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To Dr. G. Baer, Assistant Manager Bank for International Settlements CH 4002 <u>Basle</u> Schweiz	
From Governor Erik Hoffmeyer	
Text	
	Signature <i>Billethorup</i>



Copenhagen, March 17, 1989

Dear Colleague,

At our last meeting it was pointed out by several members that the commitment to become member of the EMS and pursue a convergent economic policy under the existing institutions would be an important signal demonstrating the political will to move towards an economic and monetary union.

It is therefore disappointing that the Lamfalussy "compromise" proposal to paragraph 47 pushes us all the way back to solely stress the importance of creating new institutions via a Treaty change.

The discussion will then start all over again.

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I have formulated a proposal that might avoid this.

We did not discuss the question of an annex.

Several Committee members have submitted supporting papers since the start of our work. However, the papers we have received have not been provided in a systematic way, neither have they been discussed systematically. This applies in particular to the paper that focuses on reserve requirements (in ECU) as a major instrument of monetary policy. To me it does not portray the present way of thinking among the central bank members, so I would much prefer that the papers were published in other places under individual names.

Your sincerely,

Wilk Hoffmeyer

Suggested new draft page 34

47. Calendar. The conditions for moving from stage to stage cannot be defined precisely in advance; nor is it possible to foresee today when these conditions will be realised. The setting of explicit deadlines is therefore not advisable. This observation applies to the passage from stage one to stage two and, most importantly, to the move to irrevocably fixed exchange rates. The timing of both moves would have to be decided in the light of the experience of the preceding stage by the Council, the Commission and the European system of central banks, which would have been created in the second stage.

On the other hand, a firm political commitment to the final stage, as described in Part II of the Report, would appear to be an indispensable precondition for lending credibility to the decision to embark on the first stage. It would be a strong expression of such a commitment if all members of the Community became full members of the EMS in the course of stage one and undertook the obligation to formulate a convergent economic policy within the existing institutions. Similarly, it would be highly significant if the political authorities in good time before entering stage two committed themselves to enter into negotiations of a new Treaty.

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Hoffmeyer