



Treasury Chambers, Parliament Street, SW1P 3AG  
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PRIME MINISTER

POSSIBLE DATES FOR ERM MEMBERSHIP

When we met last week I promised to reflect further on the possible dates for ERM entry from the beginning of October until the end of this calendar year.

2. Subject to events, I think it will be right to come to you with a firm proposition to join the exchange rate mechanism during this period. Public opinion, particularly that in industry, is prepared for the move and will welcome it. The markets are expecting it. Our decision to put it off for the time being has already contributed to a weak exchange rate, which carries a double risk - it raises inflation directly and puts off the day when we can reduce interest rates. And industrial opinion is fickle. As you know, my own strong view is that we must join well ahead of the Inter Government Conference in December. If we do not, both the economics and the politics may go badly wrong.

... 3. The attached notes summarise key factors in relation to each of the weekends during this period. You may like to discuss the implications.

4. The latest indications for measured inflation are not encouraging. The figure for August, September and October - published in the following months - may all be broadly similar. The present prospect is that it will not be until the November figure published in December that we see a clear fall.





5. I have considered the possible dates before then. In summary the main conclusions I draw from the attached note are as follows:

- (i) none of the five dates through from 19 October to 16 November is impossible. But by the time we get to 19 October Parliament will have reassembled and we will have missed the Party Conference and the Mansion House speech, two of our best platforms for explaining and restating our economic policy;
- (ii) any date after 16 November until the end of the calendar year looks difficult, initially because of electricity privatisation, followed by the potential clash with the European Council/IGCs and the run up to Christmas;
- (iii) if we wait until the period from mid-October to mid-November the Middle East position may have clarified. But depending on the course of events that could have made it harder as well as easier to contemplate entry.

6. You may wish to discuss this.

A handwritten signature in blue ink, appearing to be 'J.M.', written in a cursive style.

[J.M.]

11 September 1990



5 October

A further month's money figures would be available, covering M0 in September and broader money in August (published 20 September). But the September RPI would not be published until a week later; internally we would have just received the advance indication.

No major mechanical difficulties are foreseen. Neither House would be sitting at the time of announcement, but the Lords would be returning the following Monday (ie a week before the Commons). That would mean the first Parliamentary statement would probably have to be in the Lords by Lord Hesketh.

This would be the last date available before the Conservative Party Conference. It would coincide with the leader of the Labour Party's speech at his Party Conference, although first news that we had decided to join would be unlikely to emerge until considerably later in the day.

12 October

This would be the same day as publication of the September RPI.

The Commons would return the following Monday enabling the first Parliamentary statement to be made there rather than in the Lords. It is however the same day as the Prime Minister's speech to the Conservative Party Conference.

19 October

The September broad money figures would just have been published on 18 October, although M0 for October would still be unclear. Internally we would know the September trade figures, although they would not be published until the following week.

This would be the day after the Chancellor's annual Mansion House speech, traditionally one of the main monetary policy statements of the year. There would be some - not impossible - awkwardness in making that speech the day before entry.



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The annual informal meeting of the Monetary Committee will be taking place in Siena on Friday 19 October. The normal arrangement is for members to assemble on the Thursday evening. That would mean the Committee was already in place to consider a UK proposal to join the mechanism, although delicate handling would be required to ensure that news did not leak out early in the day.

#### 26 October

The September trade figures would have been published earlier in the week.

Entry on this weekend would clash with the Special European Council which will consider EMU.

#### 2 November

The monthly October M0 figures would become available internally on the Thursday afternoon, and the market is usually able to make an accurate estimate of the figures on the Friday from the published weekly information. But it would still be some days before internal estimates of the October RPI were available.

This date would come before the earlier of the two dates currently envisaged for the Autumn Statement (8 and 15 November). If Parliament was prorogued on the earlier of the two main possible dates (1 November) there would be no Parliament sitting on this day or the following Monday.

#### 9 November

The internal advance indication of the October RPI should become available on Wednesday 7 November, prior to publication on 16 November.

This would fall one day after the earlier of the two possible dates for the Autumn Statement. And if Parliament was prorogued on the later of the two main possibilities (8 November) there would be no Parliament sitting this day or the following Monday.



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16 November

The October RPI would be published on this day. But the internal indication of the October trade figures would not be known until 19 November.

If the Autumn Statement was on the later of the two possible dates (15 November) this date would imply ERM entry the day after.

23 November, 30 November and 6 December

The main economic information published during this period would be the October monthly broad money figures (20 November), the October trade figures (22 November), and the October M0 figures (29 November).

A major development during this period would be Impact Day for the regional electricity companies on 21 November, with no dealings until 11 December. That means that these three weekends would fall into the limbo period. A major policy statement such as ERM membership might best be avoided during this period.

The German elections are scheduled for 2 December.

13 December

This would coincide with the December European Council and the start of the IGCs.

20 December and 27 December

These dates would be extremely close to Christmas. There could be substantial logistical difficulties in ensuring the availability of representatives of other Member States.





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**PRIME MINISTER**

I thought you would like a progress report on EMU developments, following the informal ECOFIN in Rome at the weekend.

