

12th February 1990

ALTERNATE GOVERNORS' MEETING

(Basle, 12th February 1990)

Short Report

I. Exchange rate developments

Mr. Dalgaard, in his report, mentioned several aspects:

- In spite of the dollar's overall stability, it has been extremely volatile (since 1st January it has moved by more than 0.5% on 26 days and by more than 1% on 20 days), due to varying expectations in the United States (over Fed policy), to events in Eastern Europe and to the political uncertainty in Japan.
- EMS situation was typical for a post-realignment period. Both Italy and France were large net purchasers of Deutsche Mark during January; the high Banca d'Italia intervention purchases, due to high lira short-term interest rates, have diminished as the EMS fluctuation limits were approached and as interest rates in Italy fell back.
- Long-term interest rates had risen by 1% in BRD since early January. Market expectations were that pressure on the budget in the BRD would lead to increased borrowing or to increased inflation, either of which would lead to increased interest rates.

In his comments Mr. Tietmeyer noted that real GDP growth in the BRD would be greater than 4% in 1989; also he pointed to the fact that the German trade surplus may have peaked.

He was satisfied with the present level of the dollar, but found the yen level disturbing, although he thought that it was not possible to influence the Japanese economic and political situation for the time being.

Concerning long-term interest rates in Germany, he felt that the market may be exaggerating the likely resource transfer from the BRD to the DDR, with some very large numbers circulating.

On Germany monetary union, it is now clear that the Deutsche Mark will be extended to the DDR (which is not "monetary union" in the formal sense). On this question, Mr. Tietmeyer severely criticised the leak of the

Commission's internal paper to Reuters, saying that such leaks complicated the situation. On this point, Mr. Pons expressed his regrets for the unfortunate occurrence.

Mr. Lagayette expressed concern over the high level of real interest rates, which risk having a more serious effect than short-term rates.

## II. EMS Associate membership

In spite of the good quality of the Dalgaard Report, the Committee's discussion was rather confused on this subject, perhaps because most Alternates sense the difficulties of associate membership without wanting to say no outright. On the one hand, the Alternates agreed that the Community should not give the impression of being inward-looking; on the other hand, many (including Germany, France and Italy) counselled prudence and indicated preference for a wait-and-see attitude, in view of events in Eastern Europe, concerning UK entry and on EMU.

All were agreed that associate membership is essentially a political question, but even the many who felt that the Governors should express an opinion on the political aspects thought that this should wait until after the Monetary Committee discussion.

It was pointed out by Mr. Dini that neither the minimalist approach, nor the maximalist approach if it is linked to EC membership as mentioned in the Dalgaard Report, is likely to be acceptable to most potential associate members. Mr. Szasz took a positive attitude to associate membership because acceptance of external discipline should be encouraged, that the role of the dollar is so uncertain that a large bloc may be needed to maintain the necessary stability, and that the EC should not be inward-looking. He suggested that requirements for association should be priority for price stability, a compatible policy mix and an acceptance of the tactical principles of the Basle/Nyborg accords (appropriate interest rate differentials; small, infrequent realignments; movements within the band; no persistent interventions).

III. Ecu acceptance limit

The Alternates failed once more to come to an agreement on permanently changing the ecu acceptance limit in settlement of VSTF debts to 100%. Disaccord centres on the exact formulation of the agreement concerning the need to obtain prior permission from the issuing central bank for interventions in Community currencies. The Chairman will recommend that the Dalgaard Group continues its work on this topic, broadening its mandate.

IV. Ecu clearing system

In a short exchange of views concerning the UK and French proposals, Mr. Tietmeyer asked whether there is a real need for a central bank role in the clearing system and said it should be in conformity with existing accords on the subject. Mr. Szasz thought that the UK and French proposals went one step beyond what was agreed at the time. Mr. Crockett replied that the request had come from the market, which had asked for a lender-of-last-resort safety net. It was agreed that the Dalgaard Group examine the question.

V. Commission proposal for a Regulation on guarantees

Mr. Pons explained to the Alternates that the proposal for a Regulation is still in its initial stages, not yet having had its first reading by the European Parliament and hence not yet having been examined in Council. DG XV is interested to take note of the views expressed by the central banks and will take them into account at the relevant time.

