

ALTERNATES OF GOVERNORS, 13TH MAY 1991

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1. Foreign exchange markets

Mr. Dalgaard stressed the following points in his report:

With regard to the dollar,

- markets have perceived a shift of US monetary policy attention from inflation to growth concerns, with a US core inflation of still around 5%;
- a dollar/DM level of DM 1,70 to DM 1,75 is not considered to be out of line with fundamentals;
- concerted central bank dollar sales at end-April, carried out at the initiative of the Bundesbank, were modest. In any way, they contributed to holding up a further rise;
- the dollar/DM rate reflects partly a weaker Deutsche Mark rather than a strong dollar.

As for the EMS,

- it is to be noted that the German current account has been in deficit in the last few months, although this was partly due to specific factors;
- there is no probability for a cut in German interest rates;
- the outlook for East Germany may be slightly better than reflected in press reports;
- interest rate differentials between the Deutsche Mark and other currencies have narrowed further;
- the PTA/FF problem persisted (US\$ 6 billion intervention so far, which have been financed completely outside the formal EMS facility);
- some evidence that the Italian budget deficit (at least net of interest payments) is declining;
- heavy interventions by the Bank of England in the last few days to stop the escudo from rising.

In the discussion, Mr. Linde

- pointed to Spain's further liberalisation of capital controls;
- was hopeful about an imminent easing of PTA/FF tensions, because
  - no intervention in the last couple of days;
  - the strong capital inflow seems to have come to a halt since end-April;
  - first evidence of economic slowdown, hence there may soon be some room for monetary easing.

Mr. Lagayette

- expressed concern about expansionary US monetary policy;
- pointed to a continuing low economic growth in France and to a deceleration of French credit expansion;
- concluded that these were reasons for considering lower interest rates;
- welcomed Mr. Linde's remarks on a possible reduction in Spanish interest rates, as well as the Italian measures.

Mr. Szász

- wondered about the implications of interest rate cuts for the functioning of the EMS, given concerns about inflation, and considered that French domestic credit expansion was still strong.

Mr. Crockett

- also took a critical view on monetary policy easing, questioning in particular the credibility of Italy's announcement of a budgetary package;
- confirmed that the Bank of England was not yet sure enough about inflation in order to take a lead in the process towards lower interest rates.

Mr. Dini

- insisted that the Italian discount rate cut was an adjustment to lower market rates and is not an easing of monetary policy;
- agreed that the budget package - while an encouraging decision - does not yet attack the fundamental problems;

- pointed to the structural reforms:
  - the Banca d'Italia may now fix penalty interest rates at its discretion within a broad range defined by the Treasury;
  - envisaged reform of old age pension system;
  - envisaged reform of wage negotiation scheme.

Mr. Tietmeyer

- attacked the conclusions in a note by the Economic Unit which suggested that the present level of the dollar/DM rate was appropriate;
- doubted whether the US external balance has improved durably;
- pointed to accelerating M3 growth in Germany more recently and excluded any cut in interest rates;
- insisted that a further weakening of the Deutsche Mark could not be tolerated;
- noted that there are first positive signs in East Germany, with a turnaround not so far off.

2. Intergovernmental Conference

Mr. Baer gave an account of the meetings of the Personal Representatives on the draft Statute and the Ministers on the transition. His main point was that, even if many changes were proposed to the Statutes, none of them seems really to contradict a fundamental orientation of the Committee.

On the draft Statute, the Alternates generally considered that each amendment to the Statute is not very significant as such, but when looking at them as a whole, they tend to alter somewhat the equilibrium. The single amendment which raised most concern was that on monetary financing (Article 4.1), where the IGC tended to be less strict.

Views were different on how the Committee of Governors should proceed. Mr. Dini's suggestion to send a communication to the IGC did not find support. Mr. Linde and in particular Mr. Tietmeyer warned against coming back on matters - except those which are considered essential - which have already been under negotiation, because this could be counter-productive. In contrast, the Governors could present views on matters concerning Stage Two, like the tasks of the new institution(s).

Mr. Lagayette agreed, but would not like to exclude advice to the IGC on amendments to the present Statute, like the proposed removal of the ECB's role in banking supervision.

On the transition, Mr. Baer's assessment that the Ministers' meeting has been constructive was not disputed. Mr. Dini declared that the Chairman of the Monetary Committee had exceeded its mandate at this meeting when talking about the necessity of "crash programmes" and that his remarks were offensive to Italy.

The usefulness of the proposal by the Danish Finance Minister to narrow EMS margins at the beginning of Stage Two was strongly doubted by Tietmeyer and Szász.

