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Treasury Chambers, Parliament Street, SW1P 3AG  
071-270 3000

9 August 1990

Charles Powell Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
LONDON  
SW1A 2AA

Prime Minister

It doesn't seem  
that helpful to me -  
at par. 40-42 are  
not bad. The CBI

Dear Charles

...

In case you have not seen it, I attach a copy of the latest CBI paper on economic and monetary union, "European Monetary Union - The Next Steps", which John Banham and Sir Brian Corby sent to the Chancellor.

The Chancellor feels that the Prime Minister might like to see this paper: it is extremely helpful in its support of our hard ecu proposals.

still see our hard  
ecu as a step  
to a single currency.

Tarred Tarkowski

T TARKOWSKI

CVD

This is miserably  
unhelpful and wrong  
in its analysis.

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Confederation of British Industry  
Centre Point  
103 New Oxford Street  
London WC1A 1DU  
Telephone 071-379 7400  
Facsimile 071-240 1578  
Telex 21332

Director-General  
John M M Banham  
Deputy Director-General and Secretary  
Maurice Hunt

**CBI**  
Silver Jubilee  
1965-1990

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TO THE COUNCIL FOR THE MEETING ON 25 JULY 1990

EUROPEAN MONETARY UNION: THE NEXT STEPS

- 1 The CBI's policy on European economic and monetary union (EMU) was set out in its report "European Monetary Union: a Business Perspective", published in November 1989. The report set out the CBI's support for a single European currency as the culmination of an evolutionary process towards monetary union within the European Community. (The policy recommendations of the report are set out in Appendix A).
- 2 Since the publication of this report (subsequently referred to as "the CBI EMU report") the European Community agreed at its December summit to consider the possibility of moving beyond stage one of EMU, which commenced on 1 July 1990, at an intergovernmental conference later this year. The UK Government has put forward its own proposals to be considered at this conference, set out in a speech by the Chancellor to the German Industry Forum on 20 June 1990. Meanwhile, the UK has not joined the Exchange Rate Mechanism (ERM) of the European Monetary System, mainly because of the adverse trend in our inflation rate.
- 3 To consider the CBI's response to these developments, the CBI Economic and Financial Policy Committee (EFPC) reconvened its European Monetary Working Group. The membership of the Group is set out in Appendix B. This memorandum sets out the report of this Group amended in the light of the comments of EFPC, for the approval of Council as the CBI's input to the forthcoming intergovernmental conference on EMU.
- 4 The memorandum is divided into two sections. The first sets out the main reasons why UK businesses seek further progress towards monetary union - which would lead to the establishment of a single European currency. The second section sets out of the evolutionary approach by which we should move in this direction. This involves:
  - a immediate UK entry to the ERM within the wider (+/- 6%) fluctuation bands;
  - b movement to the narrow (+/-2.25%) fluctuation bands once UK inflation is clearly on a downward trend;



- c implementation of the UK Government's plan to establish a common European currency (the "hard ECU" controlled by a European Monetary Fund as stage two of the process of monetary union); and
  - d permanently fixed exchange rates and the introduction of a single European currency.
- 5 It is not possible, at this stage, to set out a clear timetable for these developments. As the CBI EMU report made clear, progress towards a single currency will depend on the convergence of inflation rates, the implementation of the 1992 programme, and the political commitment to the goal of monetary union. However, the establishment of a single currency does not require fiscal policy to be exercised at Community level, as the Delors report suggested. As a result, even within a full monetary union, national Governments will retain considerable control over domestic economic policy.

THE IMPORTANCE OF A SINGLE CURRENCY TO BUSINESS

*Neither the  
Yen nor the  
P.M. returned  
a single regional  
currency?*

6 British business believes that the main reason for moving towards European monetary union is the benefits which would flow from the establishment of a single European currency. While there is much to be gained during the process to EMU - not least from full membership of the ERM, closer economic policy cooperation and, the establishment of a common European currency - only when a single European currency is established, will businesses reap the full benefit from EMU.

