

BANQUE NATIONALE DE BELGIQUE

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PRIOR CONSULTATION FOR INTERVENTIONS

1. Commitments for prior consultation :

Prior consultation of the issuing central bank is required when a Community central bank intends to use the former's currency in connection with

- a) Intra-marginal interventions in the ERM, as already reconfirmed in the Basle-Nyborg agreement;
- b) All other non-compulsory interventions involving the sale or purchase of Community currencies against own currency (example : Bank of England using DEM);
- c) Cross-currency market transactions involving the sale or purchase, for own account, of Community currencies (example : dollar-DEM "interventions").

Subject to further review, the use of private ecus does not require prior consultation per se.

2. Policy framework for use of currencies :

- a) Central banks can be counted upon to act sensibly, i.e. sell "strong" currencies and buy "weak" currencies; identification of strong and weak currencies could be facilitated through intensified and regular exchange of information on
- exchange rate strategies agreed between G-7 countries;
 - common dollar policy;
 - intervention policies of non-ERM central banks
 - intervention policies of ERM central banks which appear to be at odds with the position of their currency within the band.
- b) Central banks can be expected to act sensibly when granting or withholding permission to use their currency. The rationale for such decisions will normally rest on exchange rate considerations (see a) above) or on grounds of monetary policy taking into account the objectives and smooth functioning of the System. General understanding of policies will be enhanced if central banks issuing reserve currencies share information on their concerns with respect to the direction and size of the (un)desired use of their currency.
- c) Interventions are only part of a desired instrument-mix involving also exchange-rate flexibility and interest rate moves. Concerns about this instrument-mix should be discussed as part of the multilateral monitoring exercise, preferably at the level of the Committee of Governors, rather than on the occasion of the bilateral prior consultation process.

3. Problems of implementation :

- a) It would be useful for central banks to exchange information, through daily and weekly concertations, on likely intervention needs;
- b) Interventions of moderate size at fixing sessions solely to ensure orderly cross rates are deemed acceptable;

- c) Other interventions at fixing sessions should remain subject to prior consultation; they should elicit immediate response from issuing central banks, without need to refer above;
- d) Unauthorized use of currency should be reversed in the market on the same day, and should in any case remain exceptional.
- e) Any incident or problem of interpretation should be settled as soon as possible and, if necessary, discussed at the next monitoring session.