

13th February 1991

Potential topics for study by the Economic Unit

A. In addition to the current on-going projects on the harmonisation of broad monetary aggregates and the role of the counterparts in monetary policy co-ordination, the following topics could be studied by the Economic Unit in the future.

1. Improving monetary policy co-ordination. Under this topic, there could be one or several notes prepared to facilitate the assessment of national monetary policies.

1.1. "Issues-for-discussion" paper prepared to assist the MPSC in the first ex-post exercise.

1.2. Development of a set of consistent indicators of Community-wide performance and of the degree of intra-Community divergences. Particular attention should be paid to the economic and statistical properties of the indicators.

1.3. [If considered appropriate, there could be work on planning how semi-consistent forecasts could be produced most effectively for the next ex-ante exercise.]

2. Improving fiscal policy analysis. Since fiscal policy is often referred to when discussing policy options in Community countries, the Governors might find it useful to have a summary paper describing the main transmission channels of fiscal policy to prices and exchange rates, especially in an environment of free capital movements. This could permit the establishment of a set of practical guidelines which could be helpful when discussing how fiscal policies should be analysed in the ex-ante and ex-post exercises.

3. Stage Two. While it would not be practical to study each and every one of the continuously evolving proposals for Stage Two, it may be interesting to concentrate on the two polar cases between which most proposals are placed: the "hard-ECU" proposal on the one hand, and the strengthening of the present EMS on the other. A study of the relative

technical merits of these cases could help the Economic Unit form a view which would be helpful in case the Committee of Governors were to give a formal opinion at some point in the future regarding any Stage Two proposal.

4. Outline of the Annual Report. A possible strategy would be for the Governors to give general directions about the Report (e.g. approximate length, Community-wide vs. country analysis, concentration on monetary and financial developments relative to economic developments). Following these directions, the Economic Unit could prepare a detailed annotated outline of the Annual Report which could be submitted to the Governors for approval.

B. Other topics which may be studied by the Economic Unit:

5. - Analysis of the explanatory factors of the interest rate and exchange rate spreads between the market-ECU and the basket-ECU, and implications for monetary policy, intervention policy and financial markets.
6. - Rules for monetary policy co-ordination in a more symmetric EMS.
7. - Retrospective analysis of the effectiveness of concerted interventions by Community countries in affecting the value of the dollar, and what lessons to derive from them.
8. - Recent trends in the use of monetary policy instruments by Community countries (e.g. elements of convergence in their use).
9. - The effects of financial innovation and financial market integration in the transmission mechanism of monetary policy.
10. - Improvement of the co-ordination of monetary policies by considering the use of quantitative tools.

The accompanying table summarises the list of possible research topics, their link to the Committee of Governors' work programme for 1991, the resources needed and potential authors.

NEW TOPICS FOR STUDY BY THE ECONOMIC UNIT IN 1991

<u>TOPIC</u>	<u>LINK WITH WORK PROGRAMME OF THE COMMITTEE OF GOVERNORS</u>	<u>RESOURCES NEEDED</u>	<u>PERSONS INTERESTED IN THE TOPIC</u>
1. Improving monetary policy co-ordination			
1.1. "Issues for discussion" paper for ex-post	Item No.3		
1.2. Indicators of Community-wide performance and intra-Community divergences	Item No.3	Research Assistant	
[1.3. Semi-consistent forecasts]	Item No.3	Research Assistant and NCB involvement	
2. Improving fiscal policy analysis: Transmission mechanism and practical fiscal guidelines	Item No.3,5		
3. Stage Two: Hard-ECU vs Hard-EMS	Item No.2,4,6		
4. Outline of Annual Report	Item No.12	Research Assistant(s)	
5. Quantitative tools for monetary co-ordination	Item No.3	Research Assistant and NCB involvement	
6. Rules for monetary co-ordination in a more symmetric EMS	Item No.3,5,6		
7. Concerted intervention	Item No.3		
8. ECU spreads	Item No.4,5,7,10	Research Assistant	
9. Monetary policy instruments	Item No.3		
10. Financial Innovation and financial integration effects on monetary policy	Item No.2,3		

Secretariat

Outline work programme for the Committee of Governors for 1991

Topics to be considered	Date for examination by the Committee	Preparatory work to be done by:
1. Monitoring of developments within the EMS	Each monthly meeting	Alternates, Foreign Exchange Policy Sub-Committee, <sup>1</sup> Secretariat
2. Economic and Monetary Union - Intergovernmental Conference - Stage Two - Completion of draft Statute	Each monthly meeting January, February, et al. February et al.	[Secretariat] <sup>2</sup> Alternates, Secretariat Alternates, Secretariat, Legal Experts
3. Common framework for the monitoring of monetary policies - First ex post exercise - Second ex post exercise and ex ante exercise - Harmonisation of monetary aggregates	[May] <sup>3</sup> [November] <sup>3</sup> [Spring]	Monetary Policy Sub-Committee <sup>4</sup> Monetary Policy Sub-Committee <sup>4</sup> Secretariat
4. Use of the private ecu - 1989-90 - 1990-91	February December	Foreign Exchange Policy Sub-Committee <sup>5</sup>
5. Annual survey of developments in public finance	July	Monetary Policy Sub-Committee <sup>6</sup>
6. Statement of principles governing intramarginal interventions in Community currencies and acceptance of official ecus (Article 16.1 of the EMS Agreement)	February et al.	Alternates, Foreign Exchange Policy Sub-Committee
7. Annual review of EMS	December	Foreign Exchange Policy Sub-Committee <sup>5</sup>
8. Renewal of swap agreements with Norges Bank	December	Foreign Exchange Policy Sub-Committee <sup>7</sup>
9. ECOFIN - Informal meetings - Multilateral surveillance	April [September] Dates not yet known	Secretariat Secretariat
10. Clearing and payment systems	February/March	Supervisory Sub-Committee <sup>8</sup> et al. (procedure still to be agreed)
11. Annual meeting of IMF	September	Secretariat
12. Other matters - Committee's expenditure in 1990 and projections for 1991 - Outline of Annual Report	March September/November	Committee on Financial Matters, <sup>9</sup> Secretariat Secretariat

- 1 In accordance with paragraph 1 of the mandate for the Foreign Exchange Policy Sub-Committee.
- 2 On the assumption that the Presidency of the Intergovernmental Conference (IGC) agrees with the request of the Committee of Governors to be represented at the IGC by the Secretariat.
- 3 On the assumption that there will be two ex post exercises.
- 4 In accordance with paragraph 1 of the mandate for the Monetary Policy Sub-Committee.
- 5 In accordance with paragraph 2 of the mandate for the Foreign Exchange Policy Sub-Committee.
- 6 In accordance with paragraph 3 of the mandate for the Monetary Policy Sub-Committee.
- 7 In accordance with paragraph 3 of the mandate for the Foreign Exchange Policy Sub-Committee.
- 8 In accordance with the mandate given by the Committee of Governors on 13th November 1990.
- 9 In accordance with paragraph 5.2 of the Committee's Decision relating to financial matters, dated 11th December 1990.

N.B. The Secretariat is understood to include the Economic Unit