How the EMS works

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By and large, the European Monetary System (EMS) has worked well, despite the British opt-out, Portugal's decision to go its own way and, later, Greece's withdrawal. Although Spain chose not to take part in the EMS when it first joined the EEC in 1986, it was nevertheless given the same dispensation as Italy, i.e. a fluctuation margin of 6 % instead of the 2.25 % imposed on the other members of the EMS. The EMS fulfilled the expectations it had raised quite well. It encouraged collective discipline and, at all events, provided greater monetary stability. Wide fluctuations were replaced by minor periodical adjustments when required by occasional stresses and strains on the exchange markets.

However, the stability attained was far from perfect. The wide differences in rates of inflation, the advent of the second oil crisis and the appearance of new government deficits meant that some adjustment was inevitable. Scarcely a few months after its launch, the EMS faced new factors of economic divergence. In September 1979, changes in parity occurred. The German mark was revalued upwards by 2 %, the French franc was devalued by 3 %, and the Danish crown was devalued by 2.9 %. The EMS was consequently no longer a zone of pegged exchange rates but one of adjustable rates. The central rates could be changed if the divergence between two currencies in the EMS could not be narrowed by central bank intervention. The existence of strong currencies, such as the German mark and the Dutch guilder, was confirmed, as was that of weak currencies, e.g. the Italian lira. Further rate adjustments were carried out in October 1981 and February 1982.

The three Benelux countries and Denmark made an effort to achieve sufficient stability to allow them to peg their currencies to the German mark which was underpinned by its own stability and the robust health of the German economy. Starting in 1983, France made similar efforts.