

PROGRAMME FOR THE COMMITTEE'S WORK IN 1987\*

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A. EUROPEAN MONETARY SYSTEM

1. Strengthening the operating mechanisms of the System in view of the liberalisation of capital movements in the EEC

In the Communiqué issued at the last realignment on 12th January 1987, it is said that "with a view to improving economic and monetary co-operation among member countries, the Ministers have asked the Monetary Committee and the Committee of Central Bank Governors to examine measures to strengthen the operating mechanisms of the European Monetary System". This task takes on special importance in view of the programme for full liberalisation of capital movements presented by the Commission and in view of the fact that the recent changes in the Directive on capital movements already entail a significant increase of capital mobility.

As confirmed by the meeting of the Council of EEC Ministers of Finance on 9th February 1987, the following topics in particular seem to deserve attention:

- (i) realignment procedures (possibly including special procedures to be followed in the case of small realignments);
- (ii) rôle of interventions (including sterilisation policies), exchange rate flexibility within the band, and interest rate differentials in meeting exchange rate pressures;
- (iii) financing of interventions: use and holding of EMS currencies, use of the ECU, access to credit facilities;

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\*Final version revised on the basis of the discussions held at the Committee's meeting on 10th February 1987.

- (iv) implications of liberalisation of capital movements for monetary policy;
- (v) implications of liberalisation of capital movements for credit facilities: access, ways of financing, size.

As a background to the examination of these issues by the Governors it could be envisaged that the Dalgaard Group examines the circumstances and developments before and after the recent realignment, which did not seem called for by "real" economic factors and took place in an environment of increased capital mobility. Attention should be devoted in particular to the relationship between exchange rate management within the band, intervention and sterilisation policies, and related short-term interest rate developments. The implications of the dollar exchange rate for the system should also be examined. The Dalgaard Group should also review the issues related to the financing of intervention and to the System's credit facilities.

The Raymond Group, on the other side, could undertake a study on the implications of the on-going liberalisation of capital movements for interest rates and the management of monetary policy in member states. The relevance of capital flows from third currency areas in this context should also be examined.

The Alternates could present a report on all these issues, in preparation for the deliberations of the Governors.

The Governors should aim to present their final report on these issues to the ECOFIN Council at the informal September meeting. The Chairman of the Committee will present a preliminary report at the informal ECOFIN meeting at the beginning of April.

It may be recalled in this regard that the Monetary Committee is already planning to discuss some of these issues, including that of a possible revision of existing safeguard mechanisms under Community law, with a view to increasing Members' ability to counter capital market or monetary disturbances. (This last issue was mentioned in the Report of the Governors to the ECOFIN Council of 22nd July 1986.) The Committee of Governors will in this regard maintain main responsibility for examining the exchange rate and intervention mechanisms and their relation with monetary policies in member countries.

2. Other issues related to the further development of the EMS

Under this heading the main issues which could be considered relate to the ECU. The Dalgaard Group has already presented two reports on these matters: No. 55 deals with the ECU as an international reserve asset and a future common currency; No. 56 deals with the different views concerning an increased rôle for the ECU. The Governors may wish to concentrate on the following issues:

- (i) bringing official and private ECUs closer together: the Dalgaard Group Report No. 58 - which should be discussed by Governors and Alternates at one of their meetings in the autumn - examines the French, Italian and Commission proposals;
- (ii) monitoring private ECU market developments: in accordance with the mandate given by the Committee of Governors in December 1985, the Dalgaard Group carried out the first annual review of developments in the use of the private ECU which was embodied in Report No. 56. The next review could be discussed by the Governors at their November meeting.

B. MONETARY POLICIES IN EEC COUNTRIES (RAYMOND GROUP)

Following Report No. 29, which was examined by the Committee on 9th December 1986, the Raymond Group should, in the normal way, draft the next half-yearly reports for the meetings of the Committee in May and December 1987. Some of the issues mentioned in Section A.1. could be addressed in a special chapter (or appendix) of the next half-yearly report.

C. DEVELOPMENTS OF PUBLIC FINANCES AND IMPLICATIONS FOR ECONOMIC POLICY

As a follow-up to the two Special Reports on public finance in October 1981 and June 1982 the Raymond Group has been asked to draft, in June-July of each year, a short note on the recent developments of public finance, accompanied by statistics on expenditure, revenue,

deficits and their financing, and the level of public debt. Notes of this kind were examined by the Committee at its meetings in July 1983, 1984, 1985 and 1986 and were sent directly to the Ministers of Finance; they have traditionally been drawn up by the Secretariat in collaboration with M. Raymond and the experts, but without an experts' meeting in Basle. The next note should be prepared, probably in the same manner, for the July 1987 meeting, unless other work necessitates postponement to the autumn.

D. FUTURE ROLE OF THE BANKING ADVISORY COMMITTEE

This question was raised in December and brought about a correspondence between the Chairman of the Committee and the President of the Council of Foreign Ministers, a correspondence which was circulated to the Governors. It seems that the Council and the Commission could recognise the specific character of the Banking Advisory Committee - which therefore could maintain its present rôle - in the Council Decision laying down the procedures for the exercise of implementing powers conferred on the Commission. A proposal for this Decision is presently being examined by the Committee of Permanent Representatives; the Governors should follow the developments in this field and they might be kept informed by the Banque Nationale de Belgique since the COREPER is under the Belgian Presidency during the first half-year of 1987.

OUTLINE WORK PROGRAMME FOR THE COMMITTEE OF GOVERNORS FOR 1987

Topics to be considered	Date for examination by the Committee	Preparatory work to be done by:
1. Work programme for 1987	February	Committee of Alternates
2. Strengthening of the European Monetary System - Implications of liberalisation of capital movements	February and following months	Committee of Alternates (Dalgaard Group) (Raymond Group)
3. Other issues related to the further development of the EMS: - Links between the official and private ECUs - Annual review of private ECU developments	Autumn November	Dalgaard Group (Report No. 58) Dalgaard Group
4. Development of monetary policies in EEC countries	May and December	Raymond Group (semi-annual reports)
5. Developments of public finance and implications for economic policy	July or autumn	Raymond Group (short paper + updated data)
6. Other questions: (a) Preparation for: - the Interim Committee meeting - the IMF annual meeting (b) Future rôle of the Banking Advisory Committee	March September Spring	Committee of Alternates Committee of Alternates Committee of Alternates