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Final

MINUTES

OF THE 266th MEETING OF THE COMMITTEE OF GOVERNORS

OF THE CENTRAL BANKS OF THE MEMBER STATES

OF THE EUROPEAN ECONOMIC COMMUNITY

HELD IN BASLE ON TUESDAY, 12TH MAY 1992 AT 10.00 a.m.

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The Chairman welcomed Mr. Beleza as a new member of the Committee.

I. Approval of the minutes of the 265th meeting

The Committee approved the minutes of the 265th meeting.

II. Monitoring of economic and monetary developments and policies in the EEC based on:

- Preparation by the Foreign Exchange Policy Sub-Committee (Monitoring)
- Statistical charts and tables prepared by the Secretariat
- 1. Statement by Mr. Saccomanni, Chairman, Foreign Exchange Policy
 Sub-Committee (Monitoring)

The Monitoring Group had noted that the US dollar had weakened since re-emerging doubts about the strength of the US economic recovery had fuelled expectations of a cut in US official interest rates. The Japanese yen had been marginally stronger after the G-7 Summit and the supporting intervention conducted by the Bank of Japan; however, the poor performance of the Japanese stock market continued to be a negative factor.

In the EMS, conditions had been generally stable. Despite the firmness of German interest rates, there was an trend towards lower interest rates in a number of countries in view of the moderation of economic activity and good inflation performances. No room for manoeuvre existed elsewhere. In Germany, the authorities remained concerned about the strength of monetary expansion and the level of wage settlements. In Italy, political uncertainties and the size of the public sector deficit ruled out a change in monetary policy despite a slow-down in inflation. In Spain, the inflation trend had been disappointing; the present stance of monetary policy would be maintained. In Portugal, lower interest rates were ruled out for domestic reasons; the strong appreciation of the escudo was owed more to the strength of the current account and foreign direct investments than to financial capital inflows. Future upward movements of the Portuguese currency would be met by intervention.

2. Statement by Mr. Borges, Chairman, Monetary Policy Sub-Committee

The tentative conclusions so far reached by the Monetary Policy Sub-Committee at its first meeting to prepare the 1992 ex post exercise had indicated that the performance of Community countries' economies had been disappointing. Economic activity had been weaker than expected owing to low levels of business and consumer confidence but, in part, due to slower growth outside of the Community. Despite weaker than expected growth, inflation prospects had not altered. Convergence would be of the wrong kind and would be achieved because five countries expected inflation to increase. Unless the inflation criterion in the Treaty on European Union was supplemented by an absolute standard, price stability might be jeopardised. The resilience of inflation had been due to domestic factors:

wage pressures remained strong; in some countries indirect taxes had been increased; fiscal policy in several countries was providing less counter-inflationary support to monetary policy than had been forecast, although cyclical factors accounted for a large part of the upward revision of budget deficits.

Actual monetary growth had significantly deviated from monetary targets in several countries. Nevertheless, monetary targets might still be met in most cases, although an improvement in the policy mix in some countries would be necessary. Exchange rates had remained stable, despite the increase in German official interest rates in December 1991, helped by the adoption of policies in France, the United Kingdom and Italy aimed at keeping their respective exchange rates closer to the middle of the narrow ERM band. Inverted yield curves had become steeper; it was difficult to assess whether low long-term interest rates reflected increased market confidence in the anti-inflationary stance of economic policies or persistent weak growth prospects. Narrow interest rate differentials suggested that there was little room for manoeuvre by individual countries other than in the context of properly co-ordinated action.

Much depended on the prospects in Germany where the restoration of price stability must be given the highest priority. The size of the German economy and its spillover effects, as well as the anchor role of the Deutsche Mark in the ERM, made it difficult for other countries to achieve or maintain a rate of inflation much below that in Germany. If German inflation did not decline significantly and monetary growth continued to exceed its target, this might threaten price stability in the Community and generate strong tension in the ERM. In most other countries, the main risks related to the lack of adequate fiscal consolidation, or the tendency to trim budget deficits by increasing indirect taxes rather than through spending cuts.

