

Mr. Duisenberg's statement to the European Parliament's Subcommittee on Monetary Affairs Address by the President of the European Central Bank, Dr. W. F. Duisenberg, in Brussels on 22/9/98.

This is the first time that I, in my capacity as President of the European Central Bank (ECB), have the privilege to appear here at the European Parliament in accordance with Article 109b(3) of the Treaty. Today I should like to inform you, first, of the decisions that have been taken by the ECB since July and, second, of our schedule for the work still to be completed during the remainder of 1998. Afterwards I shall be happy to answer your questions.

First and foremost I should like to stress that our preparatory work for Stage Three of Economic and Monetary Union (EMU) is proceeding on schedule. You may be aware that we held two sets of meetings this month: meetings of the Governing Council of the ECB and of the General Council of the ECB on 1 September 1998, and an additional meeting of the Governing Council on 11 September 1998. We decided to hold a second meeting in September because we felt that with regard to the long lead-time, especially in those areas in which the preparatory work of our counterparties, i.e. the credit institutions, is affected by our decisions, we should move things forward faster. Today I am in a position to present to you quite a long list of important decisions taken recently by ECB bodies. I think that the list demonstrates that we have made very good progress in a number of areas. Let me please elaborate on the most important decisions relating to the preparatory work for Stage Three of EMU.

A. State of preparatory work

1. Exchange rate policy co-operation between the euro area countries and other EU Member States

The General Council endorsed the text of an Agreement between the ECB and the non-euro area national central banks, laying down the operating procedures for an exchange rate mechanism in Stage Three (the so-called ERM II). You will recall that the European Council in Amsterdam in June last year agreed to set up an exchange rate mechanism in Stage Three to replace the present European Monetary System (EMS). For this reason, the EMI prepared a draft Central Bank Agreement on the replacement of the current exchange rate mechanism with a new one in Stage Three. It is this Agreement which has now been signed by myself, as President of the ECB, and by the governors of the four non-euro area national central banks. The signing of this Agreement by the latter parties implies their acceptance of the operating procedures. It does not, however, imply their participation in ERM II.

For the currency of each Member State participating in the mechanism, a central rate against the euro and a standard fluctuation band of $\pm 15\%$ will be defined, in principle supported by automatic unlimited intervention at the margins, with very short-term financing available. However, the ECB and the participating non-euro area national central banks could suspend automatic intervention if this were to conflict with their primary objective of maintaining price stability. In line with the Resolution of the European Council, exchange rate policy co-operation may be further strengthened, for example by allowing closer exchange rate links between the euro and other currencies in the exchange rate mechanism, where, and to the extent that, this is appropriate in the light of progress towards convergence.

2. General documentation on ESCB monetary policy: instruments and procedures

Last Friday, 18 September 1998, the ECB published a report entitled "The single monetary policy in Stage Three: General documentation on ESCB monetary policy instruments and procedures". This report contains a detailed description of the monetary policy instruments and procedures to be applied by the ESCB in Stage Three of EMU. Hence it provides credit institutions with the information they need in order to prepare for participation in ESCB monetary policy operations as from 1 January 1999. The report expands upon and updates the material contained in an earlier version which was published by the EMI on 23 September 1997.

The report first sets out the criteria to be fulfilled by credit institutions in order to be eligible as counterparties to ESCB monetary policy operations. It then presents the features of the different types of open market operations which might be conducted by the ESCB and the ESCB's two standing facilities (the marginal lending facility and the deposit facility). The report also contains a detailed description of the procedures related to the various types of operations, and specifies the eligibility criteria and the risk control measures to be applied to assets underlying the ESCB's liquidity-providing operations. Moreover, the report includes the description of the features of the ESCB's minimum reserve system and sets out specific provisions to be applied for the ESCB's monetary policy instruments and procedures in the transition to Stage Three.

In this context I should also mention that on 11 September 1998 the Governing Council of the ECB endorsed the statistical framework on the basis of a number of reports that had been prepared by the EMI - many of which had been published in the past - thereby confirming the ECB's statistical requirements for Stage Three. The reporting framework for the money and banking statistics of the ECB is included in the "General documentation".

Furthermore, on 11 September 1998 the Governing Council endorsed a list of eligible securities settlement systems following an assessment of such systems against standards that had previously been laid down for their use in the credit operations of the ESCB. The list, which indicates those securities settlement systems that will be used by the ESCB and the conditions for their use, is set out in the "General documentation" as well.

3. Technical preparations for the euro banknotes

The technical preparations for the euro banknotes are proceeding according to schedule. The origination, i.e. the process of converting the designs into banknotes, has now been successfully completed. A zero-production run will be conducted in the autumn before mass production starts in early 1999.