7 There are four main reasons why businesses in the UK believe a single European currency would be advantageous.

*Nonwork  
Nor of others  
Preferred growth  
to price stability  
Nor of a country  
could maintain  
the value.*

- i A single currency would act as a psychological spur to trading within Europe, so enhancing the benefits which would flow from the single market.
- ii A single European currency should help the UK to achieve and sustain a lower inflation rate, and hence achieve interest rates in line with our EC competitors.
- iii A single currency would remove the uncertainty attached to transactions within Europe.
- iv A single currency would reduce the transactions costs of dealing in a number of different European currencies.

These benefits are discussed in detail below.

Incentives to trade

8 Perhaps the most powerful argument for a single currency, is the incentive that this provides for trade to take place. The 1992 programme aims to establish a Single Market where the barriers to trade between locations in different



countries are no greater than those within a single EC country. The benefits which would flow from these were estimated in the Ceccini report to amount to between 5% to 7% of Community GDP.

- 9 But as long as different currencies exist in different markets, there will always be a hidden barrier to trade. For the UK, this could be particularly damaging. Within the Single Market, the UK will be competing from a position on the periphery of Europe with a number of disadvantages, including an inadequate infrastructure. The English Channel and the North Sea provide barriers which do not exist for other countries (excluding Eire). For UK businesses to exploit the full advantages of the Single Market, therefore, will require the other barriers to trade to be reduced to a minimum.
- 10 Recent surveys have confirmed the considerable benefits which are expected to flow from a single European currency in this respect. The CBI/Price Waterhouse survey showed that 39% of UK exporters felt a single European currency replacing existing European currencies would provide a significant additional incentive to trade within Europe. Twenty-two per cent rated the incentive to be "very significant". A majority of respondents (55%) indicated less costly export activity as a significant benefit with 29% rating the benefit "very significant".
- 11 A recent Ernst and Young survey confirms these findings. The survey, of private use of the ECU, asked companies to assess the differences in impact of two scenarios: (1) the ECU as a thirteenth currency; and (2) the ECU as a single European currency. It gave rise to the following results.
  - a Over 50% of companies felt that a European currency would have a positive effect on their export, sourcing, marketing and distribution strategies.
  - b There were no perceived negative aspects on any part of corporate strategy, with the likely impact deemed to be either positive or non-existent.
  - c There was a definite preference for scenario two (that is, a single European currency as opposed to a thirteenth currency) as shown by the higher number of companies which feel there would be a very positive impact.
- 12 There would, of course, be greater competition from overseas competitors to match the benefits that UK companies expected to achieve from a single currency. However, this competition should be seen as beneficial rather than disadvantageous. It would allow the reallocation of resources within Europe and help to achieve the benefits which the Ceccini report indicated could be achieved from breaking down barriers to trade.



### Low inflation

- 13 The second major benefit which UK companies would gain from a single European currency would be a greater degree of commitment to a low rate of inflation. Inflation in the UK has been a persistent problem in the post-war period; and though it has been much lower in the 1980s than in preceding decades, our performance has still not matched our main European competitors.
- 14 The reasons for this poor inflation performance are complex. (They are discussed in detail in Council paper C 51 90). Nevertheless, comparisons with other European countries show that two key elements affecting the issue are:
  - a insufficient commitment of the monetary authorities to securing and achieving stable prices, which needs to be the credible and over-riding objective of policy; and
  - b the ability to depreciate the currency, which has provided the UK with a mechanism for reinforcing and accommodating inflation. This, in turn, has weakened the implementation of policies to reduce inflation and contributed to an "inflationary psychology".
- 15 A single European currency, managed with the objective of achieving stable prices, should provide UK businesses with stronger counter-inflationary anchor than they have enjoyed hitherto. This would provide a much more stable background against which UK companies can plan and invest.
- 16 This, of course, also poses a potential threat to UK businesses. If we attempt to move to a single currency before the UK has achieved an inflation rate in line with our major European competitors (ie under 3%), we would be subject to a cumulative loss of competitiveness. This fact gives added urgency - from a business perspective - to the drive to reduce inflation. It also suggests that the decision to move to a single currency will need to be conditional on a much greater degree of convergence in inflation performance than already exists. Achieving this degree of convergence should be an important element in the evolutionary approach to European monetary union that is adopted.