3. Statement by Mr. Rey, Chairman of the Committee of Alternates

The Alternates were concerned about the policy response in a situation in which the ERM gave little room for manoeuvre with respect to interest rates and that the resilience of inflation resulted to some extent from different factors. Some of these factors would not respond to a tightening of monetary policy and it was important to encourage the elimination of structural rigidities wherever possible. Given that the convergence criterion for inflation had been set in relative rather than absolute terms in the Treaty on European Union, there was a question whether the anchor currency's unsatisfactory price performance was a cause of the general weakening of anti-inflationary pressure.

Where interest rate flexibility had emerged, it had been used prudently, as in the United Kingdom. In France, reserve requirements had been used to obtain a downward movement in market interest rates without cutting official rates. In the

Benelux countries, short-term market interest rates had remained below those in Germany without implying any change in policy. The question was raised whether the downward trend of interest rate differentials vis-à-vis Germany reflected a sustainable decoupling.

In some countries, domestic reasons called for tight monetary policy stances to be maintained. Political reasons currently played a role (in Denmark in view of the forthcoming referendum) and in Italy (in addition to bad news on budgetary developments). The strength of the escudo would not lead to a lowering of Portuguese interest rates; the central bank would use interventions, if necessary, to prevent tension in the ERM. There were good prospects for inflation to fall in Greece, but the outcome was subject to the implementation of fiscal adjustment. In Germany, growth was proceeding as forecast, but the recent public sector wage settlement was of concern. Moreover, the growth of M3 exceeded the target by a margin which could not be accounted for by the effects of an inverted yield curve alone. The desirability of restoring the traditional stability of prices in Germany as soon as possible was in the interests of all concerned.

4. <u>Discussion by the Committee</u>

Mr. Ciampi said that the annual inflation rate in Italy would have fallen by at least 1 percentage point by mid-1992 compared with a year previously. Italy thus also contributed to the general reduction in Community inflation. He did not agree that the difficulties encountered in Italy in reducing the public sector deficit had induced corporations to raise prices to recover profitability. Inflation would be influenced by preserving a stable exchange rate and by the income policy which the Italian Parliament had approved the previous September. It would be in the interests of businesses to reconquer market shares by compressing costs, controlling prices and increasing productivity.

Mr. Schlesinger agreed that the German inflation rate was too high and that risks were being run in respect of wage settlements. The rates of expansion of the money stock and of bank lending to the private sector were of concern. In contrast, the economy had grown at a satisfactory rate in the first quarter of 1992. Community countries were converging towards a higher rate of inflation; it would be inappropriate if monetary policy in Member States, with the exception of Germany, concentrated on reducing interest rates without tackling the resultant inflationary pressures. It would be unsatisfactory if the inflation criterion in the Treaty on European Union could be met whilst inflation rose in the best performing countries.

Mr. de Larosière said that French M3 was growing by 3.5% per annum, which was below the lower end of the target range of 4-6%. Credit expansion was modest at around 5.4%, the rate of growth of prices was 3.3% and industrial production had remained stable overall. External demand had been supporting the French economy and

the balance of trade had been in surplus for a number of months. The French franc had moved into the upper half of the narrow ERM band; and market interest rates had responded to the improvement in the fundamentals such that short-term interest-rate differentials vis-à-vis the Deutsche Mark were now very slim. However, larger differentials remained for longer maturities; market operators had yet to be convinced that the current economic objectives in France would be sustained. Wage settlements in the public sector were moderate at 2.5%. Fiscal policy reflected the weakness of the French economy, although expenditure was carefully controlled. Monetary policy had not been relaxed; reserve requirements had been lowered to reduce the cost of credit. Official interest rates had not been altered. The present low level of reserve coefficients did not mean that the authorities had given up the instrument of compulsory reserve requirements. Mr. de Larosière shared the concern about the deterioration in the quality of inflation convergence. Inflation in Germany had to a large extent been stimulated by the country's fiscal deficit; therefore, the policy mix needed to be corrected by reducing public expenditure. In other countries, weak economic growth had led companies to increase prices to offset increases in taxation which, themselves, might have been made to counteract a loss of revenue due to slow economic growth. On balance, the diversity of situations could not be tackled by a single policy approach.

Mr. Beleza said that the experience of the Portuguese escudo's first month in the ERM had been satisfactory. The reduction of inflation was the main aim; the large surplus in the basic balance was expected to continue despite Portugal's temporary capital controls. The rapid growth of credit and monetary aggregates did not allow interest rates to be lowered; intervention would be undertaken, if necessary, to check the rise of the Portuguese currency.

