

9th December 1988

To: M. Delors

From: Gunter D. Baer
Tommaso Padoa-Schioppa

Ref: Status report on Governor Hoffmeyer's questionnaire

Following the distribution of the Hoffmeyer table at the last meeting of the Committee, Governor Hoffmeyer has written again to all Committee members on 11th November 1988, suggesting that:

"the table distributed at our November meeting be filled in and returned to the two Rapporteurs with a view to be considered in connection with the Committee's further deliberations".

So far three Committee members have sent in replies: Mr. Jaans and Governor Pöhl provided identical answers, saying in essence that any (binding) co-ordination would not be possible under present legal provisions. Governor Leigh-Pemberton added to the completed questionnaire an explanatory letter which indicates that there might be some scope for ex ante co-ordination in certain policy areas. It appears, however, that Governor Leigh-Pemberton is thinking of non-binding co-ordination.

With view to the forthcoming meeting - given Governor Hoffmeyer's great interest in the matter - you might wish to mention briefly at the beginning of the meeting that so far only three Committee members have filled out Governor Hoffmeyer's questionnaire. As soon as a greater number of Committee members have replied, the Rapporteurs will summarise the information that can be derived from the answers and submit a brief note to all Committee members.

9th November 1988

Dear Joly,

Please find attached a brief note for the Chairman. Its main purpose is to make Monsieur Delors aware of recent developments with regard to the Hoffmeyer questionnaire and to prompt him to mention the matter briefly at the beginning of the meeting. Tommaso has not seen the note but I don't think that he has any objection.

Kind regards,

Yours sincerely,

A handwritten signature in black ink, appearing to read 'G. Baer', with a stylized, cursive script.

Gunter D. Baer

The Governor

Bank of England
London EC2R 8AH

8 December 1988

Dr Erik Hoffmeyer
Governor
Danmarks Nationalbank
DK-1093 Copenhagen K
Havnegade 5
Denmark

Dear Erik,

I was very interested to see the pro forma on economic policy measures and instruments which you enclosed with your letter of 11 November. I had seen the table, together with a copy of your letter of 26 October to President Delors, before our November meeting and I had hoped that we might have been able to discuss it then. The completed example you have given does appear to provide a clear picture of what degree of consultation or co-ordination is already possible in the case of Denmark and what would require more difficult political steps. Unfortunately it is very difficult for the situation in the United Kingdom to be adequately reflected in a tabular presentation which focuses on formal procedures or statute since these play little part in our system. Nevertheless, I think what you are hoping to demonstrate in this way is very important to our Committee's work. I have therefore attempted to complete the table as far as possible, but you may find it helpful also to have the following description of where decision-making responsibilities lie in the UK.

Monetary Policy

Monetary policy is formulated jointly by the Government and the Bank of England, and executed by the Bank of England. Thus the detailed decisions on market operations, including at times those involving the rates at which the central bank deals, rest with the

Bank of England. Any decisions involving the creation of new issues of Government debt rest ultimately with the Government. All of these decisions could in principle involve prior communication, consultation or co-ordination with EC partners; only the creation of new Government debt is a matter directly governed by national legislation, which gives very wide scope for discretionary decisions by the Government.

Exchange Rate Policy

Those questions relating to the exchange rate mechanism of the EMS are not currently applicable to the UK. As with monetary policy, exchange rate policy is formulated jointly by the Government and the Bank of England and executed by the Bank. It nevertheless has to conform with the statute governing the operations of the Exchange Equalisation Account so that, whereas prior communication, consultation or co-ordination of operations with EC partners could take place, decision-making power could not be transferred without a change in legislation.

Fiscal Policy

All decisions on taxation must be enacted by Parliament, which also has to approve the supply of money to finance most items of public expenditure. In both cases, the proposals are made by the Government, which will guide them by the formulation of a fiscal strategy - as currently, in the MTFs. The strategy to be followed by Government could, without change to national legislation, be a subject for consultation or co-ordination with EC partners. Individual tax proposals could not be the subject of prior open discussion, because of the risk of forestalling.

I am sending copies of this note to other members of the Committee.