It was agreed to inform the Governors about:

- the Italian declaration on the remarks by the Chairman of the Monetary Committee;
- the necessity to study the Danish proposal for narrower margins, through an examination by the Dalgaard Sub-Committee, and then by the Alternates;
- the analytical issues linked to monetary financing (with a proposed discussion among the Governors in July, based on a Bank of England note and a contribution from the Economic Unit);
- the issues related to the size of the ECB capital which the Committee did not include in the Statute yet.

Furthermore, the Chairman of the Alternates will draw the Governors' attention to:

- the fact that a critical phase for the Statute has been entered;
- some deviations in the IGC from the draft Statute;
- the need to prevent counter-productive interventions by the Committee of Governors;
- the Committee's role of being the guardian of the consistency of the Statute;
- the persisting lack of political guidance for transitional arrangements, but the need to draft a Statute for the institution(s) in Stage Two.

**Committee of Governors of the  
Central Banks of the Member States  
of the European Economic Community**

13th May 1991

**Secretariat**

There will be a short restricted and confidential meeting, to be attended only by the Alternate of each central bank at 6.00 p.m. this evening in Room ~~ED~~ C. The reason for this meeting is that the Chairman has invited Mr. Franzén from the Sveriges Riksbank to inform the Alternates of an important confidential matter. There will be no interpretation.

Gunter D. Baer

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Sat. 11th May 1991

DOCUMENTS TO BE INCLUDED IN ENVELOPES ON SATURDAY MORNING

Regular documents to go in envelopes and stock	Special documents to go in envelopes and stock	Special documents stock only
<b>EEC MONITORING (Monday, at 8.00 a.m., Room B)</b> Envelopes for all participants. No. of copies: English 40; French 30; German 20		
<input checked="" type="checkbox"/> Monitoring Graphs <input checked="" type="checkbox"/> New Table 2 <input checked="" type="checkbox"/> Graphs on Effective Exchange Rates <input checked="" type="checkbox"/> Small Green Book	<input checked="" type="checkbox"/> Letter Allen BOE	
<b>COMMITTEE OF ALTERNATES (Monday, at <del>10.00</del> a.m., Room B) 9.30</b> Envelopes for all participants. No. of copies: English 50; French 30; German 20		
Monitoring Graphs Draft Concertation Report: <input checked="" type="checkbox"/> E, F, G Concertation Tables (se) Graphs on Effective Exchange Rates Big Green Book Small Green Book	us dollar note Small env. restrict mtg	<input checked="" type="checkbox"/> Statute & commentary <input checked="" type="checkbox"/> IGC 12 4 & 24.4 <input checked="" type="checkbox"/> IGC Non-papers <input checked="" type="checkbox"/> IGC Stage Two <input checked="" type="checkbox"/> Duis. letter <input checked="" type="checkbox"/> Monopol Report <input checked="" type="checkbox"/> Ellnit Harmonising
<b>CONCERTATION (Monday, at 3.00 p.m., Room B)</b> Envelopes for all participants, except those Alternates who attend both the meeting of the Alternates and the Concertation meeting. No. of copies: English 50; French 30; German 20		
Draft Concertation Report: <input checked="" type="checkbox"/> E, F, G Concertation Tables (se) Small table Danmarks Nationalbank		
<b>COMMITTEE OF GOVERNORS (Tuesday, at 9.30 a.m., Room C)</b> Envelopes for all Governors and any Alternates not attending the Alternates' meeting. No. of copies: English 60; French 40; German 20		
<input checked="" type="checkbox"/> Monitoring Graphs <input checked="" type="checkbox"/> Graphs on Effective Exchange Rates <input checked="" type="checkbox"/> Big Green Book <input checked="" type="checkbox"/> Small Green Book	<input checked="" type="checkbox"/> us dollar note Small env restrict mtg	<input checked="" type="checkbox"/> Statute & commentary All docs folder

## Special envelopes:

Mme. de Wachter receives regular documents for Alternates (Hotel).

Mr. Fosgaard receives 3 copies of Denmark's contribution to Big Green Book (BIS office).

6th May 1991

TO THE MEMBERS OF THE COMMITTEE OF ALTERNATES

On behalf of the Chairman, M. Rey, I would like to inform you that the meeting of the Committee of Alternates will take place on Monday, 13th May at 9.30 a.m. The meeting will be devoted to the following items:

1. Preparation of the Governors' meeting on the following day, with particular emphasis on agenda item IV (Economic and Monetary Union) in the light of the IGC's discussion on the draft Statute of the ESCB and the informal ECOFIN meeting.
2. Miscellaneous.

With kind regards,



Gunter D. Baer