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INFO PRIORITY EC POSTS, UKDEL IMF/IBRD WASHINGTON

FRAME ECONOMIC

MEETING OF EC MONETARY COMMITTEE: 19 JULY

SUMMARY

1. THE COMMITTEE MET WITH LITTLER IN CHAIR. UK WAS REPRESENTED BY LOEHNIS, ARROWSMITH AND O'MARA. STEK (NETHERLANDS) WAS APPOINTED CHAIRMAN OF THE MONETARY COMMITTEE ALTERNATES IN SUCCESSION TO MICOSSO (ITALY). DURING THE TOUR DE TABLE ON EXCHANGE AND INTEREST RATE DEVELOPMENTS, SOME DOUBTS WERE EXPRESSED ABOUT THE SUSTAINABILITY OF THE DOLLAR'S RISE AND STRESS WAS LAID ON AVOIDING ANY PUBLIC COMMENT WHICH MIGHT CALL INTO QUESTION THE COMMITMENT TO INTERNATIONAL COOPERATION ON EXCHANGE RATES. THE COMMITTEE AGREED THE COMMISSION'S PROPOSALS FOR FORMAL RULES FOR THE CONDUCT OF A COMMUNITY MONETARY POLICY COULD NOT YET BE REGARDED AS AN OPERATIONAL ISSUE AND COMMISSIONED FURTHER WORK SEMI-COLON IT WAS AGREED THE COMMITTEE SHOULD CONTINUE ITS STUDIES OF SOME OF THE SUBJECTS WHICH WERE ALSO LIKELY TO BE COVERED BY THE DELORS GROUP, SET UP AFTER THE HANOVER COUNCIL SEMI-COLON THE COMMITTEE EXPRESSED SATISFACTION THAT GREECE HAD BEEN ABLE TO ACCEPT THE COMMISSION'S POLICY RECOMMENDATIONS IN RELATION TO THE COMMUNITY LOAN, WHILE ENTERING SOME RESERVATIONS ON THE GREEK PERFORMANCE TO DATE, AND DATES FOR FUTURE MEETINGS AND A POSSIBLE WORK PROGRAMME WERE PROPOSED.

CHAIRMANSHIP OF MONETARY COMMITTEE ALTERNATES

2. LITTLER REPORTED THAT, AFTER CONSULTATION WITH OTHER MEMBERS OF THE COMMITTEE, HE HAD INVITED STEK OF THE DUTCH FINANCE MINISTRY TO REPLACE MICOSSO AS CHAIRMAN OF THE ALTERNATES, ON THE LATTER'S DEPARTURE TO THE PRIVATE SECTOR.

TOUR D'HORIZON: EXCHANGE AND INTEREST RATE DEVELOPMENTS

3. IN THE USUAL TOUR DE TABLE, GLESKE (FRG) NOTED THAT MOVEMENTS IN THE DOLLAR/YEN RATE HAD NOT BEEN AS PRONOUNCED AS THOSE IN THE DOLLAR/DEUTSCHMARK RATE. THIS EXPLAINED WHY THE BANK OF JAPAN HAD NOT BEEN INTERVENING RECENTLY. GLESKE STRESSED THAT THE ABSENCE OF JAPANESE INTERVENTION SHOULD NOT BE

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TAKEN AS AN INDICATION THAT INTERNATIONAL COOPERATION WAS NOW LESS EFFECTIVE. THERE HAD BEEN VERY CLOSE CO-ORDINATION. GERMANY, BY CONTRAST, HAD INTERVENED, BUT TO INHIBIT ANY FURTHER UPWARD MOVEMENT IN THE DOLLAR RATHER THAN TO STIMULATE A FALL. AS THE UPWARD TREND OF THE DOLLAR HAD CONTINUED, THE US HAD INTERVENED TOO AND THE GERMANS WERE NOW ABOUT TO RAISE THEIR REPURCHASE RATE TO 4 PER CENT. OVER THE LONGER TERM, THE GERMANS WERE MORE PESSIMISTIC THAN MANY AMERICANS ABOUT THE DOLLAR OUTLOOK. THE US NEEDED TO MAKE FURTHER ADJUSTMENTS AND MARKET SENTIMENT COULD CHANGE QUICKLY. LAGAYETTE (FRANCE) AND SARCINELLI (ITALY) ALSO QUESTIONED WHETHER THE CURRENT TURNROUND IN THE DOLLAR WAS SUSTAINABLE.

