

CONFIDENTIAL

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TO IMMEDIATE UKREP BRUSSELS

TELNO 287

OF 191524Z FEBRUARY 91

AND TO IMMEDIATE EC POSTS, UKDEL IMF/IBRD WASHINGTON, SOFIA

AND TO IMMEDIATE ANKARA

FRAME ECONOMIC

MONETARY COMMITTEE: 18 FEBRUARY

## SUMMARY

UK REPRESENTED BY WICKS AND GRAY (TREASURY) AND ARROWSMITH (BANK OF ENGLAND). TOUR D'HORIZON FOCUSED ON EFFORTS TO STABILISE THE DOLLAR AND ON INTEREST RATE DEVELOPMENTS WITHIN ERM. EXAMINATION OF THE ECONOMIC AND FINANCIAL POSITION IN DENMARK WAS COMPLETED: A GENERAL WELCOME FOR THE TOUGH POLICY MEASURES TAKEN SINCE 1986, BUT SCEPTICISM WHETHER RENEWED GROWTH COULD BE ACHIEVED AND SUSTAINED WITHOUT FURTHER STRUCTURAL REFORMS. PROPOSED COMMUNITY LOAN TO GREECE WILL GO TO ECOFIN FOR FINAL APPROVAL: A NUMBER OF DETAILED CHANGES TO PROCEDURES WERE AGREED. ON EMU IGC ITEMS THE COMMITTEE INVITED ITS ALTERNATES TO CONTINUE WORK ON DEVELOPING CRITERIA FOR EXCESSIVE DEFICITS: BUT DISCUSSION OF FREE MOVEMENT OF CAPITAL WAS DEFERRED UNTIL A LATER MEETING. A POSSIBLE G24 PACKAGE FOR BULGARIA WILL GO TO THE NEXT ECOFIN. TOUR D'HORIZON

2. DISCUSSION OF RECENT MOVEMENTS OF THE DOLLAR REVEALED A MODEST DEGREE OF SATISFACTION WITH THE RESULTS OF RECENT INTERNATIONAL COORDINATION AND INTERVENTION. WITHIN THE ERM TIETMEYER (GERMANY) AND SZASZ (NETHERLANDS) SAID THAT RECENT INCREASES IN THEIR OFFICIAL INTEREST RATES HAD BEEN DESIGNED TO AVOID INCREASES IN MARKET RATES. WICKS REPORTED ON THE UK HALF PER CENT INTEREST RATE CUT, STRESSING THE PRIMACY ATTACHED TO ERM COMMITMENTS. ROJO (SPAIN) INDICATED A WISI BEFORE TOO LONG TO MAKE ANOTHER INTEREST RATE CUT FOLLOWING LAST WEEK'S SMALL 0.2 PER CENT MOVE.

3. TIETMEYER SAID THE 1990 GERMAN FISCAL POSITION HAD TURNED OUT MORE FAVOURABLY THAN EXPECTED. THE ABILITY TO STICK TO THE DEFICIT TARGET OF 140 BILLION DM FOR 1991 DEPENDED IEAVILY

ON THE LAENDER: TIETMEYER AND KOHLER GAVE EQUIVOCATING RESPONSES TO QUESTIONS ABOUT THE FEDERAL GOVERNMENT'S ABILITY LEGALLY TO CONTROL LAENDER SPENDING.

## DENMARK

4. THOMSEN AND MRS ANDERSEN (DENMARK) STOUTLY DEFENDED DANISH ACHIEVEMENTS SINCE 1986. ADOPTION OF THE HARD CURRENCY OPTION HAD PRODUCED VALUABLE RESULTS, AND THE ANALYSIS IN THE COMMISSION PAPER ABOUT PROSPECTS WAS TOO NEGATIVE.

5. THERE WAS A GENERAL WELCOME FROM THE COMMITTEE FOR THE TOUGH ACTIONS TAKEN AND WHAT HAD BEEN ACHIEVED IN TERMS OF INFLATION, BUDGET BALANCE AND EXTERNAL BALANCE. BUT QUESTIONS WERE RAISED ABOUT THE SUSTAINABILITY OF THESE IMPROVEMENTS. COULD STABILITY BE RETAINED AS THE ECONOMY RETURNED TO A GROWTH PATH? THERE WAS GENERAL SCEPTICISM ABOUT THE PROSPECTS WITHOUT FURTHER MAJOR STRUCTURAL REFORMS AND A REDUCTION IN THE SIZE OF THE PUBLIC SECTOR. MAAS (CHAIRMAN) WILL REPORT IN THIS VEIN WHEN HE SENDS THE USUAL FORMAL LETTER TO THE DANISH FINANCE MINISTER REPORTING THE OUTCOME OF THE EXAMINATION.

## GREECE

6. THE COMMITTEE COMPLETED PREPARATION FOR THE NEXT ECOFIN OF THE DOSSIER ON THE PROPOSED 2.2 BILLION ECU LOAN TO GREECE. A GENERAL AIR OF RESIGNATION WAS CAPTURED BY MAAS' CONCLUDING COMMENT THAT NEVER HAS THE COMMUNITY GIVEN SO MUCH MONEY WITH SO LITTLE CONFIDENCE FOR THE FUTURE: BUT ALL CONCERNED MUST MAKE THE BEST OF IT.