### Currency instability

- 17 A third benefit to business from a single European currency is the elimination of currency instability, which acts as an impediment both to trade and business investment. It is true that currency movements can act as a means of economic adjustment. But fluctuations also take place which prove to be transitory and provide only conflicting signals to business. The objective should therefore be to remove, in so far as it is possible, the risks to business posed by such fluctuations.



- 18 The Exchange Rate Mechanism of the EMS has been a great success in this respect. The system has now functioned for well over three years without a general realignment. When the UK becomes a member, business will benefit greatly from the greater climate of stability it provides. Indeed, a recent survey, conducted by the CBI for Price Waterhouse, indicated that the impact of this greater stability would be to increase UK manufacturing exports by an average 6% per annum over the longer-term.
- 19 However, if the Exchange Rate Mechanism is seen as the final resting point of monetary union, business will still be exposed to currency instability from two sources.
- a The fluctuation within the existing exchange rate bands, which could amount to a margin of 4.5% - even within the narrow bands.
  - b The possibility of a realignment.
- 20 These factors could still act as an impediment to trade and investment flows within the European Community, despite the degree of stability provided by the ERM. The instability they create, however, will be reduced if it is clear that the EC countries are working toward a more stable regime - a single currency. Moreover, once this single currency is achieved, the uncertainty attached to currency movements will be eliminated.
- 21 The CBI/Price Waterhouse survey of exporters (referred to above) suggests that the current cost of hedging exports to other European Community countries averaged 1.15% of the value of transactions, or about £300m. This would be a direct cost saving to business from the elimination of currency instability within EC countries.

#### Transactions costs

- 22 Finally, a single currency would not only result in the elimination of currency instability. It would eliminate the need for currency transactions within the EC altogether. Research by the European Commission shows that typical transactions costs paid by commercial firms and persons to banks range from the trivial (0.1% for very large transactions where privileged customers secure inter-bank rates) to 12% for small international bank transfers (100 ECU). A recent survey also found that cross-country bank transfers in the Community took an average of 5 days. The minimum charge for clearing a 150 ECU Eurocheque internationally is 2.7% of the amount involved, but the total effective cost often amounts to twice as much, rising to 7% in some cases. The cost of exchanging bank notes between major and minor currencies is an extremely high 25%.



- 23 Overall, the Commission estimates that explicit foreign exchange costs may amount to at least 15 bn ECU on intra-EC transactions or about 5% of the net revenues of the banking sector in the Community. This is approximately 0.3% of the EC GDP. However, once the internal costs to companies of foreign exchange transactions are added in, the cost could well exceed 1.0% of GDP, or some £4.5 bn a year in the UK.
- 24 There would, of course, be a transitional cost of moving towards a single currency, akin to the costs of decimalisation in the UK in the early 1970s. This means that when the decision is taken to move to a single currency, sufficient time should be allowed for the necessary adjustments to be made. However, this change would represent a one-off cost and, in the long run, will be greatly offset by eliminating the continuing and pointless transactions costs of changing twelve national currencies into each other with conversion factors of up to six places of decimals.