Mr. Christodoulou said that the 2 percentage point fall in April in the Greek inflation rate reflected the underlying trends. The persistence of inflation in earlier months had been due to the liberalisation of the Greek economy, increases in public utility rates in January 1992, and an increase in indirect taxes to bring them into line with the levels prevailing in other Community countries. The prospect of a moderation in wage increases had greatly improved; the current public sector wage freeze was working and the anti-inflationary process was supported by tight monetary policy and an unaccommodating exchange rate policy. Overall, inflation was expected to fall to around 12-13% by the end of 1992 provided that fiscal policy was implemented consistently. There was uncertainty concerning the effect of the tax reform legislation that was before the Greek Parliament. Furthermore, Greece was practically in a war zone; military expenditure, as a percentage of GDP, was more than twice as high as that of the average NATO member, and refugees were putting a strain on the social services.

Mr. Doyle recalled that markets had recognised improvements in fundamentals after a fairly long time-lag. The interest rate differential vis-à-vis Germany had been as large as 1% at the beginning of the current year and had fallen to less than 0.5% only recently. The reduction in Irish official interest rates in May had been in response to the downward trend in market rates. The narrowing of differentials had been caused by the removal of a number of uncertainties: the recovery of the pound sterling, which influenced the Irish currency, following the British general election; the ending of the German public sector strike; and the settlement of the commercial bank strike in Ireland.

Mr. Duisenberg said that inflation in the Netherlands had risen to 4.2% in the year to February 1992, but was within the range of 1.5 percentage point of the three best inflation performances in the Community. He was concerned that this had led to some complacency among politicians. When preparing the draft statute for the ESCB, there had been a consensus among the Governors that the primary aim should be price stability, which had been considered would be achieved when inflation fell to between 0% and 2%. He suggested that the Governors should express that view consistently when making public statements and make it clear that they were not satisfied with inflation which was within the range of 1.5 percentage point of the average of the three best performances.

Mr. Borges said that an adverse impact of the high inflation in Germany had been felt in countries with below average inflation rates; the discipline that used to be brought by low German inflation had been relaxed. This was particularly the case in France, Denmark and Ireland where economic growth justified lower inflation performances than were being achieved. In contrast, the tight German policies had a positive impact in countries with higher than average inflation rates. In Italy, inflation was above average but declining rapidly owing to tight exchange rate and monetary policies; but the forecast of 4.5% inflation in Italy for 1992 now seemed unlikely because of the fiscal performance. The deviation from the French monetary targets had occurred not because monetary policy was excessively tight but because the weakness of economic activity had caused a slowdown in the monetary aggregates.

III. Adoption of the Committee's report to the EEC Ministers of Finance on developments on the foreign exchange markets of the nineteen countries participating in the concertation procedure during April and the first few days of May 1992

The <u>Committee</u> adopted the report, which would be sent to the EEC Ministers of Finance in the usual way.

IV. Issues of common concern to EC central banks in the field of payment systems

1. <u>Statement by Mr. Padoa-Schioppa, Chairman of the Ad Hoc Working Group on EC Payment Systems</u>

Three reports had been prepared. The first, the "Blue Book", was a descriptive review of the payment systems in the Member States; it contained no policy recommendations. The Group suggested that it should be published, possibly in an edited form, because it contained valuable information both for central banks and the banking community.

The second report, on the ECU Clearing and Settlement System, did not contain any substantial additional policy recommendations to those which had been reported to the Governors in September 1991. Much of the work since then had been devoted to persuading the ECU Banking Association ("EBA") to make clear commitments regarding improvements to the existing system. It would be necessary to monitor the implementation of such improvements and examine with the EBA the design of an entirely new system; the existing system could not fully comply with the minimum standards set out in the Lamfalussy Report. The Group suggested its report should not be published; interested parties were already aware of its contents.

The third, and main, report was a review both of the payment system issues that currently existed and those which faced central banks in the context of the Single Market and of EMU. The main focus was on large-value payment systems although retail systems were not totally outside the central banks' area of responsibility. A large number of cross-border payments were already being made and further growth was expected. There was no case for creating a transitional EC-wide payment system purely for Stage Two of EMU; the improvements in the structure and oversight of existing domestic systems would be sufficient to meet the needs of both the Single Market and of Stage Two. They could also provide the necessary foundation for work on the EC-wide, large-value payment system required for Stage Three. The Group that this report also should not be published: recommendations which were addressed to the central banks rather than to the banking community, although it might be considered making an edited version available to banks at a later date.

