

Confidential

10th December 1990

Revised

"Leitfaden" for the meeting of the Committee of Governors
on Tuesday, 11th December 1990

I. Approval of the minutes

Issue: Routine matter

II. Mandates for the Monetary Policy and the Foreign Exchange Policy
Sub-Committees and establishment of the Committee on Financial
Matters

Issue: Mandates for the two existing sub-committees need to be defined in accordance with Article 8.5 of the Rules of Procedure: draft mandates have been drawn up by the Secretariat; texts were agreed by Alternates.

The Committee on Financial Matters needs to be established; a draft mandate has been agreed by the Alternates; a limit of ecu 20,000 non-recurrent expenditure to be authorised by the Chairman of the Committee of Governors is recommended.

Procedure: invite M. Rey to report on the Alternates' discussion.

Action: Ask Committee for approval of mandates; the members of the Committee on Financial Matters need to be appointed.

III. Exchange rate arrangements with third countries

Issue: The Norwegian krone has been pegged to the ecu since 22nd October 1990; the Norwegian authorities have asked for bilateral swaps with EEC central banks; the questions arising in this context were examined by the Foreign Exchange Policy Sub-Committee in Report No. 3, which was

circulated on 4th December 1990; as regards the open questions, the Alternates recommend an overall amount of ecu 2 billion; the distribution in accordance with a key averaging ecu weights and percentage shares in the Very Short-term Monetary Support Arrangement; the entry into force on 1st January 1991; and publication of slightly revised press release; moreover, all EEC central banks appear to be willing to participate in the swap arrangements.

Achtung: Commission may object because Monetary Committee has not been consulted (see Attachment 1).

Procedure: Invite M. Rey to report on the Alternates' discussion, possibly also Mr. Dalgaard.

Action: Decision is to be taken, on the total amount of the swap arrangements and distribution among EEC central banks, starting date and press release.

IV. Issues relating to EMS Agreement

Issue: Three items:

- Principles concerning prior agreement on interventions in Community currencies: a draft statement of principles was prepared in May; Alternates' discussion indicated that apart from Spain, also France and Italy have reservations; Foreign Exchange Policy Sub-Committee has been asked to study the concrete problems which have arisen with regard to prior authorisation.
- Extension of EMS revolving swap mechanism: the present mechanism expires on 13th March 1991 and a decision needs to be taken to review it for a further two-year period; the (minimally changed) procedure proposed by the Secretariat follows that used on previous occasions; thus routine matter.
- Intervention hours:

Issue: At present, ERM central banks withdraw from markets at 4.00 p.m. (Brussels time); following the United Kingdom's entry into the ERM, the Foreign Exchange Policy Sub-Committee

recommends extending the intervention hours to 5.00 p.m. This is also relevant for realignments as the procedure is to be triggered at that hour at the latest. ECOFIN Council and/or the Monetary Committee need to be informed of the Governors' decision; concertation hours will not be changed.

Procedure: Invite M. Rey to report on the Alternates' discussion; also invite Mr. Dalgaard to report on his sub-committee's discussion on "intervention hours".

Action: The Committee of Governors should take decisions on last two items and, in addition, be informed that you send letters to the President of the ECOFIN Council and/or the Chairman of the Monetary Committee (for draft letter on intervention hours see Attachment 2).

- V. Monitoring
- VI. Report to Ministers and
- VII. Common framework for the monitoring

(These three Agenda items should be discussed together.)

Issue: The two main issues dealt with in the context of monitoring relate to the prospects for the US dollar (views differed about the risks for a further substantial decline) and the situation in the EMS (where German interest rate developments are considered a problem by countries with weakening economic activity); Report to Ministers is routine matter; first ex ante exercise of monetary policy co-ordination was carried out by the Monetary Policy Sub-Committee in October 1990 and the Report No. 1 was discussed by the Alternates in November 1990; recommendations were to continue with non-accommodating monetary policy stance in the face of the oil shock; forecasts point towards some further convergence of inflation rates (although slight rise in average inflation of original narrow band members); but these results contingent on better policy mix and no further external shocks; on the whole the Report perhaps too optimistic about the cyclical situation in 1991. The two main questions might be: is there agreement on an overall non-accommodating policy stance? What and

where are major risks (weakening of economic activity, overburdening of monetary policy)?

Report No. 1 took account to some extent of paper on "Assessing the mutual compatibility of national monetary policies" prepared by the Economic Unit; this paper was discussed by the Alternates in September; while welcomed also recommendation to focus more on harmonisation of aggregates and analysis of counterparts to money; on both topics preliminary notes have been - or are being - prepared by the Economic Unit. There is no need for discussion by Governors at this moment.

Procedure: Invite, firstly, Mr. Dalgaard to report on the Monitoring, then M. Raymond on ex ante consultation, then M. Rey on Alternates' discussion.

Action: Decision of the Committee is needed as to:

- whether Sub-committee Report should be transmitted (at all? After removal of sensitive information? Unchanged?) to Monetary Committee;
- the procedure for ex post exercises (three or four times a year).

VIII. Economic and Monetary Union

Issue: UK hard ecu proposal was discussed by the Alternates at a special meeting of Alternates in mid-October 1990; M. Rey's report has been circulated; general view of Alternates rather negative; but question about French attitude, which according to statements by Bérégovoy and de Larosière, has become more sympathetic to the proposal; also Bank of Spain has recently suggested to ask the Foreign Exchange Policy Sub-Committee and the Economic Unit to undertake a technical study on the hardening of the ecu.

The follow-up of the informal ECOFIN and the future work programme relating to the draft Statute should set priorities regarding transitional provisions, income distribution, other technical and legal aspects, but also address the organisational question of how the Committee of Governors should ensure its involvement in the Intergovernmental Conference.

Procedure: Invite M. Rey to report on the Alternates' discussion.

Action: Decision by Committee on work programme would be desirable.

IX. Other matters

Issue: As regards the ecu clearing, the Committee is to take note that the BIS Board has authorised the BIS to conclude with the Ecu Banking Association a revised agreement. The main changes involve the establishment of an intermediation facility and changes in criteria for admission of new clearing banks.

Procedure: You may ask M. Rey whether he has a comment.

Issue: Annual Report: in accordance with Article 4 of the Council Decision on EEC central bank co-operation, the Committee of Governors "shall prepare an annual report on its activities and on the monetary and financial conditions in the Community, which will be transmitted to the European Parliament, the Council of Ministers and the European Council".

Action: A decision on when to prepare the Annual Report should be taken.