

Suggested amendments to Part I

para. 4, p. 2 to be replaced by:

4. Within the framework of the EMS a zone of increasing monetary stability has evolved gradually over the past decade. During an initial period the system had to concentrate on the containment of divergence, due both to large external disturbances and differences in the macroeconomic responses in the main participating countries. In this period the system did succeed in maintaining broadly stable competitive conditions among the participants. From 1983, as instability in international currency markets persisted, a more rigid adherence to stable nominal exchange rates in the EMS greatly helped a number of participating countries to gear their monetary policy increasingly towards the objective of a high degree of price stability. In this latter phase, now lasting for more than six years, the EMS has become a zone of monetary stability in the double sense that seemed unrealistic at its inception, providing both exchange rate stability and convergence of inflation rates at a level not observed since the 1960s. Significantly, convergence has been achieved without undermining the efforts of the least inflationary members to reduce their inflation

In the light of these achievements those participants who had in the initial phase relied on capital controls as

The main problem is that the DMC has been

further, financial markets develop strongly in several countries, and currency substitution develops, the ability of the Bundesbank to keep its chosen monetary aggregate close to targets, hence providing a nominal anchor for the price levels of the participants, could well become impaired. Efforts at correcting monetary divergence within one national framework would then be destabilizing rather than, as in the past experience, on average stabilizing.

- Third, if an objective of medium-term price stability is generally accepted across participating countries and within them, the low-inflation credibility which the EMS has derived from the perceived design of German monetary policy could be transferred to a Community monetary institution, operating under that explicit mandate, with some gain in efficiency.

On balance, the constructive momentum of the past decade of experience in the EMS might be stopped or reversed even in the presence of continuing convergence of economic performance and monetary policies. To assure that this momentum is preserved requires an institutional framework within which both the overall thrust of monetary policy and relativities in national policies can be explicitly and jointly addressed.