2. <u>Statement by Mr. Rey, Chairman of the Committee of Alternates</u>

The Alternates had agreed that the "Blue Book" should be published in its present English form, possibly after being edited, so as to meet the information needs of the banking community. The Secretariat should clarify the main options regarding publication. Other language versions, if needed, should be produced and distributed by individual central banks.

The dialogue with the EBA on the question of the ECU Clearing and Settlement System was felt to have been particularly useful and should continue to

ensure that the improvements were made according to the agreed timetable. One Alternate had insisted that the ECU system should remain in private hands and that the liquidity facilities proposed by some central banks should not represent a move towards greater central bank involvement. However, the possibility of creating a collective liquidity facility could continue to be studied without prejudging its effective implementation. They had also agreed that any proposed major modification or replacement of the existing system would need to be examined.

The Alternates had broadly endorsed the recommendations of the main report. The future Working Group on Payment Systems should prepare an edited version to help the banking community to understand the concerns of the central banks. The Governors should decide on how it would be distributed. The present Working Group was felt to be the appropriate body to carry on this work and to implement the reports' recommendations. A new mandate would be submitted to the Governors for consideration in June.

3. Discussion by the Committee

Mr. Schlesinger emphasised that the ECU Clearing and Settlement System should remain private and that no collective facility should be introduced.

Mr. de Larosière supported the view that it would not be wise to enter into new investment in payment systems that would be of a purely transitory nature; it was more appropriate to improve existing arrangements for the moment. Communication between the central banks and the banks in their respective countries concerning the Working Group's conclusions should be done on the basis of an agreed edited report.

The <u>Committee</u> agreed that the "Blue Book" should be published; the means by which this should be done would be decided by the Governors in July based on a note to be prepared by the Secretariat. Neither the ECU Clearing and Settlement report, nor the main report, would be published, although an edited version of the latter might be prepared at a later date. The Ad Hoc Working Group would be maintained as the "Working Group on EC Payment Systems" and its mandate would be considered by the Governors at their June meeting.

V. Supervision of conglomerates providing financial services based on:

- Report by the Banking Supervisory Sub-Committee entitled "Statement of principles for the monitoring and supervision of conglomerates providing financial services"
- 1. Statement by Mr. Quinn, Chairman of the Banking Supervisory Sub-Committee
 In carrying out its work, the Sub-Committee considered topics which fell
 into two broad categories. Firstly, those which were analytical in nature without
 necessarily aiming to produce precise recommendations. For example, the

Sub-Committee was looking at the question of financial fragility in EC countries and at co-operation amongst those countries which had credit registers. Secondly, those topics which were more sharply focused and where the experience of senior practical supervisors could provide input to the issues. In this context, consideration was being given to the practical implementation of the Second Banking Co-ordination Directive and to the implications for the supervision of branches of banks from third countries. The Sub-Committee was complying with the Governors' request that it should liaise with other bodies regarding the lessons arising from the BCCI affair by staying abreast of the deliberations of, and discussing the issues with, other supervisory committees and the Commission.

The paper on the supervision of financial conglomerates fell into the first category of topics and involved practical supervisory problems. In the United Kingdom, for example, difficulties arising in both financial and mixed-activity conglomerates had been experienced. The systemic implications were potentially challenging; it was not difficult to see how contagion might spread within a financial conglomerate. The paper, which set out principles to help guide supervisors of entities which constituted a financial conglomerate, had been prepared by a Sub-group. It was regrettable, but not surprising, that the question of the capital adequacy of groups had not yet been resolved; this difficult issue had been discussed both in the Commission and the Basle Committee on Banking Supervision for some time and was not likely to be easily concluded. However, it might only be a question of timing given the progress which had already been made on the question of the measurement of risk and the definition of capital in recent years. The paper also contained a number of conclusions concerning how the risks in financial conglomerates might be reduced; much would depend on collaboration with the supervisors of other functional activities. It was suggested that the paper should be passed for study to the Commission and to the Basle Committee on Banking Supervision.