#### AN EVOLUTIONARY APPROACH TO EMU

- 25 A single European currency would, therefore, quite clearly provide considerable benefits for business. It is crucial for the future competitiveness and growth of UK businesses, however, that we are in a position to realise these benefits at the same time as our EC partners. A major threat to UK business would be posed by a two-speed Europe with the UK in the outer tier, not fully integrated with the other main countries of the Community. This means identifying a path to EMU in which the UK can participate. It also requires the UK to show its commitment to participating in stage one of EMU, which has already been agreed, and in the stages to come.
- 26 The CBI's November 1989 EMU report set out a smooth evolutionary transition to a single European currency, based on four main principles:
- a There should be a staged approach to the move towards EMU within the Community. The first stage, which is already underway, should include all members joining the ERM under the narrow bands, followed by a transition to fixed exchange rates and then a single currency.
  - b The success of each stage should be ensured before moving on to the next. In particular, greater convergence of inflation performance will be needed before exchange rates can be permanently fixed.
  - c Measures should be taken to enhance the use of the ECU so that it can gradually assume the role of a single currency. This may require some shift in the composition of the ECU currency from its current position as a basket currency to a currency that is managed independently by the European Central Bank during the transition to full EMU.



- d The move to fixed exchange rates should be followed as quickly as possible by the adoption of a single European currency. This is needed not only to reinforce the commitment to fixed rates, but so that business can enjoy the full benefits of monetary union.
- 27 These principles remain valid in the light of recent developments. The remainder of this memorandum applies these principles to the issues facing the UK Government and its EC partners in the run up to the intergovernmental conference.

Stage one and the Exchange Rate Mechanism

- 28 A major plank of the CBI's policy on European economic and monetary union has always been that the essential first step should be UK membership of the ERM. The CBI's EMU report sets out the basis on which the CBI believed this should take place:
- "Entry should not be delayed to await the abolition of the exchange controls, the completion of the Single Market nor the establishment of an appropriate exchange rate.
- "To reap the full benefits of stability within the system, the UK should enter sterling into the ERM with a plus or minus (+/-) 2.25% fluctuation band and seek to avoid frequent realignments.
- "High UK inflation and interest rates relative to the ERM countries, however, could prompt an early realignment and create instability within the system. This could, therefore, act as an obstacle to entry in the short-term, though in the long-term the ERM has acted to reinforce low inflation. As soon as UK inflation is clearly on a downward trend, there are no further reasons for delaying entry. This should be the case by early 1990, if not before."
- 29 Since the report was agreed, however, although some economic indicators suggest that inflationary pressures may have begun to moderate, both the underlying rate and the headline rate of inflation have remained stubborn in the face of slower demand.
- 30 As a result, UK inflation has been a 'tougher nut to crack' than was previously thought and the headline rate will probably not establish a clear downward trend until well into the second half of the year. The underlying rate - excluding mortgage interest and the Community charge - may take somewhat longer to respond. Under present CBI policy, this would mean that sterling's entry into the ERM could be delayed until after the intergovernmental conference towards the end of this year.



- 31 Such a delay would seriously weaken the UK position and intergovernmental conference. It would undoubtedly increase the perception that the UK Government is not committed to a greater degree of monetary intergration and run the risk of a two speed Europe, which would be a great disadvantage to UK businesses. Moreover, it would delay still further the process of adoption within the UK to the disciplines of the European Monetary System and the potential benefits to business.
- 32 However, to enter the system within the narrow bands immediately, without some improvement in inflation performance runs a serious risk of destabilising the mechanism, building up pressure for an early realignment or a sharp change in domestic economic policy. This would not be to the advantage of UK business. As a result, the CBI believes that as an intermediate step, the UK should immediately enter the ERM within the wider fluctuation band (+/-6%) and move to the narrow band (+/-2.25%) band as soon as UK inflation is clearly on a downward trend.
- 33 The advantages of this strategy are that it would:
- be fully consistent with the existing CBI stance of calling for sterling entry into the narrow fluctuation band "as soon as UK inflation was on a confirmed downward trend";
  - enable the eventual transition to narrow bands to be smoother than it might otherwise be, given that sterling would be allowed a settling-in period within the wider bands; and
  - allow the UK Government to indicate to the rest of the EC that it intends to play its full part in discussions on EMU.
- 34 It is important to recognise, however, that the benefits to business from ERM membership within the wider bands are very limited. It will only be when a narrower fluctuation band can be achieved that the full benefits can be felt. A move to the narrow bands should be made as soon as a greater degree of inflation convergence emerges.

