

## The European currency snake

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**Last updated:** 08/07/2016



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Europe was seriously weakened by the currency turmoil in the late 1960s and early 1970s. The combined effect of the devaluation of the French franc, the upward revaluation of the German mark and the collapse of the Bretton Woods International Monetary System destabilised European markets. Furthermore, exchange rates between the currencies of the Member States had to be fixed before a common market could be created.

The German Minister for Finance and Economic Affairs, Karl Schiller, advocated a rigorous stability policy in order to resolve the crisis. France hesitated at first but then came round to supporting the German idea of attaining monetary stability. The Smithsonian Agreement, signed in Washington on 18 December 1971, set new parities between European currencies and the dollar. It also introduced what was known as the currency tunnel, which extended the exchange rate fluctuation margins of the main European currencies to 2.25 % around a central rate. Meeting in Basle on 10 April 1972, the Committee of Governors of the European central banks introduced an additional mechanism to narrow exchange rate fluctuation. Accordingly, the Basle Agreement set up the European currency *snake in the tunnel*. The snake entered into force on 24 April 1972 and allowed central banks to buy and sell European currencies provided that the exchange rate fluctuation margin of 2.25 %, corresponding to the authorised margins between the dollar and the currencies of the Six, was not overstepped. The snake was therefore reduced to half its size in relation to the width of the tunnel. While the EEC accession procedure was under way, the pound sterling, the Irish punt and the Danish crown joined the snake on 1 May 1972. But these three currencies, not unlike the dollar, came under speculative attacks and were forced to leave the exchange-rate mechanism a few weeks later.