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COMMITTEE OF GOVERNORS OF THE CENTRAL BANKS
OF THE MEMBER STATES
OF THE EUROPEAN ECONOMIC COMMUNITY

Basle 2nd October 1989

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For the attention of Mr. F. Papadia

Servizio Studi

From
Mr. G. Gomel

Attachment: 2 pages



2nd October 1989

SPEAKING NOTES FOR MR. DINI ON THE
COMMISSION PROPOSAL FOR A COUNCIL DECISION ON CONVERGENCE
(Monetary Committee, 5th October 1989)

In these notes some points of discussion are presented on the text submitted by the Commission following the preliminary consideration of the proposal by the Monetary Committee in its meeting of 6th September.

- The proposal on the revision of 1974 convergence decision is inspired by the conviction that successful co-ordination rests on the political will of the participants rather than on the acceptance of binding rules or of formally structured arrangements. In keeping with such belief, Article 2 states that surveillance should result in policy consistency across countries through participants' will and mutual commitments, and a pragmatic attitude based on learning by doing.

- Article 6 outlines concisely but clearly the procedures for co-ordination involving recommendations for corrective action as far as "ex post" surveillance is concerned. In Article 5 analogous procedures should be spelled out for "ex ante" surveillance.

The language is indeterminate and unsatisfactory. This not only in relation to the sharper wording of paragraph 51 of the Delors Report on matters of budget policy but also in comparison with the previous formulation of the Commission proposal where mention was made of "... setting medium-term budgetary orientations as well as initiating concerted budgetary actions by member countries". Under the present formulation, only "review" and "analysis" are contemplated. The reference, in particular, to "a review of budget policies, to the extent possible ahead of national budgetary planning" seems too loose.

- In view of the above considerations a new paragraph could be inserted in Article 5 or an entirely new article incorporated in the text

which would establish procedures and criteria for "ex ante" surveillance on the basis of a commonly shared analytical framework -- to be set out in a technical Annex.

This framework would allow a proper assessment of the relative stances of fiscal policy in each member country and of their mutual compatibility.

- The technical Annex should specify a set of criteria for "optimal" budget policy based on a system of indicators.

Mechanisms should also be devised that go beyond the proposed surveillance system to ensure that countries pursue concerted and compatible policies. We continue to think that at the Community level with the high degree of integration and the shared objectives of monetary and economic union we need more structured arrangements than a simple IMF or G7-like system of surveillance.

The criteria should be, for instance:

- the budget deficit, net of interest payments on public debt, should be brought down to zero;
- the current budget deficit (net of capital expenditure) should be zero;
- the quality of public expenditure should be upgraded.