#### Stage two and the "hard ECU"

- 35 It is clear from the preceding discussion that it will take some time to move to a single currency and full monetary union, particularly as the UK has yet to take the first step of entering the ERM. But at the same time, it is important for UK business that progress is being made towards the ultimate goal of a single currency for Europe. As a result, the most important issue for the intergovernmental conference to address later this year will be the establishment of a second stage in the evolutionary path to full monetary union.



- 36 Unfortunately, the Delors report is not very forthcoming in setting out how this would be achieved. Paragraph 57 of the report states the problem identified by the Delors Committee concerning stage two of the path to EMU:

"The fundamental difficulty inherent in this transition would lie in the organisation of a gradual transfer of decision-making power from national authorities to a Community institution. At this juncture, the Committee does not consider it possible to propose a detailed blueprint for accomplishing this transition, as this would depend on the effectiveness of the policy coordination achieved during the first stage, on the provisions of the Treaty and on decisions to be taken by the new institutions."

- 37 Since the publication of the Report, there has been considerable discussion of this issue. Three "blueprints" have emerged.
- a A long stage one, followed by a rapid move to a single currency, managed by a single central Bank, once sufficient convergence had been achieved.
  - b A two-speed Europe, with some ERM countries moving more quickly toward, using a common currency, while others (perhaps Denmark, Eire, Italy and Spain), wait until greater convergence had been achieved, before attaching themselves to the process.
  - c The "hard-ECU" plan set out by John Major, the Chancellor of the Exchequer, on 20 June 1990. This involves the reformation of the ECU as a new "hard" currency, managed by a European Monetary Fund (EMF), which would become the linchpin of the existing ERM. Other currencies would be unable to revalue against the ECU and the EMF would adjust ECU interest rates with the objective of maintaining stable prices. The ECU would thus become the 'hardest' currency in the system. The "hard ECU" would be a common European currency operating alongside other currencies, but could eventually become a single European currency, replacing existing currencies.

- 38 Of these approaches, the third is the most attractive for British business. There are three particular problems with the first option, a long stage one:

- It does not provide a genuine evolutionary approach. While the ERM continues as at present, it will still be strongly dependent on the anti-inflationary axis of the Bundesbank. When the jump is made to full monetary union, a new European monetary institution will be needed, yet it will be difficult - if not impossible - for such an institution to take on the mantle of the Bundesbank. Experience in running monetary policy - and the resulting anti-inflationary credibility - can only be built up over a period of time.



- There is little role for developing the ECU - as a currency in which contracts can be written and payments made - before a single currency is achieved. While the ECU remains a basket currency, as at present, its attractions will be distinctly limited and it will remain, as at present, mainly a hedging instrument for financial markets.
  - There may be insufficient pressure for inflation convergence within the EC, especially if realignments continued to be permitted within the ERM.
- 39 The second approach, a two-speed Europe, is totally unacceptable to British business as a means of moving to EMU. For too long, the UK has suffered a competitive disadvantage through our non-membership of the ERM. To find ourselves in a similar position again, in the outside tier of a two-speed move to monetary union, at a time when Europe is coming much closer economically through the Single Market, would compound this error.
- 40 By contrast, the Chancellor's "hard ECU" plan has many advantages, and meets many of the CBI's requirements for an evolutionary approach, set out in paragraph 26 of this paper.
- The proposals set out a realistic basis for developing the widespread use of the ECU as an additional common European currency. The CBI believes that the ultimate transition to a single currency would be smoother if the use of the ECU were encouraged in the process;
  - As a result, although the plan does not guarantee that a single currency will emerge, it provides a useful intermediate step, beyond ERM membership, in an evolutionary process to EMU; and
  - The UK Government's proposals recognise the importance of following a path to EMU that is conducive to achieving low inflation and inflation convergence between member countries. In particular, the proposals for the new currency, the "hard ECU", are aimed at avoiding inflationary pressures, by preventing its value against existing EC currencies from being reduced, and placing additional obligations on EC members to pursue policies to maintain the values of currencies.
- 41 It may appear surprising that a thirteenth currency is needed in order to produce a single currency. Nevertheless, the preliminary indications from the CBI's European Monetary Union Working Group are that a "hard-ECU" would provide an attractive currency for pricing, invoicing, internal company accounting and money transfers within the EC. There is therefore a very good chance that this plan, coupled with the pressure for inflation convergence, would in fact move the EC relatively quickly to a position where a single currency could become a reality.



