

10th September 1990

Main points of discussion by the Alternates
on 9th to 10th September 1990

1. Draft Statute of EuroFed

The discussion was devoted to the issue of centralisation/decentralisation in the implementation of monetary policy. This issue had so far proved to be, together with the related issue of financial provisions of the System, the most controversial one among the Alternates. Some progress has been made, in particular thanks to more flexibility from the French (who, together with the British, are the proponents of decentralisation) and the Germans (who defend, together with the Italian representative, a centralised solution). The preservation of various financial centres in the EC has played an important role in the discussion. The compromise may follow these lines - at least at the beginning of Stage Three where the harmonisation of the instruments of monetary policy and of the markets will not be complete:

- central execution of exchange market interventions; but
- execution at national level of domestic monetary policy (directives from the centre, but means of execution - what kind of paper to take, what volume, etc. - left to national central banks);
- pooling of profits and profit-sharing according to some key (so as to avoid incentives and bias in the execution).

Mr. Rey intends to report to the Governors on the whole work done by the Alternates since the start of their work in May 1990. There will not be many points of difference (except on the respective roles of the Council and the Board, and the "centralisation versus decentralisation" matter).

There should be no mention of three topics where the work of the Alternates is only beginning:

- financial provisions;
- banking supervision;
- transitory measures.

Another meeting of the Governors could be proposed to finalise the draft Statute without waiting for the next regular one in November (there is generally no meeting in October due to the IMF-World Bank Annual Assembly).

2. Exchange/interest rate developments

Main conclusions:

- recent exchange rate developments outside the Community (lower dollar, firmer yen) and inside (narrowing of the ERM band) have gone in the right direction;
- but some fragilities persist:
 - progress in EC convergence is questionable (but favourable signs expected in the United Kingdom);
 - the Gulf crisis/oil shock can create new divergences in the EC;
 - increase of worldwide financial requirements (German unification and Gulf crisis/oil prices);
- monetary policy should avoid giving signs of relaxation;
- Mr. Tietmeyer stressed the link between the Deutsche Mark's position in the ERM band and German interest rates: a strong Deutsche Mark (at least no weakening) would help to avoid a rise of German money market interest rates. He asked the partner central banks not to act against a comfortable Deutsche Mark position within the band. Besides, it should be noted that Deutsche Mark purchases by other EMS central banks have been significant during the summer.

3. Mutual compatibility of national monetary policies

The Alternates had an exchange of views on a paper presented by the Economic Unit, without drawing particular conclusions. This paper is intended to guide the Monetary Policy Sub-Committee in the preparation of the next exercise on a common monetary policy framework for 1991, which is due to start later in the autumn.

4. Financial arrangements with the BIS

The Alternates discussed the financial consequences of the growing costs implied in the expanding role of the Committee of Governors. They agreed to set up a small group to follow the matter.

5. Electronic mail services linking EC central banks

The Alternates took note of a technical report on this subject. Suppliers for the equipment will be selected in the next few months. The new mailing system (which would largely replace the distribution of documents by telecopies) will technically be open to participants other than EC central banks.