The Governing Council of the ECB decided on 11 September 1998 that there will be no national feature on the euro banknotes. It also confirmed, in line with previous recommendations made by the EMI, that the following seven banknote denominations will be issued: 5, 10, 20, 50, 100, 200 and 500.

4. Schedules for the meetings of the Governing Council and General Council

In addition to its meetings scheduled for 13 October, 3 November and 1 December 1998, the Governing Council of the ECB has agreed to hold a further meeting on 22 December 1998. The Governing Council's final meeting before the start of Stage Three will be devoted

primarily to fine-tuning its last-minute preparations. The Governing Council has also decided that during the first year of Stage Three its meetings shall, as a rule, be scheduled to take place on Thursdays every other week, starting on 7 January 1999. Furthermore, the General Council has agreed that the current practice of holding quarterly meetings on the same day as meetings of the Governing Council should continue in Stage Three.

As far as the information policy of the ECB is concerned, I should like to mention that the ECB intends to hold a press conference, as a general rule, once a month. For the first three months of 1999, it envisages holding a press conference immediately after the first meeting of each month. It is my aim to pursue a policy of actively informing the public about the ECB's decisions and the rationale behind them. In addition to press conferences, the public statements of the members of the Governing Council and the ECB's regular publications will also contribute to achieving this goal. In its regular publications, for example, the ECB will report thoroughly on all aspects relevant to the conduct of the single monetary policy in the euro area. In particular, they will supply a detailed analysis of the developments upon which the respective monetary policy decisions are based. Apart from the publications foreseen in the Treaty, of which the Annual Report and the Quarterly Report are the most important ones, the ECB intends to publish a Monthly Bulletin.

In order to give a well-rounded picture I should like to draw your attention to one of the most recent ECB publications, the "Report on electronic money", before I turn to our schedule for the remainder of 1998.

* The "Report on electronic money"

On 31 August 1998 the ECB published a "Report on electronic money". The report deepens the analysis of the implications of prepaid cards conducted by the EMI in 1994 and extends it to new forms of electronic money, i.e. software-based electronic money products which have since started to evolve. The main findings of the study were published in the Opinion of the EMI Council on the issuance of electronic money, which is contained in Chapter III of the EMI's Annual Report 1997.

Although electronic money is not a widespread phenomenon at present, it is likely to have significant implications for monetary policy in the future. In this regard, it must be ensured that, in particular, price stability and the unit-of-account function of money are not put at risk. There are a number of additional regulatory concerns regarding electronic money which also have to be taken into account, such as the efficient functioning of payment systems and confidence in payment instruments, the protection of customers and merchants, the stability of financial markets and protection against criminal abuse.

With a view to ensuring monetary policy effectiveness and a level playing-field, and in order to address the regulatory concerns I have just outlined, the ECB regards it as essential that certain minimum requirements be fulfilled (see Chapter 4 of the Report).

I would like to stress in this context that the ECB follows with interest and close attention the European Commission's work on a directive on electronic money and expects to be officially consulted in due time.

B. Schedule for the remainder of 1998

Given the huge volume of work to be completed during the remainder of the year it seemed to us appropriate to give priority to those issues relevant to credit institutions' preparatory work for Stage Three. The above-mentioned "General documentation" is one example of this, since credit institutions' preparations for participation in ESCB monetary policy operations as from 1 January 1999 were to a large extent dependent on the decisions to be taken by the Governing Council. Given the lead time in this field I consider the approach adopted to be very helpful.

The need to set priorities was also a major factor in opting to schedule our decision on euro area's monetary strategy for the autumn of this year. The determination of a strategy for the single monetary policy is a very important decision to be taken. Nonetheless, the outcome of our proceedings does not have such a direct impact on our counterparties' preparations for Stage Three as the operational framework. Moreover, another reason for not yet having taken definite decisions regarding the monetary policy strategy is that the matter requires very thorough consideration. The Governing Council has already started with this discussion which will continue for some time. I can assure you that there are no fundamentally diverging opinions within the Governing Council concerning the orientation of our future monetary policy strategy. In this context, allow me to remind you that the EMI had already achieved a broad consensus regarding the monetary policy strategy. In particular, certain strategies, such as exchange rate targeting or nominal income targeting were explicitly excluded some time ago. Moreover, it was pointed out that the implementation of the two potential candidate strategies that had been identified, namely monetary targeting and direct inflation targeting, may, in practice, be relatively similar. A combination of elements of both strategies was also considered as a possibility. Finally, there was no doubt within the EMI Council, that monetary policy decisions should be based on a broad range of indicator variables and that money would be assigned a prominent role, with either targets or monitoring ranges set for its growth, provided that money demand is sufficiently stable. The Governing Council of the ECB will continue to discuss the specification of the strategy along these lines over the months to come. The Governing Council will then specify the exact formulation of its strategy and its implementation in 1999 before the start of Stage Three.