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PRIME MINISTER

ECOFIN

The informal ECOFIN on 31 March/1 April will focus on two items: German economic and monetary unification; and the progress of economic and monetary union in the Community.

The discussion on Germany will give us a further opportunity (the day after our bilateral talks with the Germans) to probe their thinking, especially over the consequences of monetary union and eventual unification for our economies, and to enable Finance Ministers to emphasise the need for the Germany to consult Community partners closely. We will want to emphasise the need to avoid unsettling the markets and, in that respect, it is helpful that unification seems to be proceeding at a slower pace. On the consequences for the Community and its trade and finances I will be guided by our recent discussions in OD.

On EMU, as you know the interdepartmental group of officials have been doing the work envisaged in my Private Secretary's letter of 30 November 1989 and have raised a number of important questions. I would like to discuss these with you after I have tested the



temperature at the informal ECOFIN. At that meeting I will continue to take the line in the "Evolutionary Approach" paper we published in November and will probe the Delors prescription. Specifically, I will make the following points.

- (i) The UK remains committed to an evolutionary approach - learning by doing.

- (ii) The Delors report had little to say about what should follow on from Stage 1 - the institutions, and their functions - and I will be asking for an examination of these aspects by the Monetary Committee.

- (iii) On budgetary policy rules, there is growing recognition of our case that there should not be binding limits on budget deficits. Instead, I will take the line we agreed (your Private Secretary's letter of 13 February) that there could be the following rules (which can be binding):
 - (a) no monetary financing of budget deficits;

 - (b) no Community bail out of governments running excessive fiscal deficits;

 - (c) in the context of Community mechanisms for lending to a Member State, a budgetary commitment as a condition of that loan;

 - (d) binding Community procedures for surveillance of national budgetary policies (it would be the procedures not the outcome that would be binding).



- (iv) On the approach to monetary union, our evolutionary approach means the UK is ready, as our paper made clear, to consider gradual steps, such as removing further barriers to the use of Community currencies, including a greater use of the ecu.

We are bound to be asked both at the Council and at the Anglo German Summit whether our position on joining the ERM has changed. I am sure we have no choice but to stick to the Madrid conditions. If we were thought to be adding to these in any way we could only reduce our influence in the EMU discussions.

I am sending a copy of this minute to the Foreign & Commonwealth Secretary and to Sir Robin Butler.

[J.M.]

23 March 1990