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Secretariat

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SURVEY OF PROPOSALS SUGGESTED FOR STAGE TWO

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I. INTRODUCTION

This note has been prepared for the Committee of Governors' forthcoming discussions on Stage Two of EMU. It contains a brief synopsis of proposals made in the monetary area by various bodies and officials from member countries (see attached list) and suggests some issues for discussion by the Committee of Governors. The note does not consider elements relating to the economic field.

All proposals considered for this survey are based on the understanding that in Stage Two:

- the ultimate responsibility for monetary policies remains with the national authorities;
- the possibility of realignments in the EMS exchange rate mechanism is not excluded;
- institutional changes in the monetary area are to be made, although there are differences in respect of the type of the new institution, its tasks and the timing (see below).

All proposals except the *British*, essentially follow the approach recommended in the *Delors Report* which views the achievement of EMU as the result of an institutional process divided into discrete but evolutionary steps. In contrast, the *British* proposal, although it also includes the creation of a new institution, relies basically on market forces as a vehicle for monetary integration.

## II. SYNOPSIS OF THE MAIN ELEMENTS IN PROPOSALS FOR STAGE TWO

Since there is a large degree of overlap between the different proposals, it did not appear useful to describe them one after the other. Instead, the synopsis set out in this section has been arranged according to different elements defining the contents of Stage Two.

### 1. Creation of a monetary Community institution

#### (a) Type of institution

The proposals present three main alternatives:

- creation of a Council of Governors with legal personality and independent members (*Dutch* and *German*). It is not clear whether the EMCF would be merged with this Council or whether it would continue to exist as a separate body with its own legal personality.
- establishment of the ECB from the start of Stage Two; i.e. the creation of an institution which would prefigure the ECB as set out in the Statute proposed by the Committee of Governors ( *Banca d'Italia* and the *Commission*, and broadly in accordance with the *Delors Report*).
- creation of a European Monetary Fund (EMF) to issue a common Community currency, the hard ecu (*British*). The EMF is also proposed as a temporary institution (*Spanish*).

The *Rome Communiqué* does not specify the type of new Community monetary institution to be created.

#### (b) Date of creation

Broad agreement that the new institution shall be created at the start of Stage Two; to the extent that the new institution would not be the ECB itself, it would have to be replaced or transformed before or at the end of Stage Two. Some proposals (e.g. *Banca d'Italia*) reject institutional arrangements of a "temporary" nature.

#### (c) Independence

Broad agreement that the institution should be independent. The *Commission's* proposal stipulates that the necessary legislative steps at the national level to guarantee independence would be set in train before

the start of Stage Two, but the procedure might only be completed in the course of that stage.

## 2. Tasks of the new institution

All proposals (except the *British*) suggest two tasks:

- co-ordination of monetary policies;
- harmonisation of instruments and monetary policies procedures.

Several (including *French*, *Banca d'Italia* and *Commission*) propose in addition:

- role in exchange rate policy vis-à-vis third currencies;
- responsibility for overseeing the development of the ecu, including the smooth functioning of the ecu market and ecu clearing.

*Commission*, drawing on the Statute proposed by the Committee of Governors, suggests also the following tasks:

- linking up payment networks and money and financial markets;
- participation in the harmonisation of monetary and financial statistics;
- supervising the devising and technical preparation of means of payment and notes and coins in ecus;
- advisory functions in the monetary, prudential supervision, banking and financial fields.

Finally, a number of proposals appear to imply (explicitly stated in *Commission's* proposal) that the functions of the EMCF would be absorbed by the new institutions.

## 3. Operational features

- no operational powers would be given to the new monetary institution and the present arrangements for monetary co-operation and the co-ordination of monetary policies would be maintained (*Dutch* and *Bundesbank*).
- an operational framework for co-ordination of monetary policies based on a two-stage reserve requirement system (*Banca d'Italia* and in particular *Ciampi*).

- interventions by the ECB on foreign exchange markets vis-à-vis third currencies and some pooling of reserves (*Delors Report, French, Banca d'Italia and Commission*).
- issue and management of the hard ecu (*British*).
- "hardening" of the ecu, by adjusting currency amounts to maintain the ecu parity of the strongest currency(ies) in case of realignment (*Tietmeyer*).
- "toughening" of the ecu, by giving up the periodic (five year) review of currency amounts, in order to suppress the resulting uncertainty about composition of the basket (*Commission*).

4. Date of and conditions for the entry into force of Stage Two

The *Rome Communiqué* (and the *Commission*) states that Stage Two "will start on 1st January 1994 after:

- The Single market programme has been achieved;
- The Treaty has been ratified, and by its provisions;
  - process has been set in train designed to ensure the independence of the members of the new monetary institution at the latest when monetary powers have been transferred,
  - the monetary financing of budget deficits has been prohibited and any responsibility on the part of the Community or its Member States for one Member State's debt precluded,
  - the greatest possible number of Member States have adhered to the ERM.

The European Council recalls that, in order to move on to the second phase, further satisfactory and lasting progress towards real and monetary convergence will have to be achieved, especially as regards price stability and the restoration of sound public finances."

