

Dear Mr. Chairman,

At the last meeting of the Committee on Economic and Monetary Union under your chairmanship I had indicated to you that I would further elaborate in writing my proposal for an enlargement of the powers of the EC Central Bank Governors Committee.

1. In the context of the "Report on the EMU" to be submitted in accordance with the mandate received from the European Council one concrete step among others could be to recommend that the Council adopt a new Decision that would enlarge the existing powers of the EC Committee of Central Bank Governors. A strengthening of the Governors Committee would help to improve the cooperation between EC central banks and thus contribute to greater convergence of monetary policy as well as economic policy generally. This would allow additional possibilities for integration in the monetary area to be exploited in the interim phase, until member countries are able and ready to conclude an agreement which would enact a statute for a European Central Banking System. (The relevant questions which need to be answered are included in my paper on pages 12-14).

As long as such an agreement among governments, and with it a new legal framework, does not exist the powers of the EG Governors Committee can only be extended within existing national legal provisions. In other words, the Governors Committee can take no decision that could prejudice the national monetary policy prerogatives.

2. The Governors Committee is at present empowered with the following tasks:

a) According to the Council Decision of May 8, 1964, setting up the Governors Committee, it is the task of the Committee

"- to hold consultations concerning the general principles and the broad lines of policy of the central banks, in particular as regards credit and the money and foreign exchange markets;

- to exchange information at regular intervals about the most important measures that fall within the competence of the central banks, and to examine those measures. This examination shall take place before the measures concerned are adopted where circumstances, and in particular the time limit for their adoption, allow."

b) According to its Rules of Procedure of October 12, 1964,

- "the Committee may render opinions or submit memoranda."

c) According to the Council Decision of March 22, 1971, "the central banks shall be invited, within the limits of their powers and scope of their respective responsibilities,

- to coordinate their policies in the Committee of Governors of central banks,

- to establish general guidelines to be followed by each of them, in particular as regards the trend of bank liquidity, the terms for supply of credit and the level of interest rates."

d) Based on the Conclusion of the European Council of December 5, 1978, the Central Banks on March 13, 1979, concluded the Agreement on the EMS, which conferred a number of tasks upon the Governors Committee (among which regular reviews of the operating conditions of the EMS Agreement).

3. The Governors Committee is already empowered to

- coordinate the monetary and credit policies of member central banks,
- engage in consultations and exchange information,
- issue reports and submit statements on matters within its sphere of responsibility.

A strengthening of the Committee's powers within the existing legal framework could envisage that it

- formulates recommendations on the overall orientation of monetary and exchange rate policy as well as on individual measures to be taken, and
- addresses recommendations to Governments insofar as their policies adversely affect the internal and external monetary situation and especially the functioning of the EMS.

4. Institutionally it would be beneficial for the work of the Governors Committee if

- its Chairman were to be elected for an extended period (e. g. three years),

- a permanent committee of directors (representing the central bank Governors) were to be set up to
  - carry out the regular exchange of information,
  - prepare the monthly meetings of the Governors Committee, and
  - examine the further steps towards monetary integration;

moreover,

- the Secretariat should be adequately equipped to enable it to fulfill its supporting role.

The Governors Committee would have to alter its Rules of Procedure accordingly. Based on these considerations a draft Decision for the Council is attached.

Sincerely yours,

Attachment

Council Decision adjusting and extending the Council Decision of May 8, 1964, on the cooperations between the Central banks of EC member countries.

Having regard to ...

Article 1

The Committee is hereby empowered to address recommendations to the monetary authorities of member countries concerning

- the general orientation of monetary and exchange rate policy,
- individual measures of liquidity-, interest rate- and exchange rate policy.

Article 2

The Committee is hereby empowered to submit opinions [and recommendations] to member governments concerning

...

- the general orientation of economic and fiscal policy,

- individual economic and fiscal policy measures,

insofar as this is deemed necessary with a view to economic and monetary integration and the functioning of the EMS.

#### Article 3

Opinions and recommendations adopted by the Committee require a qualified majority of [2/3? 3/4?].

#### Article 4

Given the need for convergent monetary policies the Committee will draw up proposals to harmonize the monetary policy instruments of central banks.