

SOME SUGGESTIONS FOR THE FIRST ANNUAL REPORT  
BY THE COMMITTEE OF GOVERNORS

INTRODUCTION

According to the Council Decision of 12th March 1990 "The Committee of Governors shall prepare an annual report of 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."

This note presents some preliminary ideas on what could be the focal-point, structure and content of the First Annual Report by the Committee of Governors. Nevertheless, its final structure, length and ambitiousness will depend very much on the public impact that the Governors would like the Annual Report (AR) to have. Section I of the note succinctly compares the annual reports of major international economic institutions and central banks, Section II suggests ways of differentiating the AR from others, and Section III presents a highly preliminary table of contents.

I A COMPARISON OF ANNUAL REPORTS

The attached table compares several annual reports produced by international economic institutions and by central banks, both inside and outside the Community. The report by the European Commission is the one which comes somewhat closer in spirit and geographical coverage to the AR. Nevertheless, the Commission report pays relatively little attention to Community-wide monetary and financial issues.

II DIFFERENTIATING THE ANNUAL REPORT

The higher profile of the Committee of Governors from the start of Stage One and the existing proliferation of annual reports by international economic institutions and central banks requires that the Annual Report be a well-differentiated product. To this end, the following aspects might be emphasised in the AR.

INSTITUTION	APPROXIMATE DATE OF RELEASE	ECONOMIC REPORT	ECONOMIC STATISTICAL ANNEX	REPORT ON OWN INSTITUTIONAL ACTIVITIES	REMARKS ON ECONOMIC REPORT
<u>A. International Organisations</u>					
1. IMF	August	60 pages	No	117 pages	- Very general but sketchy. - Most interesting information is provided in World Economic Outlook (October, May).
2. OECD	December (previous year)	104 pages (of which 58 pages of individual country analyses)	90 pages	No	- Forward-looking. - Rather short on monetary policy. - Uses projections for the current and future years.
3. BIS	June	212 pages	No	No	- Very complete and thorough. - Focuses on monetary and financial developments. - Covers financial year (1st April to 31st March).
4. European Commission	December (previous year)	28 pages (accompanied by 45 pages of individual country analyses)	74 pages	No	- Forward-looking. - Sketchy on EC-Community-wide analysis. - Sketchy on monetary and financial developments. - Both short and medium-term analysis. - Uses projections for current and future years. - Adds conceptual studies on specific issues, often not too integrated with content of the report.
<u>B. Central Banks Outside of the EEC</u>					
5. Federal Reserve Board	May	25 pages	No	140 pages	- Very sketchy. - Adds previous reports to Congress as a source of additional information.
6. Bank of Canada	February	35 pages	No	14 pages	- Rather sketchy.
<u>C. Central Banks Inside of the EEC</u>					
7. Deutsche Bundesbank	April	76 pages	No	28 pages	- Very comprehensive on both economic and financial developments.
8. Bank of England	May	2 pages	No	23 pages	- Not really an economic report. - Relevant economic material contained in Quarterly Bulletin.
9. Banque de France	March	84 pages	30 pages (financial only)	40 pages	- Very comprehensive on both economic and financial developments.
10. Banca d'Italia	June	142 pages	36 pages	13 pages	- Very comprehensive on both economic and financial developments.
11. Banco de España	May	126 pages	325 pages	35 pages	- Very comprehensive on both economic and financial developments. - Very extensive statistical annex.
12. Banque Nat. de Belgique	February	88 pages	30 pages	44 pages	- Very comprehensive on both economic and financial developments.
13. De Nederlandsche Bank	April	126 pages	23 pages (financial only)	32 pages	- Very comprehensive on both economic and financial developments.
14. Danmarks Nationalbank	February	56 pages	55 pages (financial only)	28 pages	- Most emphasis on monetary and financial developments, and very little on economic developments.
15. Central Bank of Ireland	May	24 pages	85 pages (financial mostly)	36 pages	- Rather sketchy.
16. I.M.L.	June	43 pages (financial only)	No	16 pages	- Report exclusively on financial developments.
17. Banco de Portugal	February	72 pages	63 pages	58 pages	- Very comprehensive on both economic and financial developments.
18. Bank of Greece	April	100 pages	No	1 page	- Very comprehensive on both economic and financial developments.

1. Current work done by the Committee of Governors

As stated in the Council Decision, the AR should concentrate on the work done by the Committee of Governors, and consequently focus on, monetary, financial and exchange rate developments in the Community. A decision, nevertheless, remains to be made regarding how the available documents, notes and reports by the Committee of Alternates, the Sub-Committees, the Secretariat, and the Economic Unit, should be used when preparing the AR (see Section III of this note for suggestions on how to integrate the work of these various bodies in the Annual Report).

2. Community-wide dimension

At present only the annual report by the European Commission follows this approach. However, somewhat surprisingly, their treatment of Community-wide issues is rather less developed than their country-by-country analysis. Instead of going into country-by-country analysis, the AR should emphasise the issues raised by the co-ordination of monetary policies at the EC-level and their subsequent effects on economic convergence.

