3rd stage of the EMU: operational aspects of monetary policy. EMI report

1997/2007(COS) - 07/01/1997 - Non-legislative basic document

OBJECTIVE: In accordance with its Statute, the European Monetary Institute (EMS) is required to report annually on the adaptation of monetary policy instruments and the preparation of the procedures necessary for conducting a single monetary policy in Stage Three of Economic and Monetary Union (EMU). Furthermore, Article 109f(3) of the Treaty establishing the European Community requires the EMI to specify at the latest by 31 December 1996, the regulatory, organizational and logistical framework necessary for the European System of Central Banks (ESCB) to perform its tasks in Stage Three. In publishing this report, the EMI aims at providing information of interest to the public and the counterparties of central banks in the operational aspects of monetary policy. In 1996, the EMI made further progress in preparing the framework necessary for the European System of Central Banks (ESCB) to perform its tasks in Stage Three: (1) in pursuit of its primary objective of maintaining price stability, two possible strategies have been selected for conducting monetary policy in Stage Three, namely monetary targeting and direct inflation targeting. The EMI has also defined a set of monetary policy instruments that will be made available to the ESCB. It is envisaged that the ESCB will mainly use open market operations, but that it will also offer two standing facilities: the margin lending facility and the deposit facility. In addition, preparations are being made for an infrastructure that will allow the European Central Bank (ECB) to impose minimum reserve requirements. In order to secure a single monetary policy stance and a level playing field for counterparties across the whole of the Euro area, the EMI has worked out common eligibility criteria, both for the counterparties and for the assets to be used by those counterparties in their operations with the ESCB. Remote access to monetary policy operations is not being developed as an option at this stage. (2) In the area of foreign exchange intervention, the main lines of the future exchange rate relationship between the Euro area and the Member States not participating in it. Preparatory work where defined in 1996 is being conducted by the EMI and the NCBs with a view to ensuring that the ESCB will be in a position to use either a centralized or a decentralized arrangement for the conduct of its foreign exchange intervention operations. (3) With regard to statistics, the statistical requirements for the Euro area resemble the national statistics currently available. However, for the combination of aggregates covering the euro area, harmonization of national definitions and practices is required, and appropriate consolidation to take account of cross-border flows has to be carried out. The EMI has therefore prepared, in consultation with the European Commission, a list of the statistical requirements for Stage Three. (4) In the area of payment systems, the EMI and the national central banks are in the process of developing an interbank funds transfer system called TARGET (Trans-European Automated Real Time Growth settlement Express Transfer), that will be able to process cross-border payments dominated in Euro without difficulty. To avoid impediment to the efficient conduct of the single monetary policy, a certain degree of harmonization of the national RTGS (real-time gross settlement) systems within the euro area will be ensured in three respects: the provision of intra-day liquidity, operating hours and pricing policy. In addition, in its work to develop the instruments and techniques to be applied to the single monetary policy and to ensure settlement systems operate smoothly in Stage Three, the EMI discusses the adaptation of securities settlement systems in line with requirements and their links with the payment systems. In the course of 1997 the EMI intends to publish further material relating to the ESCB's operational framework for the conduct of single monetary policy. Documents will be forthcoming with respect to monetary policy strategy, monetary policy instruments and procedures, TARGET and securities settlement systems.