

Revaluation of gold and foreign exchange reserves

At its meeting on May 28, 1997, the Central Bank Council of the Deutsche Bundesbank considered the concept put forward by the Federal Minister of Finance concerning the Bundesbank's accounting procedure.

That concept proposes that a distinctly higher valuation should be applied to the gold and foreign exchange reserves and that part of the resulting valuation gains should be distributed to the Federal Government to repay some of the debt of the Redemption Fund for Inherited Liabilities. The concept envisages that the distribution is to be made already in 1997 and in 1998 and, in addition, that the Bundesbank's capital base and reserves should be restructured.

The Central Bank Council's considered response is as follows:

1. Hitherto, the Bundesbank has applied the lower of cost or market valuation principle in line with German law. The current state of negotiations within the European Monetary Institute suggests that it is likely that valuation at market prices will be adopted for the European Central Bank (ECB) and for the Consolidated Balance Sheet of the European System of Central Banks (ESCB), although unrealised valuation gains will not be distributed but will be allocated instead to a revaluation account. A binding decision on the valuation method to be adopted in the monetary union can be made only by the ECB Governing Council. The same applies to the valuation of that portion of each country's reserves which the respective national central banks are

to transfer to the ECB. It should be noted, incidentally, that the portion of the reserves remaining at the Bundesbank will continue, in principle, to be available for national usage.

2. The concept proposed by the Federal Minister of Finance for the years 1997 and 1998 does not accord with the arrangements envisaged for the ESCB because it couples the revaluation of the reserves with a distribution of unrealised gains.
3. The Bundesbank's functions will change once European monetary union (EMU) is launched. The amendment of the valuation rules and of the required capital resources should likewise take effect from that point in time. The Bundesbank's capital base should be restructured and its equalisation claims liquidated. In that context it is also possible to envisage a distribution that is acceptable from a monetary policy point of view. It is the task of the legislators to create the prerequisite legal basis. The Central Bank Council considers, in agreement with the concept put forward by the Federal Minister of Finance, that it is correct to use this distribution exclusively to repay the debt of the Redemption Fund for Inherited Liabilities.

The detailed special provisions for the years 1997 and 1998 envisaged so far in the concept of the Federal Minister of Finance may be regarded as constituting interference in the task of compiling and approving the balance sheet, which falls within the Bundesbank's field of responsi-

bility, and hence as an infringement of the Bundesbank's independence.

Following the selection of the group of countries that will participate in EMU from the outset, the Bundesbank will take due account, if necessary, of a possible change in the risk position in its annual accounts for the year 1997 on the basis of applicable law.

4. If a distribution of a valuation gain were to be made already in 1997, the reference year for selecting the EMU participating countries, there is a danger of a loss of public confidence in the stability of the future European currency. Hitherto, the Federal Government and the Bundesbank have always emphasised that the convergence criteria set out in the Maastricht Treaty must be met credibly and durably in order to ensure that European monetary union is placed on a firm footing. The Bundesbank believes that a formal satisfaction of the fiscal policy criteria through the distribution of the revaluation gain would not do justice to these requirements. The distribution can make only a limited contribution to sustainably improving the public finance situation. On the other hand, such a move would almost inevitably have negative repercussions on the interpretation of the entry criteria and on the stability policy credibility of the group of candidates selected in May 1998.
5. A distribution of hidden reserves would be manageable in monetary policy terms,

depending on the magnitude of the distribution. If, however, such a distribution is prescribed by law, that would constitute interference in the Bundesbank's monet-

ary policy. Such a move would run counter not only to German tradition but also to the ideas set out in the Maastricht Treaty on the independence of central banks.