3. Medium-term perspective

Many existing annual reports simply focus on reviewing major economic developments during the previous year without making a clear connection with medium-term trends. In the AR, the analysis of the previous year should, whenever possible, be put into a medium-term context for the following reasons: firstly, the need to explain what has changed since the start of Stage One (e.g. monetary policy co-ordination) and how developments fit in with further progress towards EMU (e.g. convergence); secondly, the medium-term aims of the co-ordination of monetary policies; and thirdly, the fact that it is the first AR.

4. Structure and activities of the Committee of Governors

Since this is the first AR, it is important to lay out in detail the structure of the Committee of Governors and the mandates of their different sections. (This will not be needed in future reports unless there are significant modifications in the structure of the Committee.) Moreover, there should be an account of the activities of the Committee of Governors.

5. Annexes

- (a) It will be useful to present a statistical annex in a clear and "user-friendly" format providing detailed information on the evolution of monetary and financial variables, together with rather more general information on the evolution of economic variables. To emphasise the Community dimension, the presentation could take the form of cross-country tables.
- (b) It may also be useful to include a compact chronological summary of the major decisions taken by Member States concerning their national monetary policies during the relevant period (e.g. changes in official interest rates, changes in intermediate monetary variables, changes in monetary policy instruments, entrance into ERM, etc..).

III PRELIMINARY TABLE OF CONTENTS FOR THE ANNUAL REPORT

A. ECONOMIC REPORT

PART 1: THE ECONOMY OF THE COMMUNITY SINCE THE START OF STAGE ONE.

Chapter I. **Challenges posed by Stage One: the need for co-ordination**

- (a) Brief antecedents of Stage One.
- (b) Economic implications of Stage One for monetary policy and for economic performance in the Community (resulting from the increasing integration of goods and financial markets).
- (c) The role of the Committee of Governors in Stage One: promoting the co-ordination of national monetary policies of Member States with the aim of achieving price stability (make brief reference to the structure of the Committee of Governors).

Background papers: Delors Report, Special Raymond Report.

Chapter II. **Recent economic evolution in the Community**

- (a) The external environment of the Community: economic conditions in the US and Japan; the oil price increase resulting from the Kuwait-Iraq crisis; economic reform in Eastern Europe.
- (b) General economic developments: prices and costs; output and demand; current account balances and their financing.
- (c) Recent progress on convergence within the Community (German unification in the background).

Background papers: monthly review of major macroeconomic developments in EEC countries.

PART 2: MONETARY, FINANCIAL AND FOREIGN EXCHANGE DEVELOPMENTS

Chapter III. **Monetary Policy**

- (a) The mutual compatibility of national monetary policies.

- (b) The overall and relative stance of monetary policies in the Community (against the background of other policies and, in particular, fiscal policy): objectives and strategies.
- (c) The co-ordinated setting of intermediate monetary targets and indicators (ex-ante and ex-post analysis).
- (d) The setting of monetary policy instruments.
- (e) The harmonisation of monetary aggregates.

Background papers: notes on mutual compatibility, harmonisation and counterparts; ex-ante, ex-post, and fiscal policy reports by Monetary Policy Sub-Committee.

#### Chapter IV. The European Monetary System

- (a) Developments in the ERM and non-ERM Community currencies: entrance of the pound sterling, tensions and policy dilemmas created by cyclical divergences associated, in part, with German reunification and the evolution of oil prices.
- (b) The use of co-ordinated interest movements, interventions and exchange rate flexibility as a way of offsetting tensions in the ERM.

Background papers: monthly reviews of macroeconomic conditions, note on policy dilemmas in the ERM.

#### Chapter V. The private Ecu

- (a) Recent developments in the private Ecu market and future prospects.

Background papers: Private-Ecu and association with third countries; reports by Foreign Exchange Policy Sub-Committee.

#### Chapter VI. Prudential supervision

- (a) Financial conglomerates, financial stability and fragility, payments systems.

Background papers: annual report of the Supervisory Sub-Committee.

PART 3: FUTURE PROGRESS TOWARDS MONETARY UNION

Chapter VII. **The European System of Central Banks**

(a) Conditional on the outcome of the ICG, there should be an analysis of the nature and tasks of the ESCB (if desired, the Statutes could be published also as one annex) and, perhaps, also of the transition during Stage Two.

Background papers: introduction and commentary to the draft Statutes, reports by Sub-Committees and various notes by the Secretariat and the Economic Unit.

B. STRUCTURE AND ACTIVITIES OF THE COMMITTEE OF GOVERNORS

1. STRUCTURE
2. ACTIVITIES DURING THE PERIOD

C. ANNEXES

1. MAJOR MONETARY POLICY MEASURES TAKEN
2. STATISTICAL ANNEX

OTHER ISSUES TO BE SETTLED:

- How much attention to give each of the chapters, taking into account the desired length of the A.R.
- Date of release (towards the end of the first quarter?)