonised supervision.

On the question whether narrower aggregates should also be labeled consistently, the answer would be yes. Firstly, from a formal point of view, this would be a rather easier task to accomplish than the harmonisation of broad aggregates with the additional advantage of having a common aggregate already at an early stage. Secondly, and more importantly, narrow aggregates - albeit less "fashionable" in recent years - keep exhibiting a high degree of stability in demand for money functions. This is particularly true in the case of demand for M1 in the countries participating in the exchange rate

mechanism of the EMS as evidenced in a recent study by
Kremers and Lane ("Economic and Monetary Integration and the
Aggregate Demand for Money in the EMS"; IMF Staff Papers Vol.
37, No. 4, December 1990). Consequently, narrow aggregates
should not be discarded and at least be considered as a
valuable complement to broader aggregates in monetary
analysis. Consistent labeling would thus be desirable.

II. Maturity thresholds

Maturity thresholds may not be relevant for the distinction
between monetary and non-monetary assets in all cases; a
particular asset that used to be considered as non-monetary
in the past may at present be considered as monetary
irrespective of its maturity. However, for the purpose of
determining the allocation of assets to specific aggregates,
maturity thresholds are generally relevant. For the sake of
harmonisation it seems to be advisable to adopt common
thresholds across countries for all asset categories. The
concept of residual maturities would entail the least
difficulties in implementing changes to the Luxembourg
reporting system.

III. Issuing and holding sectors

The approach chosen by the Institut Monétaire Luxembourgeois
to classify institutions between the money issuing and
holding sectors is to reflect in a simple way the most
obvious links between money and spending. Therefore, the
issuing sector comprises the monetary authorities and the
banks, whereas the holding sector is confined to non-bank
enterprises and households. Monetary assets of UCITS are
excluded, while those of pension funds and insurance
companies are included insofar as they represent bank
liabilities. The exclusion of UCITS appears to be sensible
in the light of their predominantly off-shore nature as well

as the height of their total net assets. The public sector as a whole is excluded from the Luxembourg monetary statistics.

IV. International criteria

The criterion of residence of the holder seems to be the most appropriate one if omissions and duplications are to be avoided. A resident is a "personne physique ou morale ayant son domicile ou sa résidence habituelle au Grand-Duché de Luxembourg sans distinction de nationalité". If all liquid assets held by residents with both home and foreign banks, whatever the currency of denomination, were to be recorded for a community wide aggregate, national statistics would need to be supplemented by others; a reasonably good start would be the BIS statistics on international banking activities, although a certain refinement would be needed later on.

A partial application of the residence-of-the-holder criterion, e.g., deriving an aggregate limited to EC residents' monetary holdings within the EC could, from a conceptual point of view, have a certain usefulness under the - probably realistic - assumption that financial assets held outside a country (in this case the Community) may be less closely related to spending than assets held within that country. Statistical short-comings could only be lifted in the medium term.

V. Economic properties

Ideally any monetary aggregate should display the economic properties of stability, leading indicator and controllability at the same time. Since, however, trade-offs have to be accepted, the preference - for the sake of efficiency of monetary policy - should be accorded in decreasing order to stability, then controllability and

finally the leading indicator property.

A lack of empirical knowledge about economic properties of
monetary aggregates does not allow for further considerations
on this matter. The evolution of aggregates generally
reflects liquidity preferences based on interest rate (and
exchange rate) patterns rather than monetary policy options.