2. Since launching our proposals for a hard ecu and a European Monetary Fund on 20 June, I have initiated a large scale lobbying campaign both at home and abroad. I elaborated on our plans to the Welsh CBI on 6 July, and gave evidence to the Treasury and Civil Service Committee and House of Lords sub-committee before the recess. During the course of the summer, I have met the Finance Ministers (and in some cases, the Central Bank Governor as well) of Germany, Spain, Italy, Holland, Ireland and Portugal, as well as the Presidents of the Commission and the Bundesbank. There have also been numerous contacts with our European partners at junior ministerial and official level.

3. The UK plan was first discussed at ECOFIN on 23 July, when it was remitted to the Monetary Committee for further examination. European monetary union, including the Monetary Committee's report on the UK plan, was the main item on the agenda at the informal ECOFIN on 7-8 September.

4. The discussion at ECOFIN was altogether more pragmatic than on previous occasions. The prospect of the forthcoming IGC seemed to be concentrating finance ministers' minds, and there was a marked drawing back from the ambitious timetable proposed by the Commission: this involved starting Stage 2 in January 1993, and moving rapidly to full monetary union thereafter. The majority opposed any pre-set date for Stage 2, and recognised the need for much greater convergence of economic performance throughout the Community before moving from Stage 1. They stressed (as I did) the importance of measuring convergence against objective



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criteria: specifically, they had in mind greater convergence of inflation, the creation of more flexible economies and particularly labour markets and, of course, the progressive removal of very large fiscal deficits.

5. Most agreed with me that all member states should move forward together. The Single Market provided a good example in this respect; all 12 member states had put enormous efforts into completing it and all 12 stood to benefit from it. The aim of economic and monetary union should be to build on that programme and to carry the benefits of it further; that meant that all the twelve had to move forward together.

6. All the finance ministers wanted our ideas to be studied further, and some saw a definite role for the hard ecu in a transition phase. However, there was no movement amongst the 11 on the fundamental long term objective of establishing a single currency and an independent Central Bank.

7. It may be helpful if I give a first hand account of how the countries lined up. Opening the discussion on the transition to Stage 2, Beregovoy (France) strongly supported the Commission's approach, including a start date of January 1993. He gained little support. Only Belgium and Italy seemed prepared to sign up to such a date, and Beregovoy later back-tracked somewhat, moving his date back by a year and placing a strong emphasis on the need for everyone to have joined the ERM before Stage 2 began. I am planning to see Beregovoy for a bilateral later this month.

8. Waigel (Germany) - clearly to the surprise of Delors and Beregovoy - said firmly that there should be no decision on dates for the transition until clear conditions for convergence had been met. Although Poehl concentrated mainly on his Committee's recommendations on the statutes of the Central Bank, he clearly shared Waigel's views. A number of the smaller countries came in behind the Germans; clearly, they are beginning to have second thoughts about a precipitate rush to EMU. Kok (Netherlands)

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opposed pre-set deadlines, as did the ministers from Luxembourg, Greece, Portugal and Ireland.

9. Solchaga (Spain) - to whom I had spoken earlier in the week - very usefully combined doubts on timing with a desire to use our hard ecu ideas. He proposed January 1994 as the start date for Stage 2. He did not envisage a move to Stage 3 this century. In Stage 2 - which he saw as a transitional phase to full EMU - he envisaged an institution, like our EMF, running a hard ecu alongside national currencies. However, he stressed that the EMF would eventually evolve into an independent Central Bank and that the passage to Stage 3 had to be a certainty for all members. The Portuguese supported this role for the hard ecu. The Greeks also welcomed further examination of the UK and Spanish ideas. Other countries were more ambivalent. Poehl told me outside the meeting that the Germans were interested in 'hardening' the ecu preparatory to a single currency, but still opposed creating an EMF.

10. The conclusions I drew from the meeting were generally encouraging. The UK now appears to be in a majority in wanting to slow the pace of transition to Stage 2; the Commission are clearly going to have to return to the drawing board when it comes to the conditions for movement to future stages. However, all the other member states remain very firmly in favour of what they see as the ultimate objective of a single currency.

11. We have had a generally good press both here and on the continent. But the more perceptive commentators have realised that there is still a substantial divide between the UK position and others' in Europe; they have noted that the other eleven are still in agreement with Delors on substance though not, of course, on timing. While it is vital that we continue to put our position across in the press but we must avoid giving the impression that we believe that we have now got the upper hand. The unfortunate truth is that we have not.

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12. As regards the way forward, I propose to intensify our campaign to influence others' views. The UK plans, and some of the reservations we have expressed, clearly strike a chord in many Community countries, and I will take every opportunity to propound and explain them further. At the same time, if we are to exploit this more receptive mood, we will need to reiterate the message that the hard ecu could in the very long term develop into a single currency, if people and governments so choose.

13. Next, the handling of Community institutions between now and the opening of the inter-governmental conference on 13 December. Clearly, EMU will be on the agenda for the meeting of the European Council on 27-28 October. But we must continue to insist that preparatory work for the IGC is primarily handled by Finance Ministers in ECOFIN.

14. I will be using that forum to press for substantive work on the definition and measures of economic convergence. My overall objective is of course to promote the UK's proposals and to keep them on the table for the inter-governmental conference, and I am encouraged we will succeed in that.

15. I am copying this minute to Douglas Hurd, Peter Lilley and Robin Butler.

A handwritten signature in blue ink, appearing to read 'John Major'.

[J.M.]

11 September 1990

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