2. <u>Discussion by the Committee</u>

Mr. Duisenberg supported the thrust of the report. He shared the regret that it had proved impossible to reach a consensus on the capital adequacy question and agreed that this might be more a matter of timing than substance. Given the existing differences between supervision and accounting rules, this issue required further study. Whilst recognising the sensitivities, particularly in the United Kingdom at the present time, he was strongly of the opinion that external auditors should be obliged and not just "able and possibly obliged" to report adverse developments relating to supervised entities directly to the respective supervisors. He hoped that all countries could soon agree that external auditors should be subject to such an obligation.

Mr. Schlesinger also expressed his support for the Sub-Committee's paper and the way in which compromises had been found on a number of difficult issues which were the consequence of the different situations in the respective Community countries.

Mr. de Larosière agreed that it was a valuable report and thanked Mr. Quinn for his objectivity, particularly on the question of consolidation. He supported the suggestion that the report should be transmitted for study to the Basle Committee on Banking Supervision since there were considerations of a systemic nature which extended beyond the Community.

Mr. Ciampi said that he appreciated the way in which the report had analysed the problems of supervising mixed-activity conglomerates and shared the view that greater co-ordination among the various types of supervisors, particularly with those in the insurance sector, should be worked towards.

The <u>Committee</u> agreed that the report should be transmitted to the European Commission and to the Basle Committee on Banking Supervision.

VI. Preparatory work for the move to the final stage of EMU: adoption of the special mandates for the Sub-Committees and the new Working Groups

1. Statement by Mr. Rey, Chairman of the Committee of Alternates

The special mandates for the existing Sub-Committees and the mandates for the new working groups had been prepared by the Secretariat on the basis of the work programme endorsed by the Governors at their April meeting. The mandates included some common features: they provided for possible changes in working methods once the President of the EMI had been nominated; the Sub-Committees and working groups were each to submit work programmes; provisions were included for the Governors to give guidelines for co-ordinating the work.

The special mandates for the Sub-Committees would be without prejudice to their respective standing mandates. While membership of the working groups was confined to officials from the Community central banks, an exception had been made with respect to the Working Group on Statistics; its mandate provided that the Chairman of the Committee on Monetary, Financial and Balance of Payments Statistics of the EFTA, as well as representatives from international organisations, might be invited to its meetings. However, the invitation of technical experts in the context of the mandate for the Working Group on Information Systems should be decided on an ad hoc basis. The special mandate for the Banking Supervisory Sub-Committee should be adopted with the proviso that "the Sub-Committee will have to take account that questions concerning banking supervisory policy and the supervision of individual financial institutions will not be among the responsibilities of the EMI".

When examining the mandates, the Alternates had also considered whether the work should be undertaken by the Sub-Committees and the new working groups with the assistance of the Secretariat or whether, and to what extent, it should be carried Secretariat/Economic out directly bv the Unit the Sub-Committees/working groups focusing more on policy issues, review and liaison tasks. The choice between the two methods was important for the assessment of the staffing requirements and organisation of the Secretariat. The Secretary General had made some tentative proposals but, for him to finalise them, more precise guidance needed. Such guidance should cover both the work the staff of Secretariat/Economic Unit was expected to perform and the organisation of the Secretariat.

2. Discussion by the Committee

Mr. Ciampi was in favour of gradually giving greater importance to the Secretariat so as to start introducing changes in preparation for the establishment of the EMI at which time the working groups would cease their work. The Secretariat/Economic Unit should be increasingly used such that the Sub-Committees and working groups would concentrate mainly on discussing policy issues.

The <u>Chairman</u> felt that it was difficult to establish firm rules to be applied to all cases. One should therefore proceed in a pragmatic and flexible way.

Mr. Schlesinger agreed with the Chairman. The relationship between the Secretariat and the Sub-Committees and working groups would differ according to the subjects to be considered. In some cases, the Secretariat would be in a position to provide more technical support than in other cases. The Secretariat should only be developed gradually; it would not be advisable to create a staff which would foreshadow the structure of the future EMI.

Mr. Rubio agreed that it was not easy to lay down firm rules although guidance should be given as to how the work should be organised. The Secretariat should be provided with the resources that it needed to be able to support the Sub-Committees and working groups. At the same time, it would be advisable to develop a Secretariat on which the EMI could build but the former should not grow too quickly.

Mr. de Larosière felt that the present working procedures based on the existing Sub-Committee structure were working well and did not need to be changed for the moment; he agreed that the Secretariat needed to be reinforced so as to provide the necessary support to the new working groups.