42 The advantages of the "hard ECU" plan over a long stage one were summarised by the Governor of the Bank of England in a recent speech at the European Parliament on (11 July 1990). He said:

"So what, in summary, would the EMF and the Hard ECU bring to the process of European Community monetary integration that could not be achieved simply by relying on a long Stage one to take us to Stage three? In my view four things:

- a first and foremost, it would add an extra counter-inflationary discipline to monetary policy decisions in individual member states;
- b building on the hoped-for achievements of Stage one, it would significantly strengthen the forces leading to convergence of economic conditions in the Community;
- c it would pave the way for a move away from the current position where the ERM anchor is a single country's currency, and would bring an element of collective decision-making to the ERM;
- d it would provide a common currency that could be used throughout the Community, enabling consumers and producers to get used to using a real, new currency.

"As I have said, the hard ECU could in time develop into a dominant common currency, creating conditions where a move to a single currency was feasible. But that would not be preordained; it would be a consequence of market developments and political reaction.

"Establishing a European Monetary Fund to issue the Hard ECU would therefore be an evolutionary, market-based approach to greater monetary integration in the Community. It would be a desirable step beyond stage 1. It would reinforce the anti-inflationary characteristics of the ERM. It would avoid putting the ultimate goal of Monetary Union in jeopardy by pushing for it too soon. And it would also be a way forward beyond Stage 1 for all members of the Community."

43 The Government's proposals for the next stage of EMU, therefore, provide a feasible and welcome plan for moving beyond stage one of the Delors path to EMU. Nevertheless, the ultimate objective for British - and European business, as voiced by UNICE - from EMU is to establish a single currency, across Europe. The CBI, therefore, hopes that the Government's proposals will help in the process of achieving a single currency in the years ahead.



Stage three and a single European currency

- 44 The culmination of the evolutionary process of EMU will, eventually be a single European currency with a European central bank and a single monetary policy. The CBI's views on these issues were set out in some detail in the CBI's EMU report and these remain valid.
- 45 However, it should be recognised that a single European monetary policy does not imply loss of national control over economic policy. Though there will need to be increasing cooperation between EC members in formulating fiscal as well as monetary policies, the CBI would stick by its view that Governments should retain the freedom to implement fiscal policy in line with national objectives. Indeed countries will probably need greater flexibility in fiscal policy to reconcile the monetary policy objectives of the Community with national economic policies: that is, the principle of "subsidiary" should be preserved in fiscal policy.

\* \* \*

- 46 The Delors Committee report has fulfilled an important role by stimulating the debate on EMU. As the above discussion makes clear, British business has much to gain from progress in this area, and considers the immediate priority to be sterling's entry into the ERM - a move which the UK Government is now committed to taking.
- 47 The CBI also supports the plan for the next stage of European Monetary Union, set out in the Chancellor of the Exchequer's recent speech and at the EC Summit in Dublin. This indicates quite clearly that the UK Government recognises the importance of contributing to the process to EMU in a positive and constructive way. The CBI hopes that the UK will now be able to build on this and play its full part in achieving EMU during the 1990s.