The matter at issue, with the UK doubts also supported by the French and Spanish Alternates, concerns whether central banks can choose whether to accept a particular signature when accepting a guarantee in implementing monetary policy. Mr. Pons replied that it was not the intention of the Commission to complicate the conduct of monetary policy implementation.

DOCUMENTS TO BE INCLUDED ON SATURDAY MORNING  
IN THE ENVELOPES FOR THE MONTHLY MEETINGS

---

Monitoring

Graphs (monitoring)

✓ New Table 2

Effective exchange rates

Concertation

Report(s)

✓ Tables

Small table from Danmarks Nationalbank

Alternates

Graphs (monitoring)

Concertation report

Concertation tables

Effective exchange rates

Lettre de Larosière "netting" - anglais et français  
à tout le monde

Note des frais (seuf la Commission - AB)

Governors

Graphs (monitoring)

Effective exchange rates

Lettre de Larosière "netting" - anglais et français  
à tout le monde

Notes des frais (seuf la Commission - AB)

*distributed for ew. and supp.  
le 12.2.90*

NOTE BY THE BANK OF ENGLAND

CIRCULATION OF PAPERS PREPARED FOR THE COMMITTEE OF GOVERNORS

The Bank of England has recently been asked by a major British economic research institute whether it would make available to a senior member of its research staff a copy of the latest report by the Dalgaard Group on the private use of the ECU. In accordance with long-standing practice and the clear wishes expressed by Governors in the past, the request was refused.

It is clearly right in principle that the work of the Committee of Governors should be regarded as private and confidential and that reports prepared for them by expert groups should not be circulated, even in confidence, outside participating central banks. This principle will become even more important as the work of the Committee develops in the context of Stage 1 of Economic and Monetary Union and ex-ante discussions of policy begin to form a part of its work.

Nevertheless, the Bank of England is of the view that there is a case for considering whether a procedure could not be agreed whereby some occasional reports of experts groups might not be given a wider circulation. The annual reports by the Dalgaard Group on the private use of the ECU offer a useful example. They bring together much useful information that is not otherwise available, covering ground that is not particularly sensitive or controversial. Governors might even consider it advantageous to make more widely available, perhaps after some discreet editing, an authoritative and unbiased description of developments in private ECU markets. This type of report could be considered as falling into a different category from regular monthly or quarterly reporting with sensitive, operational content.

In forming its judgment of the value of releasing some reports, the Committee may find it helpful to bear in mind that the British research institute which approached the Bank of England had been commissioned to carry out the work by the Association for the Monetary Union of Europe and that the European Commission is closely involved in the project. It may therefore reasonably be regarded as an enquiry that deserves serious consideration.

As the matter has been raised without prior notice, the Bank of England suggests that the Committee may wish to return to this subject at its March meeting.

Bank of England  
7 February 1990

*distributed en séance des juges,  
6.12.2.90*

CENTRAL BANK  
OF IRELAND

BANC CEANNAIS  
NA HÉIREANN

EXCHANGE CONTROLS

Preliminary Notice of Changes  
to be implemented on  
1 April 1990

Exchange Control Department  
7 February 1990

FROM 1 APRIL 1990

2/

A. NEW AUTHORITIES DELEGATED TO AUTHORISED DEALERS

1. Foreign Currency Hold Accounts may be opened on behalf of commercial customers where there is a genuine commercial need for such accounts. Guidelines will be set by the Central Bank for the operation of these accounts.
2. Forward Cover may be provided to Authorised Dealers' own commercial customers on the basis of projected trade receipts or payments, to a level consistent with the customer's established business pattern. In addition known financial inflows (e.g. declared dividends receivable, direct investment capital, foreign currency borrowing drawdown) may be covered forward.
3. Irish Pound/Foreign Currency Swaps may be arranged between counterparties with equal and opposite currency exposure. Such swaps may involve either an actual or a notional exchange of principal between counterparties at the outset.

In addition, Authorised Dealers may enter into Swap agreements which involve an actual purchase of foreign currency from one counterparty and a notional sale to the other counterparty at the outset of the agreement. All Swap agreements must be for minimum periods of three months.

