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20 janvier 1989

B 89 n° 8

Please find herewith some drafting proposals for part III **Concrete steps towards economic and monetary union.**

1 - Maintain the three arguments in favor of the implementation of an immediate and substantial first step (p. 5 and 6 of draft 6/88).

2 - For stage one in the monetary field, the following proposal should be added to draft 6/88 (p. 9) :

"set up two committees : a Foreign Exchange Policy and a Monetary Policy Committee. They would report regularly to the Committee of Governors and, in the framework of a more active "monitoring", would recommend appropriate action in the field of exchange rates and interest rates."

3 - At the end of stage one, add the following text :

" A number of Committee members advocated the creation of a European Reserve Fund (E.R.F.) that would foreshadow the future European Central Bank System. The main objectives of this institution are :

- to serve as a training ground for implementing a better coordination of monetary analysis and decisions ;
- to facilitate, from a community point of view, the concerted management of exchange rates and eventually to intervene visibly (in third and participating currencies) on the foreign exchange market upon request of the participating central banks.
- to be the symbol of the political will of the european countries and therefore reinforce the credibility of the process towards Economic and Monetary Union.

The resources of the Fund will be provided by a pooling of a limited amount of reserves (for instance 10 % at the start) by participating central banks and require a permanent structure and staff in order to achieve its tasks, i.e. :

- management of the pooled reserves,
- interventions on the exchange markets decided by the members,
- analysing, from a collective prospective, monetary trends in order to enhance policy coordination.

All EEC's central bank would be eligible to join the Fund. However, membership would be subject to their participation in the exchange rate mechanism, the reason being that the EMS implies specific constraints on monetary policy and foreign exchange interventions that both require a common approach of the central bank concerned.

The management of the ERF would consist of :

- a Board of Directors which would comprise automatically the Governors of each central bank participating in the ERF ;
- an Executive Committee whose members would be selected by the Committee of Governors on the basis of competence. This Executive Committee would be of a small size, consisting of three or four members who would have direct responsibility for the different departments of the ERF ,.
- the two committees mentioned above (a Foreign Exchange Policy and a Monetary Policy Committee).
- two departments : a Foreign Exchange and Reserves Management Department, and a Monetary Policy Department.

Other members felt that the creation of a E.R.F. was not opportune at this stage. Their reservations stem from the fact that :

- it puts too much emphasis on external considerations,
- because of legal considerations, this proposal has to be embedded in a Treaty. (although it could be implemented also by changes in national legislations).

However, the members opposed to the immediate creation of the E.R.F. could envisage some pooling of reserves and intervention operations in a later stage, before the final step marked by the definite locking of parities".

4 - p. 14 : The execution of interventions would be entrusted to national central banks, or a selection of them, or the ERF.

5 - N.B. - As far as M. DUISENBERG's proposal dated January 6.1989 concerning an amendment to M. POEHL's text on features of a European Central Banks System, I would prefer M. POEHL's version on dash four.

On the question of dash five suggested by M. DUISENBERG, I think it would be appropriate to mention the EEC Council as an option.