Yours sincerely,
Robin

Major instruments and policy measures to be applied in connection with the gradual realisation of the Economic and Monetary Union

Instrument/policy measure	Who makes the decision?¹	Can under present provisions policies decisions be: *)			Can the decision-making power be transferred to Community bodies without changes in national legislation?
		communicated prior to implementation?	taken after consultation?	taken after co-ordination?	
<u>Monetary policy</u>					
- Change in central bank interest rates	CB (GOV)	YES	YES	YES	NO
- Credit policy	N/A	-	-	-	NO
- Reserve requirements	N/A	-	-	-	NO
- Open market operations	CB (GOV)	YES	YES	YES	NO
- Financing of government deficits	GOV+CB	YES	YES	YES	NO
- Government debt management	CB+GOV	YES	YES	YES	NO
<u>Exchange rate policy</u>					
- Change in central rates	-	UK DOES NOT PARTICIPATE DIRECTLY IN THE DECISIONS			NO
- Change in intervention margins	-	COMMON DECISIONS			NO
- Change in intervention credit mechanisms	GOV+CB	COMMON DECISIONS			NO
- Intervention policy	GOV+CB	YES	YES	YES	NO
- Management of official reserves	CB (GOV)	YES	YES	YES	NO
<u>Fiscal policy</u>					
- Direct taxes	P	} ONLY AFTER PUBLICATION		NO	NO
- Taxation of interest and capital income	P			NO	NO
- Indirect taxes	P			NO	NO
- Budget balance targets	GOV	YES	YES		NO
<u>Other policy instruments and measures (specify)</u>					
.					
.					
.					

Please specify: Governor, Central Bank Board, Minister, Cabinet, Parliament,
 CB GOV P

*) In agreement with the Secretariat the following information should be added: Communication, consultation and coordination is assumed to take place between EC-partners in a forum, where full confidentiality is assured.

KARL OTTO PÖHL

November 22, 1988

Secretariat of the
Delors Committee
attn. Mr Baer
Bank for International
Settlements
Centralbahnplatz

CH-4002 Basel

Dear Mr. Baer,

attached please find the tableau which was distributed in
our November meeting. I have filled it in for Germany.

Best regards

KO
Karl Otto Pöhl

Encl.

**Major instruments and policy measures to be applied in connection with the gradual realisation
of the Economic and Monetary Union**

Instrument/policy measure	Who makes the decision? ¹⁾	Can under present provisions policies decisions be:			Can the decision-making power be transferred to Community bodies without changes in national legislation?
		communicated prior to implementation?	taken after consultation? ⁴⁾	taken after co-ordination?	
Monetary policy					
- Change in central bank interest rates	CB	YES	YES	NO	NO
- Credit policy	CB	YES	YES	NO	NO
- Reserve requirements	CB	YES	YES	NO	NO
● Open market operations	CB	YES	YES	NO	NO
- Financing of government deficits	2)	YES	YES	NO	NO
- Government debt management	GOV	YES	YES	NO	NO
Exchange rate policy					
- Change in central rates	GOV (CB)	as forming part of the EMS these are common decisions			NO
- Change in intervention margins	GOV (CB)				NO
- Change in intervention credit mechanisms	CB				NO
- Intervention policy	CB	YES	YES	NO	NO
- Management of official reserves	CB	YES	YES	NO	NO
Fiscal policy					
- Direct taxes	P	YES	YES	NO	NO
- Taxation of interest and capital income	P	YES	YES	NO	NO
● Indirect taxes	P	YES	YES	NO	NO
- Budget balance targets	GOV (P)	YES	YES	NO	NO
Other policy instruments and measures (specify)					
- Incomes Policy ³⁾	-	-	-	-	-

1) Please specify: CB (Governor, Central Bank Board); GOV (Minister, Cabinet); P (Parliament)

2) Only limited cash advances at CB discretion.

3) Matter for management and labour.

4) Consultation not binding decision-making bodies.

INSTITUT MONETAIRE LUXEMBOURGEOIS

LE DIRECTEUR GENERAL

Luxembourg, le 22 novembre 1988

Réf.: I. 25/88 - PJ/MJP

Mr. G. Baer
Bank for International Settlements
CH - 4002 BASLE

Sir,

Please find enclosed the questionnaire
by Mr. Hoffmeyer as filled in for Luxembourg.

Sincerely,


Pierre Jaans

**Major instruments and policy measures to be applied in connection with the gradual realisation
of the Economic and Monetary Union**

Instrument/policy measure	Who makes the decision? ¹	Can under present provisions policies decisions be: *)			Can the decision-making power be transferred to Community bodies without changes in national legislation?
		communicated prior to implementation?	taken after consultation?	taken after co-ordination?	
Monetary policy					
- Change in central bank interest rates ²	CB	yes	yes	no ⁶	no
- Credit policy	CB + GOV	yes	yes	no	no
- Reserve requirements ²	CB	yes	yes	no	no
- Open market operations ²	CB	yes	yes	no	no
- Financing of government deficits ³	CB	yes	yes	no	no
- Government debt management ³	CB	yes	yes	no	no
Exchange rate policy					
- Change in central rates	GOV	Luxembourg being a member of the EMS, these are common decisions			no
- Change in intervention margins	GOV				no
- Change in intervention credit mechanisms	GOV				no
- Intervention policy ²	CB	yes	yes	no	no
- Management of official reserves ⁴	CB	yes	yes	no	no
Fiscal policy					
- Direct taxes	P	yes ⁵	yes	no	no
- Taxation of interest and capital income	P	yes ⁵	yes	no	no
- Indirect taxes	P	yes ⁵	yes	no	no
- Budget balance targets	GOV,P	yes ⁵	yes	no	no
Other policy instruments and measures (SOECIV)					
- Incomes policy	GOV,P	yes ⁵	yes	no	no
-					
-					

¹ Please specify: Governor, Central Bank Board, Minister, Cabinet, Parliament.