/...



CENTRAL BANK  
OF IRELAND

Continuation Sheet

FROM 1 APRIL 1990

3/

4. Irish Pound/Foreign Currency Options may be traded on the same basis as forward contracts provided the Central Bank is satisfied that individual Authorised Dealers have appropriate prudential limits and arrangements in operation.
5. Irish Pound Interest Rate Swaps and Future Rate Agreements (F.R.A.'s) may be entered into with non-residents for bona-fide hedging purposes (e.g. to hedge exposure arising from holdings of domestic securities).
6. Foreign Currency Loans up to the equivalent of Irish £1 million may be provided to Irish residents at market related interest rates and for any purpose provided there are fixed drawdown and fixed repayment schedules, for minimum terms of three months. Such loans should be notified to the Central Bank on Form FCB.1

NOTE: Normal dealing limits will continue to apply.

/...

CENTRAL BANK  
OF IRELAND

Continuation Sheet

FROM 1 APRIL 1990

4/

B. NEW AUTHORITIES DELEGATED TO AUTHORISED DEALERS, TO  
OTHER BANKS AND TO BUILDING SOCIETIES

1. Irish pound loans may be provided to non-resident controlled entities or directly to non-residents to finance expenditure in the State on direct investments, including purchases of residential or commercial property.
2. Irish pound deposits of any size may be accepted from any non-resident provided they are for fixed terms of three months or more. Irish pound commercial paper may be sold to non-residents on the same basis.
3. Gifts and Personal Loans of up to £20,000 per donor per calendar year may be transferred to non-residents of the State on behalf of customers on completion of Form E.4.
4. Foreign Currency Travel Facilities in excess of the basic allowance of £1,200 may be provided on receipt of a completed Form E.4 and on sighting documentary evidence that the currency is needed for genuine travel purposes.  
Note The previous system of separate allowances for business, health and educational which authorised Dealers could provide will be discontinued. The limit of £1,200 on export of foreign currency notes and £150 on export of Irish currency notes by travellers will be retained.
5. Miscellaneous Foreign Payments of up to £250 may be made by Building Societies on behalf of customers without Exchange Control formality. Such payments should not form part of a series which would exceed £250 in total nor should they be for a prohibited capital purpose.

/...

CENTRAL BANK  
OF IRELAND

Continuation Sheet

FROM 1 APRIL 1990

5/

C. DIRECT INVESTMENT IN IRELAND

1. Direct investments in the State where the total finance costs amount to £1 million or less will no longer require prior permission. Details of such investments should be notified by letter to the Central Bank in order to facilitate subsequent profit remittances to non-resident investors.
2. The lending of Irish pounds to non-EC residents to finance direct investment in Ireland will no longer be restricted.

D. DIRECT INVESTMENT OUTSIDE IRELAND

The requirement to repatriate accumulated profits from permitted direct investment outside Ireland will be removed where such profits are to finance new or to expand existing direct investment abroad.

E. FOREIGN SECURITIES

1. Institutional Investors and Professional Portfolio Managers will be permitted to deal in futures and options on foreign securities for bona fide hedging purposes. Speculative dealing in these instruments will continue to be restricted.
2. Sale proceeds of foreign securities may be held by Approved Agents for up to six months pending re-investment, instead of three months as heretofore.

/...

CENTRAL BANK  
OF IRELAND

Continuation Sheet

FROM 1 APRIL 1990

6/

F. DOCUMENTATION AND FORMS

1. Documentary evidence will no longer be necessary for normal commercial payments or forward contracts through established channels. Customers should be advised to have documentation available for production to the Central Bank if requested.
2. Form E.4 (revised) will become the primary Exchange Control Form and will be used as a notification form for payments for services over £10,000 and as application or notification Form for transactions such as gifts, emigration, travel.
3. The use of Form E.3 will be discontinued and no Exchange Control Form will be required for payments for imports of goods.
4. Forms ICB.1, S.1, G.1, T.1, T.2A, A.2 DG.1 and FCB.2 will also be dispensed with. Forms G.1, T.1, T.2A will be replaced by the revised Form E.4 in appropriate cases.
5. Forms P.1, FCB.1, S.2, Declaration A, E.5 and NR.1 will be retained in use for the present.