4. TIETMEYER (FRG) AND LITTLER STRESSED THAT INTERNATIONAL COOPERATION WAS ALIVE AND WELL AND EMPHASISED THE NEED TO AVOID ANY PUBLIC STATEMENTS WHICH MIGHT CALL THAT INTO QUESTION.

5. SUMMING UP, LITTLER NOTED THAT DESPITE THE BUOYANCY OF THE DOLLAR, THE US PROBLEM WAS NOT RESOLVED. ACTION WOULD NOT BE TAKEN ON THE BUDGET DEFICIT BEFORE THE US ELECTION AND THE WORLD FISCAL BALANCE WOULD THEREFORE REMAIN UNCOMFORTABLE, THROWING A BIGGER BURDEN OF ADJUSTMENT ON MONETARY POLICY THAN MANY WOULD WISH TO SEE. EXCHANGE RATE STABILITY WAS IN THE INTERESTS OF ALL.

COHERENCE OF MONETARY POLICIES IN THE COMMUNITY

6. IN DISCUSSION OF THE COMMISSION'S PAPER, ATTENTION FOCUSED ON THE ANNEX SETTING OUT POSSIBLE FORMAL RULES FOR THE CONDUCT AND COORDINATION OF MONETARY POLICIES IN THE EMS. SEVERAL MEMBERS STRESSED THAT THIS COULD NOT YET BE CONSIDERED AS AN OPERATIONAL ISSUE AND QUESTIONED DETAILS OF THE COMMISSION'S APPROACH. MARTINEZ MENDEZ (SPAIN) PROPOSED A COMMISSION STUDY ATTEMPTING TO HARMONISE MONETARY DEFINITIONS AMONG MEMBER STATES. SUMMING UP, LITTLER COMMENTED THAT THE COMMISSION'S PAPER WAS EXPLORATORY RATHER THAN PRESCRIPTIVE. MEMBER STATES WERE NOW MUCH NEARER TO A COMMON MONETARY POSITION BUT IT WAS INEVITABLY COMPLEX. HE NOTED WITH INTEREST THAT NO ONE HAD IDENTIFIED ANY CONFLICT BETWEEN THE REQUIREMENTS OF NATIONAL POLICY AND THE PATH TO CONVERGENCE. HE SUGGESTED THE COMMISSION MIGHT PREPARE A FURTHER PAPER WHICH COULD EXAMINE THE EXTENT TO WHICH MONETARY POLICY WAS DRIVEN BY INTERNAL AND EXTERNAL FACTORS RESPECTIVELY AND WHETHER ANY LINK EXISTED BETWEEN MOVEMENTS IN SHORT TERM INTEREST RATES AND THE GROWTH OF REAL ACTIVITY.

SAVINGS AND INVESTMENT IN THE MAIN INDUSTRIAL COUNTRIES

7. IN THE ABSENCE OF TRICHET (FRANCE), DISCUSSION OF THIS PAPER WAS DEFERRED.

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FOLLOW UP TO HANOVER EUROPEAN COUNCIL

