
212th MEETING
TUESDAY 10th FEBRUARY 1987

REPORT BY MR. DINI ON THE ALTERNATES' DISCUSSION
ON THE GOVERNORS' WORK PROGRAMME FOR 1987

1. The Alternates expressed broad agreement for the draft work programme. However, they felt that the items relating to the strengthening of EMS mechanisms (item 1 of the draft programme) and to the liberalization of capital movements (item 2 of the draft programme) were closely related, and that therefore the Governors' report to the ECOFIN should address them jointly. It was also felt that the various subjects should be examined preliminarily by the Committee's expert groups and then by the Alternates, in order to prepare the Governors' deliberations. The Alternates considered that the Governors could aim at presenting a preliminary report at the June meeting of the ECOFIN, and the final report at the September informal meeting of the ECOFIN.

2. The following remarks were made regarding specific subjects in the draft work programme:
 - (i) as regards realignment procedures, a number of Alternates felt that it would be preferable to avoid stating explicitly the possibility of entrusting the Committee of Governors with a direct responsibility for small realignments of a "technical" nature; some Alternates noted in this connection that, while there would be benefits in "de-dramatising" central rate realignments, there was a danger that exchange rate discipline of the system might be weakened as a result, with the system evolving in the direction of a "crawling peg", which was not considered a desirable result;

- (ii) it was stressed that in evaluating the functioning of the EMS mechanisms, special attention should be given to the relationships between intramarginal intervention, exchange rate flexibility within the EMS bands and interest rate differentials in member countries; mention was also made of the need to increase the system's asymmetry, notably as regards the burden of intervention;
- (iii) some Alternates also felt that the rôle of the ECU, notably its acceptability, in the operation of the system should not be left aside;
- (iv) a number of Alternates underlined the importance of the dollar exchange rate, and to an extent of that of the yen, in determining developments within the EMS; therefore this issue should receive consideration in assessing the working of EMS mechanisms in recent months and in formulating proposals for strengthening the system;
- (v) it was further noted that the implications of capital liberalization for countries at present not participating in the exchange rate arrangement should also be examined. It was also underlined that important prudential issues were involved in the process of liberalizing capital movements, and that appropriate consideration should be given to these issues alongside those strictly related to the EMS mechanisms.