Mr. Leigh Pemberton said that, until the start of Stage Two, the national central banks should play a key role in initiating and guiding the work; the Sub-Committees should continue as they were currently organised. A clearer picture

would be obtained of the Secretariat's staffing needs once the various work programmes had been prepared. However, it seemed likely that the Secretariat would need between three and five additional staff before the autumn; the Secretary General should identify the type of people he required.

Mr. Jaans agreed that in Stage One the Sub-Committees should assume responsibility for the work whereas, in Stage Two, they might have a consultative status. In any case, the Secretariat was important to the quality of the Sub-Committees. He supported the immediate reinforcement of the Secretariat to enable the new working groups to start their work.

The <u>Committee</u> approved the mandates as they had been drafted together with an amendment to the special mandate of the Monetary Policy Sub-Committee which had been suggested by Mr. Schlesinger and subject to the qualifications mentioned by Mr. Rey.

3. Decisions taken by the Committee of Governors at its restricted meeting

At its restricted meeting preceding the present meeting, the Committee had taken the following decisions. Firstly, the Working Group on "Printing and Issuing a European Bank Note" would be chaired by Mr. Jarvis, General Manager of the Bank of England's Printing Works. Secondly, the chairmen of the other working groups would be appointed by the Governors at their meeting in June on the basis of a proposal by the Chairman after having consulted the Chairman of the Alternates. The latter's recommendation would be made on the basis of a discussion and review by the Alternates of preferences expressed by the members of each working group. Thirdly, vacancies in the Secretariat deriving from the creation of new working groups would be filled following the appointment of the chairmen of the working groups. The central banks, via the Alternates, would be informed by Mr. Baer of the specific job descriptions. After having interviewed the most suited candidates, he would make recommendations to the Chairman of the Committee of Governors on the basis of professional qualifications and taking into account a reasonable balance of EC nationals in the Secretariat/Economic Unit. The Chairman would, in turn, make a proposal to the Committee of Governors.

VII. Other matters falling within the competence of the Committee

1. Expenses incurred on behalf of the Committee in the first quarter of 1992 Mr. Rubio said that, since the beginning of 1991, the Committee on Financial Matters had monitored the expenditure incurred by the Secretariat on behalf of the Committee of Governors on the basis of quarterly statements prepared by the Secretariat. The statement covering the first quarter of 1992 showed that expenses had developed in line with the initial outline projections which had been approved by the Governors in March 1992. However, the cost of producing and distributing the annual report, as

well as the outlay for the preparatory work for the move to Stages Two and Three of EMU, would have a considerable impact on cost developments in the coming months. A revised projection would be prepared as soon as the organisation of the preparatory work had been decided.

2. <u>Co-operation between Community countries and third countries with close ties to the Community</u>

The <u>Chairman</u> said that, in the light of the discussions at the recent informal ECOFIN meeting, the Foreign Exchange Policy Sub-Committee should examine the possible formulae for closer co-operation between Community countries and other countries with close ties to the Community, in particular, taking into account the implications for the functioning and the nature of the ERM. Such co-operation might include an acceptance by third countries of consultation obligations similar to those which applied to EMS currencies while, in exchange for such obligations, third countries might enter into bilateral swap arrangements and participate in the Monitoring Group. The Sub-Committee should also examine the unilateral pegging of currencies to the ECU as well as the establishment of bilateral parities vis-à-vis ERM currencies.

Mr. Rey said that the Secretariat had been informed that Cyprus had decided to link its currency to the ECU at a date and at a rate still to be decided. Representatives of the Cyprus central bank were due to discuss this with the Secretariat the following day. Furthermore, the Bank of Finland was also considering seeking some kind of arrangement with EC central banks which was likely to be more akin to the arrangements that had already been agreed with Norway. The Alternates felt that any formal approach by Finland should be deferred until the Foreign Exchange Policy Sub-Committee had reported on its deliberations.

Mr. Rubio preferred to restrict the extension of swap arrangements to those countries that were going to negotiate to join the Community.

Mr. Schlesinger agreed that Member States should limit the number of countries with which they entered into bilateral swap arrangements.

Mr. Rey pointed out that the wording of the existing EMS agreement concerning monetary co-operation with third countries was wide in scope.