^{2,3,4,5,6} See reverse.

*) In agreement with the Secretariat the following information should be added: Communication, consultation and coordination is assumed to take place between EC-partners in a forum, where full confidentiality is assured.

COPY

Copenhagen, 11 November 1988

Dear Colleague,

On October 26 I sent President Delors a letter attached to which was a table to be considered at our November meeting. A copy of the letter and the table was forwarded to the members of the Committee.

Unfortunately time did not allow us to have a closer look at the questionnaire. However, in light of the issues raised at our discussions, inter alia the possibilities for ex ante co-ordination and the scope for enhancing the collaborative framework in some way or the other, I think the table could convey relevant information on the various steps to monetary union.

Hence I suggest that the table distributed at our November meeting be filled in and returned to the two Rapporteurs with a view to be considered in connection with the Committee's further deliberations.

For your convenience I enclose two copies of the table, one of which I have filled in for Denmark.

I am sending a similar letter to our colleagues on the Committee. A copy has also been sent to President Delors and the two Rapporteurs.

Yours sincerely,



Enclosures

Major instruments and policy measures to be applied in connection with the gradual realisation of the Economic and Monetary Union

Instrument/policy measure	Who makes the decision? ¹	Can under present provisions policies decisions be: *)			Can the decision-making power be transferred to Community bodies without changes in national legislation?
		communicated prior to implementation?	taken after consultation?	taken after co-ordination?	
<u>Monetary policy</u>					
- Change in central bank interest rates	CB	YES	YES	YES	NO
- Credit policy	CB+GOV	YES	YES	YES	NO
- Reserve requirements	CB+GOV	YES	YES	YES	NO
- Open market operations	CB	YES	YES	YES	NO
- Financing of government deficits	GOV (CB)	YES	YES	YES	NO
- Government debt management	GOV (CB)	YES	YES	YES	NO
<u>Exchange rate policy</u>					
- Change in central rates	GOV (CB)	} as a member of EMS these are common decisions			NO
- Change in intervention margins	GOV (CB)				NO
- Change in intervention credit mechanisms	CB (GOV)				NO
- Intervention policy	CB	YES	YES	YES	NO
- Management of official reserves	CB	YES	YES	YES	NO
<u>Fiscal policy</u>					
- Direct taxes	P	2)	YES	NO	NO
- Taxation of interest and capital income	P	2)	YES	NO	NO
- Indirect taxes	P	2)	YES	NO	NO
- Budget balance targets	GOV	2)	YES	?	NO
<u>Other policy instruments and measures (specify)</u>					
- Incomes Policy	GOV, P	2)	YES	NO	NO
-					
-					

1 Please specify: $\underbrace{\text{Governor, Central Bank Board}}_{\text{CB}}, \underbrace{\text{Minister, Cabinet}}_{\text{GOV}}, \underbrace{\text{Parliament}}_{\text{P}}$

2) Government proposals can be notified when tabled.

*) In agreement with the Secretariat the following information should be added: Communication, consultation and coordination is assumed to take place between EC-partners in a forum, where full confidentiality is assured.

Major instruments and policy measures to be applied in connection with the gradual realisation of the Economic and Monetary Union

Instrument/policy measure	Who makes the decision? ¹	Can under present provisions policies decisions be: *)			Can the decision-making power be transferred to Community bodies without changes in national legislation?
		communicated prior to implementation?	taken after consultation?	taken after co-ordination?	
<u>Monetary policy</u> <ul style="list-style-type: none"> - Change in central bank interest rates - Credit policy - Reserve requirements - Open market operations - Financing of government deficits - Government debt management 					
<u>Exchange rate policy</u> <ul style="list-style-type: none"> - Change in central rates - Change in intervention margins - Change in intervention credit mechanisms - Intervention policy - Management of official reserves 					
<u>Fiscal policy</u> <ul style="list-style-type: none"> - Direct taxes - Taxation of interest and capital income - Indirect taxes - Budget balance targets 					
<u>Other policy instruments and measures (specific)</u> <ul style="list-style-type: none"> - - - 					

¹ Please specify: Governor, Central Bank Board, Minister, Cabinet, Parliament.

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