7. THE LATEST DETAILED TERMS WERE BROADLY AGREED SUBJECT TO SOME DETAILED CHANGES, TO WHICH PAPADAKIS (GREECE) APPEARED TO INDICATE CONSENT. FIRST, RATHER THAN BEING PAID IN DECEMBER 1991 AND THE SECOND HALF OF 1992, THE SECOND AND THIRD TRANCHES WOULD BE PAID 'NOT EARLIER THAN FEBRUARY 1992 AND FEBRUARY 1993' BY WHICH TIMES THE OUTTURN ON THE PRECEDING YEARS' BUDGET WOULD BE KNOWN AND FIRM BUDGETS ESTABLISHED FOR THE YEAR AHEAD. SECOND, ALTHOUGH THE LEGAL TEXT WILL STILL REFER TO THE SECOND AND THIRD TRANCHES BEING MADE 'IN CONSULTATION WITH THE COUNCIL', A UNILATERAL COMMISSION STATEMENT WILL BE INCLUDED IN THE ECOFIN MINUTES CONFIRMING THAT FURTHER TRANCHES WILL NOT BE RELEASED WITHOUT A POSITIVE

DECISION BY THE COUNCIL. THIRD, MONITORING WILL CONTINUE THROUGHOUT THE PERIOD OF THE LOAN.

8. THERE WAS UNRESOLVED UNCERTAINTY OVER THE QUESTION RAISED BY WICKS, NOT ADDRESSED IN THE PRESENT LEGAL TEXT, ABOUT WHAT HAPPENS IF THE PROGRAMME, OR PARTS OF IT, GO OFF TRACK. NO AGREEMENT WAS REACHED ON ANY REVISED WORDING TO THE DRAFT COUNCIL DECISION, BUT THE SENSE OF THE MEETING WAS THAT SUCH CIRCUMSTANCES WOULD CALL FOR A NEW COUNCIL DECISION.

9. KOHLER (GERMANY) RAISED VERY DIRECTLY THE LINKAGE TO SIGNING OF A NEW FINANCIAL PROTOCOL FOR TURKEY. HE WAS 'NOT TRYING TO PUT PRESSURE ON ANYONE', BUT STRONGLY HOPED GREECE WOULD LOOK AGAIN AT THIS AND SHOW ITS SOLIDARITY WITH THE COMMUNITY, PARTICULARLY BEARING IN MIND TURKISH INVOLVEMENT IN THE GULF. THE FEDERAL GOVERNMENT WOULD BE MAKING FORMAL REPRESENTATIONS TO THE GREEKS AND THE GERMAN VOTE IN ECOFIN ON THE GREEK LOAN WOULD 'DEPEND ON A POSITIVE RESPONSE'. WICKS AND OTHERS GAVE LOW KEY SUPPORT TO THIS DEMARCHE, OR AS SOME PUT IT 'FRIENDLY ADVICE'. PAPADAKIS (GREECE) SAID HE WOULD PASS THE MESSAGE TO HIS MINISTER.

#### EXCESSIVE DEFICITS

10. THERE WAS A GENERAL WELCOME FOR THE INTERIM REPORT SUBMITTED BY THE CHAIRMAN OF THE ALTERNATES. THE ALTERNATES WERE INVITED TO CONTINUE THEIR DETAILED WORK. MOST SPEAKERS SUPPORTED THE VIEW THAT, WHILE MAKING USE OF SPECIFIC TRIGGERS, ANY EXCESSIVE DEFICITS PROCEDURE MUST INVOLVE A SUBSTANTIAL ELEMENT OF JUDGEMENT: CONTHE (SPAIN) DISAGREED AND FAVOURED EXPLICIT RULES ENSHRINED IN PRIMARY LEGISLATION RATHER THAN THE SCOPE FOR DISCRETION. KOHLER (GERMANY), SUPPORTED BY TRICHET (FRANCE), EMPHASISED THE IMPORTANCE OF BINDING BUDGETARY RULES: WICKS, SUPPORTED BY THOMSEN (DENMARK), REMINDED THE COMMITTEE OF THE UK'S RESERVE AND OF THE DESIRABILITY OF STUDYING MORE SUBTLE WAYS OF SEEKING TO ENSURE EXCESSIVE DEFICITS WERE AVOIDED.

FREE MOVEMENT OF CAPITAL

11. THERE WAS NO TIME FOR THIS SUBJECT, WHICH WAS HELD OVER UNTIL A LATER MEETING.

BULGARIA

12. RAVASIO (COMMISSION) COMMENTED BRIEFLY ON A POSITION NOTE THE COMMISSION HAD CIRCULATED. THE POSSIBILITY OF A G24 ASSISTANCE PACKAGE WILL GO TO THE NEXT ECOFIN. WICKS URGED THIS SHOULD BE ON THE MAIN AGENDA AND NOT RAISED OVER LUNCH.

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