Mr. Jaans queried whether it would be appropriate to draw up rigid criteria concerning co-operation arrangements with non-Community countries and suggested that these be dealt with on a case by case basis.

Mr. Leigh-Pemberton said that he would prefer there to be a general criterion which would give EC central banks the right to decide whether an applicant had close enough ties to make them eligible for more formal links.

Mr. Christodoulou agreed that such a definition, coupled with the requirement that an applicant should satisfy certain basic economic criteria, would be desirable.

The <u>Committee</u> agreed that the Foreign Exchange Policy Sub-Committee should consider these issues and provide the Governors with a report in time for their July meeting; the conclusions would be communicated at the informal ECOFIN meeting in September.

3. Rules and conditions to apply regarding entry to the ERM and the move from the wide to the narrow ERM band

Mr. Rey said that the Alternates had had a preliminary discussion concerning the clarification of the rules and conditions for entry into the ERM and the move by a currency from the wide to the narrow ERM band. Circumstances had changed in a number of respects since the EMS had been created and the ERM had acquired a credibility that was beneficial to all member countries. Most Alternates had felt that it would not be advisable to amend the existing rules since this would involve political sensitivities, but suggested that an understanding be sought based on an enhanced consultation procedure between the central banks; the focus would be on the sustainability of the position of the currency concerned. There remained a need to clarify the scope of any such consultations. The Alternates would report to the Governors at their July meeting following further discussions.

Mr. Rubio said that this was a sensitive matter for both the Bank of Spain and the Spanish Government, neither of which could accept changes to the existing conditions. The requirement of prior consultation should not be transformed into a request for prior permission to enter into the ERM or to move to the narrow band.

Mr. Christodoulou shared the view expressed by Mr. Rubio.

4. Graphic ECU competition

Mr. Rey said that the graphic ECU competition had become a major undertaking which sought to attract wide television coverage. Financial support had been made available by the French Ministry of Foreign Affairs and the European Commission, and possibly other Community countries; the organisers had claimed that they had received wide support, even though they might not in all cases have received financial assistance. He referred to the minutes of the Committee's February meeting at which Mr. Delors had said "it was one thing to encourage the use of the private ECU, but quite another to support initiatives that were taken in respect of its logo. The Commission was neutral in its stance towards those who wished to promote the use of the ECU, though it was not appropriate to encourage third parties to work on its design; this was the responsibility of the central banks".

Mr. Christophersen said that he was not aware that any financial contribution had been made by the Commission, although this might have been provided by one of the departments which dealt with the general promotion of the European Community. He would find out and let Mr. Baer know the outcome.

The <u>Chairman</u> suggested that the Governors should clarify, if asked by journalists, that there was no connection between the Committee of Governors and the competition.

VIII. Date and place of next meeting

The next meeting of the Committee of Governors will take place in Basle on Monday, 15th June starting at 10.30 a.m.

266th MEETING OF THE COMMITTEE OF GOVERNORS 12th May 1992

Those present were:

Chairman of the Committee of Governors Mr. Hoffmeyer Banque Nationale de Belgique Mr. Verplaetse Mr. Rey* Mr. Michielsen Danmarks Nationalbank Mrs. Andersen Mr. Hansen Deutsche Bundesbank Mr. Schlesinger Mr. Tietmeyer Mr. Rieke Bank of Greece Mr. Christodoulou Mr. Papademos Mr. Karamouzis Mr. Rubio Banco de España Mr. Linde Mr. Durán Mr. de Larosière Banque de France Mr. Lagayette Mr. Cappanera Central Bank of Ireland Mr. Doyle Mr. Coffey Mr. Reynolds Banca d'Italia Mr. Ciampi Mr. Dini Mr. Santini Institut Monétaire Luxembourgeois Mr. Jaans Mr. Duisenberg Nederlandsche Bank Mr. Szász Mr. Boot Mr. Beleza Banco de Portugal Mr. Bento Mr. Leigh-Pemberton Bank of England Mr. Crockett Mr. Foot Commission of the European Communities Mr. Christophersen Mr. Pons Chairman of Sub-Committees/Working Groups Mr. Borges Mr. Padoa-Schioppa Mr. Quinn Mr. Saccomanni Secretariat of the Committee of Governors Mr. Baer Mr. Scheller

Mr. Godeffroy

^{*} Chairman of the Committee of Alternates