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Confidential

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MINUTES

OF THE 267th MEETING OF THE COMMITTEE OF GOVERNORS

OF THE CENTRAL BANKS OF THE MEMBER STATES

OF THE EUROPEAN ECONOMIC COMMUNITY

HELD IN BASLE ON MONDAY, 15TH JUNE 1992 AT 9.00 a.m.

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The Chairman opened the meeting by summing up the main points discussed at its preceding restricted meeting.

Firstly, the Committee had confirmed that the Chairman should continue in the chair despite the outcome of the Danish referendum. Secondly, the following chairmen for various working groups had been appointed: Mr. Y. Barroux (Banque de France), Working Group on Information Systems; Mr. Heemskerk (de Nederlandsche Bank), Working Group on Accounting Issues; Mr. T. Padoa-Schioppa (Banca d'Italia) Working Group on EC Payment Systems; and Dr. K. Hanau (Deutsche Bundesbank), Working Group on Statistics. In addition, Mr. Coldrey (Banque de France) had been approved as the rapporteur of the Working Group on Printing and Issuing a European Banknote.

Thirdly, on the basis of information gathered after the Danish referendum, the Chairman had made a statement on the factors behind the result. Immediately after the Treaty was signed in February, opinion polls in Denmark had shown a significant positive reaction. A referendum had been a political necessity. A comprehensive amount of information had been provided to the public in Denmark to which the media had given a lot of coverage. The debate of the issues had been largely fair and not excessively emotional. However, attitudes in the run-up to the referendum had gradually become more negative; many voters had not been convinced that it was necessary at that time to take a further step in a direction that seemed rather unclear. In the event, 50.7% had voted against the Treaty and 49.3% in favour. Altogether 3.3 million people had voted, representing an 83% turn-out.

Opinion polls had illuminated various aspects of the vote. People with a low level of education had tended to vote no, whilst those with higher levels had included significantly more yes voters. Furthermore, women, in particular those of middle age, had been more negative than men, and among the voters belonging to the largest political party in Denmark, the Social Democrats, almost 60% had voted no in spite of a positive recommendation by the party leadership. Those who had voted in favour of the Treaty had been largely motivated by arguments that Denmark should not be isolated, and that the Treaty was a logical development and economically advantageous. Arguments relating to both the integration of Germany in Europe and the common currency each motivated only 1% of those who had voted in favour. The negative voters had been stimulated by: the prospect of a loss of sovereignty (20%); insufficient information (10%); fear of Germany (2%); and a common currency (1%). Approximately 70% of all voters had supported the view that the Treaty was too complicated to understand and, therefore, was not a suitable issue for a referendum.

A substantial part of the population has had increasing reservations regarding membership of the EC in recent years. However, after the referendum, a poll had showed that more than 80% were against Denmark leaving the Community.

I. Approval of the minutes of the 266th meeting

The Committee approved the minutes of the 266th meeting.

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

- Preparation by the Foreign Exchange Policy Sub-Committee (Monitoring)
- Statistical charts and tables prepared by the Secretariat
- Note prepared by the Economic Unit entitled "Community Financial Markets following the Danish Referendum"

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

The Monitoring Group had concluded that it was too early to say what would happen in the markets in the near future following the Danish referendum result. There were too many uncertainties, particularly with regard to the forthcoming referendum in Ireland and the European Council meeting in Portugal. At the same time, it was noted that central banks had reacted by using the range of Basle/Nyborg instruments such that they had been able to maintain general credibility of monetary policy and exchange rate stances. However, there were preliminary indications that some damage had been inflicted on the markets; in particular, the ECU had weakened and the yield on ECU bonds had risen, though it was still below its theoretical yield. There was concern that international bond market players were giving investors blanket recommendations to sell ECU and high yielding bonds without providing more specific details. Furthermore, the perception of exchange risk had generally increased; it was not clear when the reduction of risk premia would be possible.

2. Statement by Mr. Ciampi

Mr. Ciampi said that he had never played down the problems of the Italian economy which he had most recently addressed when he presented the Banca d'Italia's Annual Report two weeks previously. European Union was a strongly felt goal in Italy; the commitments entered into at Maastricht had been rightly interpreted as a powerful stimulus to accelerate the adjustment of the Italian economy so as to bring down inflation to the levels of the most stable Community countries and to restore public finances to a sound footing.

In recent weeks the following events had occurred. Firstly, the political fragmentation caused by the Italian general election on 5th April had made the formation of a new government highly complex. An important step forward had been taken with the election of a President of high moral standing and considerable political experience, who had not been involved in the disputes among the political parties. Secondly, the Italian political situation had been complicated by the effects of the emerging bribery and corruption scandals. The action carried out by the judiciary was praiseworthy. Thirdly, the Danish referendum result had had repercussions on all Community markets, but it had had deeper effects in Italy owing to the underlying weakness of the Italian economy; the constraint on Italy to address the weaknesses of its economy was felt to have been made less stringent.

