

UNCLASSIFIED

FM BONN

TO IMMEDIATE FCO

TELNO 1281

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INFO IMMEDIATE ROME, UKREP BRUSSELS

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INFO ROUTINE OTTAWA, TOKYO, BERNE, VIENNA, STOCKHOLM, OSLO

YOUR TELNOS 554 AND 555 TO ROME: UK ENTRY TO THE ERM:

GERMAN REACTIONS

## SUMMARY

1. GERMANS WELCOME UK ENTRY TO THE ERM. PRESS CLAIMS MOTIVES POLITICAL AS WELL AS ECONOMIC. SOME COMMENTATORS EXPECT THE MOVE TO STRENGTHEN RESISTANCE IN GERMANY TO RAPID EMU.

## DETAIL

2. REACTIONS IN BONN AND FRANKFURT HAVE BEEN POSITIVE. BUNDESBANK PRESIDENT POEHL WELCOMED STERLING'S ENTRY AND DESCRIBED IT AS AN IMPORTANT CONTRIBUTION TO THE FIRST STAGE OF EMU. FINANCE MINISTER WAIGEL ALSO WELCOMED THE MOVE AS INDICATIVE OF THE BRITISH GOVERNMENT'S DETERMINATION TO FIGHT INFLATION. THE FRANKFURT FINANCIAL COMMUNITY REACTED MORE CAUTIOUSLY. THE HEAD OF THE COMMERZBANK VOICED CONCERN ABOUT THE POSSIBLE PRESSURES ARISING WITHIN THE EMS IF UK INFLATION WAS NOT BROUGHT UNDER CONTROL. NEVERTHELESS, STERLING TRADED STRONGLY IN FRANKFURT TOUCHING DM 3.05 BEFORE EASING BACK LATER.

3. THE MOVE HAS BEEN WIDELY REPORTED AND COMMENTED ON IN THE GERMAN MEDIA. THE GENERAL TONE IS ONE OF WELCOME, TINGED WITH SOME SPECULATION ABOUT THE POLITICAL AND ECONOMIC MOTIVES BEHIND THE TIMING OF THE ANNOUNCEMENT. SEVERAL PAPERS, PRESUMABLY REFLECTING BRUSSELS BRIEFING, DESCRIBE THE DECISION AS A CHESS MOVE. A FEW REFER TO IT AS A PANIC MEASURE.

4. THE LEADING FINANCIAL DAILY, HANDELSBLATT, ASCRIBES THE MOVE MAINLY TO ELECTORAL CONSIDERATIONS, POINTING TO ITS COINCIDENCE WITH THE PARTY CONFERENCES. IT ALSO CLAIMS THAT THERE HAS BEEN A SWITCH IN THE UK POSITION WHICH, IT SAYS, PREVIOUSLY FOCUSED ON THE NEED TO REDUCE INFLATION BEFORE JOINING THE ERM BUT HAD NOW APPARENTLY REVERSED THESE ELEMENTS. THE INFLUENTIAL SPECIALIST STOCK EXCHANGE DAILY, BOERSENZEITUNG, REPORTS THAT THE CHANGE IN THE BRITISH POSITION TOOK THE FINANCIAL COMMUNITY BY SURPRISE AND LED

TO A RISE IN THE VALUE OF STERLING AND A BOOM IN STOCKS AND SHARES. OTHER PAPERS SUCH AS THE GENERAL ANZEIGER (INDEPENDENT AND WIDELY READ IN GOVERNMENT CIRCLES) AND THE FRANKFURTER ALLGEMEINE ZEITUNG (CONSERVATIVE), COMMENT ON THE DISCIPLINE WHICH ERM MEMBERSHIP WILL IMPOSE ON BRITISH INDUSTRY AND TRADES UNIONS. THERE IS SOME SPECULATION ABOUT THE INCREASED DIFFICULTY OF MANAGING THE ERM AGAINST THE BACKGROUND OF HIGHER UK INFLATION AND INTEREST RATES.

5. MOST REPORTS LINK THE UK MOVE TO THE DEBATE ON EMU AND SOME COMMENT THAT ERM MEMBERSHIP DOES NOT HERALD ANY WEAKENING OF UK RESERVATIONS ON THIS SCORE. THE SUDDEUTSCHE ZEITUNG (INDEPENDENT) AND HANDELSBLATT EXPRESS THE FIRM BELIEF THAT STERLING'S ENTRY WILL BOLSTER THE OPPOSITION OF THE FEDERAL FINANCE MINISTRY AND THE BUNDESBANK TO EARLY PROGRESS TOWARDS EMU.

## COMMENT

6. ERM MEMBERSHIP HAS PUT THE UK IN A BETTER POSITION TO INFLUENCE THE GERMAN DOMESTIC DEBATE OVER EMU. WHILE THE GERMANS REMAIN SCEPTICAL ABOUT THE HARD ECU PROPOSALS, MANY SYMPATHISE WITH OUR VIEW THAT A RUSHED APPROACH TO EMU WOULD BE A SERIOUS MISTAKE. MR MAUDE SHOULD BE ABLE TO BUILD ON THIS AT THE BDI SYMPOSIUM ON 15 OCTOBER.

7. FCO PLEASE PASS TO PS/CHANCELLOR OF THE EXCHEQUER AND PS/FINANCIAL SECRETARY.

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