8. LITTLER NOTED THAT THE REMIT GIVEN TO THE DELORS GROUP HAD NOT MADE ANY REFERENCE TO THE WORK OF THE MONETARY COMMITTEE BUT HE SUGGESTED WORK SHOULD NEVERTHELESS CONTINUE ON SUBJECTS WHICH NOW SEEMED LIKELY TO BE COVERED BY THAT GROUP TOO. MEMBERS WOULD WANT TO KEEP IN TOUCH WITH COLLEAGUES SERVING ON THE GROUP AND IT MIGHT BE POSSIBLE FOR PERIODIC REPORTS TO BE MADE TO THE COMMITTEE. HE WOULD CHECK AT THE SEPTEMBER MEETING WHICH TOPICS MEMBERS WOULD LIKE TO PURSUE AND WHETHER THEY WERE WILLING TO SUBMIT PAPERS. HE KNEW, FOR INSTANCE, THAT THE UK WOULD LIKE TO PRODUCE A NOTE ON THE DEVELOPMENT OF THE PRIVATE ECU. LITTLER ALSO SUGGESTED THAT THE COMMISSION MIGHT WORK UP A PAPER ON COMMON DEFINITIONS, RULES AND GUIDELINES FOR A COMMUNITY MONETARY POLICY, COMBINING ANALYSIS WITH THE IDENTIFICATION OF PROBLEMS ARISING FROM INTERACTION IN THE USE OF POLICY INSTRUMENTS. FINALLY, HE PROPOSED A COMMISSION STUDY OF THE RELATIONSHIP BETWEEN EXTERNAL IMBALANCES AND THE FREEDOM OF CAPITAL MOVEMENTS.

GREECE: SURVEILLANCE IN CONNECTION WITH COMMUNITY LOAN

9. THE COMMITTEE EXPRESSED SATISFACTION THAT GREECE WAS ABLE TO AGREE WITH THE COMMISSION'S BASIC ANALYSIS AND MAIN POLICY RECOMMENDATIONS AND WELCOMED GREECE'S EMPHASIS ON IMPLEMENTING A MEDIUM TERM PROGRAMME FOR ITS PUBLIC FINANCES. IT WOULD APPRECIATE A PROGRESS REPORT IN DUE COURSE. HOWEVER, THE TERMS OF THE COMMUNITY LOAN HAD SPECIFIED FIVE AREAS OF CONDITIONS TO BE MET AND WHILE THE COMMITTEE ACCEPTED SOME DISTINCTION BETWEEN INTERMEDIATE AND ULTIMATE TARGETS, IT WAS IMPORTANT TO GET THE FUNDAMENTALS ON INFLATION AND THE PUBLIC FINANCES RIGHT. CONCERN WAS ALSO EXPRESSED ABOUT THE POSSIBLE SHORT TERM NATURE OF THE CAPITAL INFLOWS WHICH UNDERLAY THE GOOD PROGRESS MADE ON THE EXTERNAL FRONT. IN CONCLUSION, LITTLER SAID HE WOULD SEEK THE COUNCIL CHAIRMAN'S AGREEMENT TO MAKING A VERY BRIEF ORAL STATEMENT ON THE GREEK LOAN DURING LUNCH AT THE NEXT FORMAL ECOFIN.

FUTURE MEETINGS

10. DATES FOR THREE FUTURE MEETINGS WERE PROPOSED:

6 SEPTEMBER: AT WHICH THE COMMITTEE WOULD FOCUS ON PREPARATIONS FOR THE BERLIN IMF/IBRD MEETINGS, AN EXAMINATION OF THE SPANISH ECONOMY AND THE DEFERRED FRENCH PAPER ON SAVINGS AND INVESTMENT,

25 OCTOBER: WHICH WOULD COVER MONETARY TARGETS FOR 1989 AND FURTHER WORK ON STRENGTHENING THE EMS, AND

29 NOVEMBER: AT WHICH THE COMMITTEE WOULD TAKE A COMMISSION PAPER ON MACROECONOMIC INDICATORS, FOCUSSED ON THE MEDIUM TERM,

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AND THE ANNUAL EXAMINATION OF RESTRICTIONS ON CAPITAL
MOVEMENTS.

OTHER BUSINESS

11. LITTLER REPORTED THAT HE WOULD BE MAKING THE CHAIRMAN'S
ANNUAL VISIT TO OSLO ON 22 JULY WITH KEES (SECRETARIAT) IN ORDER
TO KEEP THE NORWEGIANS IN TOUCH WITH THE MONETARY COMMITTEE'S
THINKING.

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