G. FURTHER TECHNICAL AND ADMINISTRATIVE CHANGES

A number of other minor changes of an administrative and technical nature will be introduced. Details will be communicated to the relevant persons in due course.

EXISTING PROCEDURES AND LIMITS MUST BE STRICTLY  
ADHERED TO UNTIL 1 APRIL 1990

COMITÉ DES GOUVERNEURS DES BANQUES CENTRALES  
DES ÉTATS MEMBRES DE LA  
COMMUNAUTÉ ÉCONOMIQUE EUROPÉENNE

Bâle le 7 février 1990

Banque Nationale de Belgique (pour information)

A l'attention de M. Rey (copie pour M. Michielsen)

Danmarks Nationalbank

A l'attention de M. Mikkelsen (copie pour M. Dalgaard)

Deutsche Bundesbank

A l'attention de M. Tietmeyer

(copie pour MM. Rieke, Scholl, Kloft, Schlüter)

Bank of Greece (Telefax No. 301 323 3178) (for information)

A l'attention de M. Papademos (copie pour M. Karamouzis)

Banco de España

A l'attention de M. Linde (copie pour M. Durán)

Banque de France (Telefax No général + No (331) 42 92 47 47)

A l'attention de M. Lagayette (copie pour M. Cappanera)

Central Bank of Ireland

A l'attention de M. O'Grady Walshe (copie pour M. Reynolds)

Banca d'Italia (Telefax 46 48 82 ou 47 92 35 14)

A l'attention de M. Dini (copie pour M. Santini, Saccomanni)

Nederlandsche Bank

A l'attention de M. Szász (copie pour M. Boot)

Banco de Portugal

A l'attention de M. Amorim

Bank of England (Telefax No (441) 601 4953)

A l'attention de M. Crockett (copie pour M. L.D.D. Price)

Institut Monétaire Luxembourgeois

A l'attention de M. Jaans

Commission des Communautés européennes

A l'attention de M. Costa (copie pour M. Pons)

(copie pour M. Kees, Secrétariat du Comité monétaire)

Attachment: 1 pages



TELEFAX

Basle, 7th February 1990

I have pleasure in informing you, on behalf of M. Rey, Chairman of the Committee of Alternates of the EEC central bank Governors, that the next meeting of the Alternates will take place in Basle, on Monday, 12th February 1990 at 10.00 a.m.

The purpose of this meeting will be to prepare, as usual, the Governors' discussion on the agenda items of the meetings of the Committee of Governors and the EMCF Board of Governors, on 13th February 1990 (the agendas for these two meetings have already been circulated).

In addition, the Alternates will:

- discuss problems connected with interventions in Community currencies, on the basis of an Oral Report presented by Mr. Dalgaard, in his capacity as Chairman of the "Monitoring Group";
- revert on the Commission's proposal for a Regulation on guarantees issued by credit institutions or insurance undertakings; this matter was raised in January and it was agreed that it should be looked at in further detail and that the Commission's representative would give additional information.

J'ai le plaisir de vous informer, de la part de M. Rey, Président du Comité des Suppléants des Gouverneurs des banques centrales de la CEE, que la prochaine réunion des Suppléants aura lieu à Bâle, le lundi 12 février 1990 à 10 heures.

Cette réunion a pour objet de préparer, comme d'habitude, les discussions des Gouverneurs sur les questions à l'ordre du jour des séances du 13 février 1990 du Comité des Gouverneurs et du Conseil d'administration du FECOM (les ordres du jour de ces deux séances ont déjà été transmis).

En outre, les Suppléants:

- discuteront les problèmes soulevés par les interventions en monnaies communautaires, sur la base d'un Rapport oral que présentera M. Dalgaard en tant que Président du "Groupe Surveillance";
- reviendront sur la proposition de la Commission, de janvier 1989, concernant un règlement du Conseil sur les garanties émises par des institutions de crédit ou des compagnies d'assurances; ce sujet a été abordé en janvier 1990 et il a été convenu qu'il devrait être examiné plus à fond et que le représentant de la Commission fournirait des informations complémentaires.

Kind regards. Meilleurs sentiments

G. Morelli

