

9th July 1991

Confidential

Final

MINUTES

OF THE 256th MEETING OF THE COMMITTEE OF GOVERNORS
OF THE CENTRAL BANKS OF THE MEMBER STATES
OF THE EUROPEAN ECONOMIC COMMUNITY

HELD IN BASLE ON MONDAY, 10th JUNE 1991 AT 10.00 a.m.

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I. Approval of the minutes of the 255th meeting

The Committee approved the minutes of the 255th meeting on the understanding that the amendments suggested would be incorporated into the final text.

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.

1. Statement by Mr. Dalgaard, Chairman, Foreign Exchange Policy Sub-Committee (Monitoring)

The US dollar had strengthened lately and had moved towards the upper end of its recent fluctuation range. The Deutsche Bundesbank had sought to limit the dollar's rise because of its adverse effect on price levels. Other central banks had appeared to be less concerned about the impact of the US dollar's rise on their own economies, although they had wished to avoid a dollar rate which would lead to higher German interest rates and had therefore been sympathetic to concerted intervention. Furthermore, central banks had been keen at all times to avoid disorderly markets. The Monitoring Group had agreed that it would be difficult to resist the market's bullish view of the dollar, and it would be particularly important to include the US Federal Reserve Board in any concerted intervention. In this context, however, it was considered unlikely that the Federal Reserve would be willing to participate. In order to obtain the maximum impact and psychological effect, it would be important for all other major central banks to participate. Another issue had been the appropriate scale of intervention. While intervention at the level of recent months (i.e. a few hundred million dollars) might not have had a significant direct effect, even modest intervention created a signal to the market that central banks continued to take an active interest in the dollar rate.

2. Discussion by the Committee

The Chairman expressed his regret at the position of the US authorities on the exchange rate level of the US dollar and said that there appeared to be a difference of views between the Federal Reserve and the US Treasury. Apparently the US authorities had not wished to increase their

foreign currency holdings because of the exchange losses it had been incurring. The Chairman, however, considered that the dollar was already sufficiently high to be detrimental to EC price stability and suggested that the EC central banks should participate as fully as possible in concerted action.

Mr. de Larosière said that the strength of the US dollar had been due to factors which had been seen by the market as fundamental; these included the expectation of an imminent recovery in the US economy - which was likely to be stronger than initially foreseen - coupled with the recent very upbeat statements by Mr. Greenspan. In such circumstances, it would be better to intervene in a concerted manner, and with the Federal Reserve. He regretted the reluctance of the Federal Reserve and the US Treasury to intervene. The Banque de France would be willing to participate, although the monetary repercussions of intervention should not be overlooked.

Mr. Rubio said that Banco de España would participate fully in concerted intervention. Mr. Duisenberg indicated that the Nederlandsche Bank would also take part, although he was uncertain how effective such intervention would be. Mr. Ciampi urged EC central banks to adopt a common position and felt that there had already been agreement on the need to limit the rise of the dollar. The Banca d'Italia had also been, and would continue to be, ready to intervene.

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 May and the first few days of June 1991

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

IV. Economic and Monetary Union: follow-up to the recent IGC meetings

1. Report by Mr. Baer, Secretary General

The Governors' attention was drawn to a non-paper (dated 6th June 1991) which had been prepared under the responsibility of the Chairman of the Personal Representatives of the IGC on the Draft Articles of the Treaty establishing the EEC. Appended to this document was a non-paper, relating to the draft Statute. The text followed the Governors' draft closely, and most of the changes which did not appear between brackets could be regarded as innocuous. The main point of divergence from the Committee of Governors'

draft was the granting of a role to the political authorities in any decision to increase the ECB's capital and restricting the allocation of profits to, and size of, the general reserve fund; the Governors' draft would have left this decision in the hands of the ECB Council.

Additional brackets had been added to the draft Statute at points where there was no agreement among the Personal Representatives. The main issues were: allowing non-obligatory financing of the government by national central banks and voluntary operations in the primary market for government debt; the addition of financial and political criteria to the key for capital subscriptions; whether the shareholders of the ECB should be national central banks or the Member States; and whether the ECB should be involved in banking supervision.

2. Discussion by the Committee

The Chairman thanked the Secretary General for his report, which was noted by the Committee.

V. Other matters falling within the competence of the Committee

(a) Extended bilateral co-operation with Finland

The Secretary General said that following the decision of the Finnish authorities to peg the Finnish markka to the ecu, Suomen Pankki might seek bilateral swap agreements with EC central banks. However, no final decision had yet been made on this matter by Suomen Pankki. The question for the Governors to consider would be whether, in principle, they could agree to offer such facilities.

The Chairman said that the Finnish decision to link the markka to the ecu had been welcome since it had added another currency to the zone of stable exchange rates centred on the EMS.

Mr. de Larosière said that the Banque de France would be willing to participate in a facility should Suomen Pankki decide to seek such agreements.

VI. Date and place of next meeting

The next meeting of the Committee of Governors would take place in Basle on Tuesday, 9th July 1991, starting at 9.30 am.

256th MEETING OF THE COMMITTEE OF GOVERNORS

10th JUNE 1991

Those present were:

Chairman of the Committee of Governors	Mr. Pöhl
Banque Nationale de Belgique	Mr. Verplaetse Mr. Rey Mr. Michielsens
Danmarks Nationalbank	Mr. Hoffmeyer Mrs. Andersen
Deutsche Bundesbank	Mr. Tietmeyer Mr. Rieke
Bank of Greece	Mr. Chalikias Mr. Papademos Mr. Karamouzis
Banco de España	Mr. Rubio Mr. Linde Mr. Durán
Banque de France	Mr. de Larosière 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
Nederlandsche Bank	Mr. Duisenberg Mr. Szász Mr. Boot
Banco de Portugal	Mr. Tavares Moreira Mr. Borges Mr. Bento
Bank of England	Mr. Leigh-Pemberton Mr. Crockett Mr. Foot
Commission of the European Communities	Mr. Pons
Chairman of the Foreign Exchange Sub-Committee	Mr. Dalgaard
Secretariat of the Committee of Governors	Mr. Baer Mr. Guiomard Mr. Petit

* Chairman of the Committee of Alternates.