

OPINION OF THE EUROPEAN MONETARY INSTITUTE

on a consultation by the Finnish Ministry of Finance under Article 109f (6) of the Treaty establishing the European Community and Article 5.3 of the Statute of the EMI;

on a draft amendment of the Finnish Currency Act (358/93).

CON/95/16

- 1 On 9th November 1995 the Finnish Ministry of Finance transmitted a request for consultation to the EMI on a draft amendment of the Finnish Currency Act (358/93) ("the Draft).
- 2 The Currency Act was issued on 16th April 1993. The Draft proposes to repeal Article 3 and amend Article 4 of this Act. The objective of the Draft is to form the legal basis for Finland's decision to participate in the Exchange Rate Mechanism of the European Monetary System ("EMS"), when the circumstances permit to discontinue the current floating exchange rate regime. The changes proposed in the Draft would not affect the present floating exchange rate regime of the Finnish markka, nor prevent a continuation of this regime.
- 3 The EMI welcomes the removal of existing legal obstacles which prevent Finland from participating in the Exchange Rate Mechanism of the EMS.
- 4 Article 3 of the Currency Act defines the unilateral link of the markka to the currencies of the European Community as the prescribed foreign exchange regime, while allowing for the present floating regime as a temporary situation. By repealing this article, the amended Currency Act will no longer specify any prescribed exchange rate regime. Rather, the new Article 4 will deal only with the division of responsibilities in the context of decisions related to the external value of the Finnish markka.

- 5 According to the Draft, the Council of State shall make decisions regarding the external value of the markka on a proposal by the Bank of Finland. Such proposal shall be made by the Parliamentary Supervisory Board on a proposal by the Board of the Bank of Finland. Although the steps in the decision-making process are clear, the competence of the bodies involved might need further clarification. The Draft could be interpreted, on the one hand, to imply that all decisions, including the ones relating to the day-to-day management of the markka's exchange rate, would be taken by the Council of State; on the other hand, the detailed rationale attached to the Draft clearly states that the Council of State shall make decisions concerning the exchange rate system or regime, which implies that the daily management of the markka exchange rate should be left to the Bank of Finland.
- 6 In order to expedite any lengthy decision-making process prescribed in the Draft, § 4 foresees as an option that the Council of State may, on a proposal by the Bank of Finland, authorise the Ministry of Finance to decide on changes in the markka's external value or fluctuation limits, within the framework of the European Monetary System. This option would provide sufficient flexibility and rapidity with regard to ERM realignments. There is a danger, however, that, by specifically referring to the European Monetary System, this provision might not apply if the legal framework for exchange rate policy co-operation within the EU were to be changed. Specifically, this difficulty might arise in the event that an entirely new intra-EU arrangement between the European currency area and other EU countries were set up in Stage Three of EMU. Thus a wording which would avoid an explicit reference to the European Monetary System would allow more flexibility and reduce the likelihood that a new amendment would be needed later on. Finally, further clarification might be needed, since the scope and the duration of the authorisation are not specified.
- 7 In the provision according to which "the Bank of Finland shall be entitled to temporarily disregard the fluctuation limits", it should be made more explicit that, in the context of the ERM, such a step might be taken only after multilateral consultation of the member states participating in the ERM.
- 8 The EMI has no objection to its opinion being made public.

11th December 1995