The United Kingdom considers that decisions on the substance of that move to Stage Two should precede decisions on its timing but would be ready to see the approach it advocates (the hard ecu proposal) come into effect as soon as possible after the ratification of the necessary Treaty provisions.

5. Nature and duration of Stage Two

All proposals, except that of the *British*, view Stage Two as a transitional phase to the final stage of EMU; *British* proposal could be viewed as a stand-alone stage.

The duration of Stage Two is ex-definitione undetermined in the *British* proposal; the other proposals too do not set a date for the transition from Stage Two to Stage Three, but make this step subject to an appraisal of whether certain conditions are fulfilled. According to the *Rome Communiqué* and the *Commission* this appraisal would be undertaken by the European Council within three years of the start of Stage Two on the basis of reports from the Commission and the ECB.

With regard to the conditions the *Commission* in its commentary on Article 109f of the draft Treaty states that "it is for the European Council itself to establish that the conditions for moving to the final stage have been met. The use of the term 'established' reflects the fact that this involves a political assessment of a number of objective factors - progress towards market integration and towards convergence of economic and monetary developments.

Other proposals suggest specific criteria: virtual elimination of inflation (*Bundesbank*); convergence of inflation rates at a low level (*Spanish, Dutch*); durability of convergence (*Dutch*); effective budgetary discipline (*Spanish, Dutch, Bundesbank*); participation in ERM by all for a long period (*Bundesbank*); interest rate differentials are consistently within a band as narrow as that of the ERM (*Spanish*); achievement of economic union (*Spanish*).

### III. ISSUES FOR DISCUSSION

The Governors might focus their discussions on the following issues:

1. What type of institution should be created and when should it be set up?

- a Council of Governors;
- the ECB as defined in the Statute proposed by the Committee of Governors, but with limited responsibilities and perhaps a simplified organisational structure;
- an EMF-type institution in accordance with the *British* proposal?

2. Should the members of the decision making bodies of the new institution enjoy the same degree of independence as foreseen in the Statute proposed by the Committee of Governors? If yes, when should the necessary changes in national legislation including central bank statutes be made?

3. Which tasks should be entrusted to the new institution? In particular, should these tasks be essentially confined to the co-ordination of monetary policies and the harmonisation of instruments or should they also include some role in the exchange rate policy (vis-à-vis third currencies), harmonisation of statistics, advisory functions, technical steps in preparation of Stage Three and involvement in payment and clearing systems? Moreover, which practical tasks would be implied in "supervising the development of the ecu"?

4. Should the new institution be given operational powers, in addition to those presently relating to operations of the EMCF? Should these operational powers relate to the (voluntary) co-ordination of both monetary policies and exchange rate policies or should voluntary policy co-ordination continue to be based on a framework of indicators and targets but without any operational functions performed by the new institution?

5. Should Stage Two be a transitional stage or a stage in its own right? A transitional stage could be predominantly "technical" in the sense of establishing the organisational and operational infrastructure which

will have to be in place and be functional at the beginning of Stage Three. A Stage Two in its own right could be one which aims at creating the appropriate economic conditions for the move to the final stage.

6. How long would Stage Two be if it were simply a "technical" phase in the sense of the above question?

7. Should the duration of Stage Two be made subject to the achievement of specific criteria defining the degree of convergence of fundamentals in the Community or should it be left to a "political" appraisal as proposed by the *Commission*?

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LIST OF PROPOSALS SURVEYED

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The documents are listed in chronological order and referred to the synopsis in abbreviated form:

- Report on economic and monetary union in the European Community, May 1989 ("*Delors Report*");
- C.A. Ciampi, An operational framework for an integrated monetary policy in Europe, Annex to the Delors Report ("*Ciampi*");
- The hard ecu plan as laid down in various documents, dating from June 1990 ("*British*");
- Statement by the Deutsche Bundesbank on the establishment of an Economic and Monetary Union in Europe, September 1990 ("*Bundesbank*");
- Compromise proposal presented by the Dutch Finance Minister for the second stage of EMU, 1st October 1990 ("*Dutch*");
- Spanish Ministry of Finance, EMU: Staying the course, October 1990 ("*Spanish*");
- Speech given by the Belgian Minister of Finance at the Conference organised by the Deutsche Bundesbank and the Ecu Banking Association, Berlin, 25th October 1990 ("*Belgian*");
- Conclusions of the Presidency of the European Council, 27th and 28th October 1990 ("*Rome Communiqué*") which was endorsed by all Community countries except the United Kingdom;
- Note by Dr. Tietmeyer to the Monetary Committee "Thoughts on the hardening of the ecu", October 1990 ("*Tietmeyer*");
- Contribution by the French Minister of Finance to the colloquium "Eurocap 90", Paris, 29th November 1990; Speech by Governor de Larosière at the Conference organised by the Belgian Société Royale d'économie politique, 4th December 1990 ("*French*");
- Speech by Governor Ciampi to the Committee for Monetary Union of Europe, Rome, 7th December 1990 ("*Banca d'Italia*");



- Commission of the European Communities, Working Document SEC (90) 2500 including a Draft Treaty amending the Treaty establishing the European Economic Community with a view to achieving Economic and Monetary Union, Brussels 10th December 1990 ("*Commission*").

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