

Monetary disturbances in Europe

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URL: http://www.cvce.eu/obj/monetary_disturbances_in_europe-en-f1c387c3-5c55-40d3-8952-1b419fd357ae.html

Last updated: 08/07/2016



Monetary disturbances in Europe

In the late 1960s and early 1970s, Western Europe was plagued by serious monetary disturbances affecting all the European currencies. Some, such as the pound sterling and the French franc, were under pressure to devalue while others, such as the German mark, were heavily undervalued and had to be adjusted upwards. Despite declarations of intent from politicians in the six Member States, these changes in exchange rates were carried out unilaterally, without any prior consultation.

France's monetary problems began before the election of Georges Pompidou as President of France in June 1969. General de Gaulle had always refused to devalue the franc when it came under pressure from the markets. This period was also marked by interest rate increases worldwide. The United States doubled its rates between 1968 and 1969, causing a similar increase in Europe via the Eurodollar market which consisted of deposits in US dollars in banks located outside the United States. As if in response to France's May 1968 political disturbances, President Pompidou decided, on 8 August 1969, to devalue the franc by 12.5 %. The summer holiday period seemed like a good time to devalue, since most French consumers would not fully realise that prices of imported foods had risen until they returned home.

On 24 October 1969, after the German mark was allowed to float for a brief period, it was adjusted upwards by 9.29 %. That resulted in a devaluation of the French franc vis-à-vis the German mark of more than 20 %. The economic impact of these currency transactions was enormous and directly threatened Community policy.