

CONFIDENTIAL  
FM BONN  
TO IMMEDIATE FCO  
TELNO 808  
OF 221533Z AUGUST 89  
INFO ROUTINE PARIS, UKREP BRUSSELS

FRAME ECONOMIC

EMU: GERMAN FINANCE MINISTER'S VIEWS

SUMMARY

1. WAIGEL SPELLS OUT BASIC PRECONDITIONS FOR EMU AND EXPRESSES CAUTION ABOUT WORK GOING BEYOND THE FIRST PHASE. GERMAN VIEWS ON HIGH GROUP DIVIDED.

DETAIL

2. IN AN ARTICLE IN A LOCAL NEWSPAPER ON 18 AUGUST, SUBSEQUENTLY CIRCULATED BY THE FINANCE MINISTRY'S PRESS OFFICE, WAIGEL RECALLS THAT MADRID SUMMIT AGREED TO START WORK ON THE FIRST PHASE OF EMU ON 1 JULY 1990, THAT THE TIMING AND SUBSTANCE OF SUBSEQUENT STEPS REMAIN TO BE DISCUSSED AND THAT FINANCE MINISTERS AND CENTRAL BANK GOVERNORS WILL MEET ON 9 SEPTEMBER. KEY GUIDELINES FOR THE WORK WHICH LIES AHEAD ARE:

(I) EMU MUST BE BASED ON A POLICY OF STABLE MONEY.

(II) THE MARKET ECONOMY AND OPEN INTERNATIONAL TRADE POLICIES ARE THE ONLY SURE BASIS FOR PROSPERITY AND SOCIAL PROGRESS AND HENCE FOR EMU.

(III) SUCCESSFUL MONETARY POLICY IS NOT POSSIBLE WITHOUT A SOLID FISCAL POLICY. BUDGETARY DEFICITS ENDANGER MONETARY STABILITY.

3. WAIGEL SAYS THAT IT IS RIGHT TO BEGIN WITH PHASE I. THIS WILL INCLUDE LIBERALISATION OF CAPITAL MOVEMENTS, BETTER COORDINATION OF MONETARY AND ECONOMIC POLICY, AND THE PLACING OF FISCAL POLICY ON A SOLID BASIS WITH MORE INTENSIVE CONSULTATIONS WHICH SHOULD PUT AN END TO THE UNRESTRICTED FINANCING OF BUDGET DEFICITS BY CENTRAL BANKS. 'ALL MEMBER STATES WHICH ARE IN A POSITION TO DO SO SHOULD JOIN THE EXISTING EXCHANGE RATE MECHANISM OF THE EUROPEAN ECONOMIC SYSTEM ON THE SAME CONDITIONS'. THE COORDINATION REQUIRED BY THE FIRST PHASE WILL BE A TEST OF THE WILL OF MEMBER STATES TO ABIDE BY

STABLE POLICIES. THIS AND THE COMPLETION OF THE SINGLE MARKET WILL SHOW THE WAY FOR EMU AND FEDERAL EUROPEAN UNION. 'FURTHER INSTITUTIONAL DEVELOPMENTS IN THE MONETARY FIELD WILL ONLY BE DESIRABLE WHEN THE FOUNDATIONS ON WHICH WE ARE NOW WORKING ARE SOLIDLY BUILT AND HAVE PROVED THEMSELVES. THIS DOES NOT EXCLUDE AN EARLY START WITH THE NECESSARY PREPARATIONS, BUT A GREAT DEAL OF TECHNICAL AND POLITICAL CLARIFICATION IS NEEDED'. WAIGEL CONCLUDES THAT A CLEAR VIEW OF THE WAY FORWARD IS ESSENTIAL BECAUSE 'THE STABILITY OF OUR CURRENCY (IE THE MARK) MUST NOT BE ENDANGERED NOW OR IN THE FUTURE'.

## COMMENT

4. WAIGEL'S PRONOUNCEMENT, LIKE THAT OF THE ECONOMICS MINISTRY WHICH IT FOLLOWS (MY TELNO 298) IS A MOVE TO DEMARCATATE THE GERMAN POSITION BEFORE THE 9 SEPTEMBER ECOFIN MEETING AND A WARNING TO THE CONVALESCENT GENSCHER THAT HE WILL ENCOUNTER DIRECT OPPOSITION IF HE IGNORES THE VIEWS OF OTHER MINISTRIES. HOWEVER WAIGEL CONTINUES PUBLICLY TO COUCH HIS DOUBTS ABOUT EMU IN TERMS OF THE TIMETABLE AND CONDITIONS, NOT IN RELATION TO THE PRINCIPLE ITSELF.

5. WINKELMANN, HEAD OF THE RELEVANT REFERAT IN THE FINANCE MINISTRY, TOLD COUNSELLOR ECONOMIC THAT WAIGEL'S VIEWS WERE CONSISTENT WITH OUR POSITION THAT A HIGH LEVEL GROUP WOULD BE PREMATURE (FCO TELNO 649). HE IMPLIED HOWEVER THAT GENSCHER TENDED TO HAVE THE LAST WORD ON PROCEDURAL ISSUES. GENSCHER SUPPORTED THE FRENCH POSITION. SINCE THIS HAD NOT GAINED SUPPORT AT THE FAC THE FINANCE MINISTRY HOPED IT WAS DEAD.

NEVILLE-JONES

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