Centre Point  
July 1990



APPENDIX A

RECOMMENDATIONS OF THE CBI'S EUROPEAN MONETARY UNION REPORT  
PUBLISHED IN NOVEMBER 1989

Exchange rate mechanism

- 1 Entry into the Exchange Rate Mechanism would be of great benefit to business. Entry should not be delayed to await the abolition of exchange controls, the completion of the Single Market nor the establishment of an appropriate exchange rate.
- 2 To reap the full benefits of stability within the system, the UK should enter sterling into the ERM with a plus or minus (+/-) 2.25% fluctuation band and seek to avoid frequent realignments.
- 3 High UK inflation and interest rates relative to the ERM countries, however, could prompt an early realignment and create instability within the system. This could, therefore, act as an obstacle to entry in the short-term, though in the long-term the ERM has acted to reinforce low inflation. As soon as UK inflation is clearly on a downward trend, there are no further reasons for delaying entry. This should be the case by early 1990, if not before.

Economic and monetary union

- 4 The move towards a common currency within the EC as an extension of exchange rate stability would be beneficial to business, as long as the monetary authorities remain committed to low inflation. This should be pursued as a longer term objective. In fact, the move to irrevocably fixed exchange rates as proposed by the Delors Report actually consists of two separate steps: the move to fixed, but adjustable rates, followed by the commitment to a single European currency and the transfer of control over monetary policy to a European System of Central Banks.
- 5 The use of a commonly accepted European currency, such as the ECU, would carry with it great advantages to business over and above a regime of fixed exchange rates. Its use would eliminate not only the variability of currencies but, also, transactions costs - though its creation would involve some significant layout costs akin to those involved, for example, with the previous move to decimalisation in the UK.
- 6 The successful transition to a common currency will, however, depend upon the success of intermediate stages. It must, therefore be seen as the culmination of an evolutionary process which builds on the success of the current European Monetary System. Indeed, before any further steps are taken towards monetary union, beyond those already agreed to as



part of stage one of the Delors Committee (all EC members to join ERM and greater cooperation in macro-economic policy and on Central Bank decision-taking) and the full liberalisation of capital movements in major ERM countries, a number of factors should be in place.

- The UK should join the Exchange Rate Mechanism. A well functioning EMS in which the UK fully participates is essential before moving on to further stages.
  - EC countries must enjoy much greater stability of exchange rates and greater convergence of inflation rates and greater convergence of inflation rates than at present. This means all EC currencies remaining within the discipline of the ERM (2.25% bands) over a period of time.
  - The opening up of national markets implied by the 1992 programme and the liberalisation of capital movements must be much further advanced.
- 7 The Group does not accept that binding rules on fiscal policy are implied by the move to monetary union. The group supports the Single Market programme and the need for a strong European competition policy and greater policy coordination, but does not support the other objectives of 'economic union' as set out by the Delors report: common policies aimed at structural change and regional development and binding rules of budgetary policies. Greater macro-economic coordination will inevitably follow from the commitment to reduce exchange rate fluctuations and national Governments should retain the freedom to implement fiscal policy in line with national objectives.
- 8 A greater degree of monetary integration will inevitably have an impact on the way in which member countries use Fiscal policy - and indeed other instruments of economic policy - as it already does in the existing ERM countries. But countries should be allowed themselves to determine whatever fiscal targets are implied by the need to reconcile the monetary policy objectives of the monetary union with domestic economic growth and employment objectives.



APPENDIX B

MEMBERS OF THE CBI ECONOMIC MONETARY UNION WORKING GROUP

David Lees (Chairman)	Chairman, GKN plc
Gottfried Bruder	General Manager, Commerzbank AG
Constant Busch	Managing Director, Philips Electronics (UK)
Richard Desmond	Group Treasurer, BAT Industries plc (representing Brian Garraway, Deputy Chairman)
Richard Freeman	Chief Economist, ICI plc
Christopher Johnson	Chief Economic Adviser, Lloyds Bank plc
Terence Libby	Managing Director, Morrisflex Ltd
David Pennock	Managing Director, Astell Hearson
Paul Richards	Director, Samuel Montagu & Co Ltd
David Simon	Managing Director, British Petroleum plc