The Banca d'Italia had responded to the market's reaction by raising the rate on fixed-term advances by half of a percentage point to 13% on 4th June; the interbank rate had since risen to over 14% and interest rate differentials vis-à-vis other ERM currencies had widened. Intervention sales of foreign currencies had also been made. However, the effect of these various measures had been somewhat blunted by the weakening of the US dollar and the consequent strengthening of the Deutsche Mark.

Any further action would depend: firstly, on developments in other Community markets - even a slight reduction in interest rates in those countries with strong currencies would ease the tension by confirming the common commitment to stability-oriented policy co-ordination; and, secondly, on the timing and means by which the Government crisis in Italy was resolved. The Banca d'Italia would continue to act to ensure that the Italian economy would not worsen in the interim period which would otherwise compound the difficulties for the future Government. It intended to maintain a firm exchange rate policy in the fight against inflation, and the restrictive monetary policy stance had been complemented by a policy of limiting wage increases, starting with the public sector; it should still be possible for the rate of inflation to be reduced from its current level of 5.7% to below 5% at the end of 1992.

The Italian economy had the human and technical resources to start a new phase of lasting growth: the incomes policy would have to be confirmed and strengthened by the new Government, which would also have to reduce the budget deficit, in particular by curbing public expenditure.

3. Discussion by the Committee

Mr. Beleza said that comfort could be derived from the way in which the Community central banks and the markets had reacted to recent events; this had demonstrated that the credibility of the monetary and exchange rate policies had been maintained. The anti-inflationary policy would continue and, in pursuing its exchange rate policy, the Banco de Portugal would continue to try to avoid creating tensions for other ERM currencies. The decision had been made to lift the bulk of the remaining controls on capital outflows in Portugal; a detailed memorandum would be circulated as soon as the measures had been formally enacted.

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 1992

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

IV. Preparatory work for the move to the final stage of EMU: adoption of the mandate for the Working Group on EC Payment Systems

With regard to the Mandate of the Working Group on EC Payment Systems, the Chairman said that there was not complete satisfaction with the mandate as it was currently drafted. He suggested that the reservations which had been expressed should be transmitted in writing to the Chairman of the Committee of Alternates.

Mr. Schlesinger said that the mandate was too detailed and needed to be shortened.

The Committee agreed that the Alternates should be asked to prepare a revised mandate which would be considered by the Governors at their July meeting.

V. Other matters falling within the competence of the Committee

1. Monetary financing of EC governments

The Committee considered Mr. Schlesinger's letter to the Chairman dated 29th May 1992 regarding the proposal that the means by which the governments of the Member Sates currently had recourse to central bank finance should be continuously monitored. Furthermore, the steps which were being taken to change the various national legal frameworks so as to ensure that monetary financing would be precluded at the beginning of Stage Two of EMU should also be kept under review. It was agreed that the issues set out in the letter should be considered by the Monetary Policy Sub-Committee.

2. Suomen Pankki's proposal for bilateral swap arrangements with EC central banks

The Committee agreed that the letter dated 4th June 1992 from the Governor of Suomen Pankki to the Chairman, which contained the suggestion that negotiations should begin on bilateral swap arrangements between the Finnish central bank and those in the Member States, should be considered by the Foreign Exchange Policy Sub-Committee. At their July meeting the Governors would consider the Finnish request independently of the current deliberations on monetary co-operation with third countries.

3. The pegging of the Cyprus pound to the ECU

The Chairman referred to a conversation which he had had recently with the Governor of the Central Bank of Cyprus in which the latter had explained that, following the Government of Cyprus' decision to peg the Cyprus pound to the ECU, there was an interest on the part of the authorities in closer co-operation with the Community central banks. The Chairman had responded that the wider issues involved in connection with requests of that nature were currently being considered by the Foreign Exchange Policy Sub-Committee and that the Central Bank of Cyprus would be kept informed of the outcome.

4. Proposal for an exchange of personnel among the EC central banks

The Committee approved the proposal for an exchange of personnel among the EC central banks set out in the memorandum dated 3rd June 1992 which had been prepared by the Heads of Personnel of the EC central banks at the request of the Committee of Governors.

5. Staffing of the Secretariat

The Committee appointed Mr. Alders (de Nederlandsche Bank) as a professional member of the Secretariat. Mr. Alders will succeed Mr. Guiomard who is returning to the Central Bank of Ireland.

6. BIS Annual Report

Mr. de Larosière expressed his misgivings on the negative reference in the Annual Report of the BIS on the consequences of European Monetary Union.

VI. Date and place of next meeting

The next meeting of the Committee of Governors will take place in Basle on Tuesday, 14th July starting at 9.30 a.m.

267th MEETING OF THE COMMITTEE OF GOVERNORS

15th June 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
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. Fazio
Institut Monétaire Luxembourgeois	Mr. Jaans
Nederlandsche Bank	Mr. Duisenberg Mr. Koning
Banco de Portugal	Mr. Beleza Mr. Borges Mr. Bento
Bank of England	Mr. Leigh-Pemberton Mr. Crockett Mr. Foot
Commission of the European Communities	Mr. Pons
Chairman of Sub-Committees/Working Groups	Mr. Saccomanni
Secretariat of the Committee of Governors	Mr. Baer Mr. Scheller Mr. Stone

* Chairman of the Committee of Alternates