

'Just six countries in the European Monetary System', from Frankfurter Allgemeine Zeitung (7 December 1978)

Caption: On 7 December 1978, the German daily newspaper Frankfurter Allgemeine Zeitung describes the operation of the new European Monetary System and assesses the role played by the accounting currency of the Nine: the ECU.

Source: Frankfurter Allgemeine Zeitung. Zeitung für Deutschland. Hrsg. EICK, Jürgen; WELTER, Erich; FACK, Fritz Ullrich; DESCHAMPS, Bruno; FEST, Joachim; REIßMÜLLER, Johann Georg. 07.12.1978, n° 272. Frankfurt/Main: FAZ Verlag GmbH. "Nur sechs Länder im Europäischen Währungssystem", p. 11.

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Just six countries in the European Monetary System

Waiting for Italy and Ireland / New currency basket definition

STD. Brussels, 6 December. The principles of the new European Monetary System, as determined by the Community's nine Heads of State or Government in Brussels, will remain unchanged, although Italy and Ireland, as well as Great Britain, will for the time being not participate. It was considered doubtful in Brussels on Wednesday whether the Governments in Rome and Dublin would still give their consent during the following week. Britain is associated with the Monetary System through special agreements. It is still uncertain what kind of agreements will be made with Italy and Ireland if they do not join.

The currency basket, on which the European Currency Unit (ECU) is based, includes the currencies of all the Community Member States. In order to prevent the impact of exchange rate fluctuations of non-participating currencies, they will be 'frozen' at the rate of exchange valid on the day when the System comes into force. Even with limited participation, the new European Monetary System will remain a Community matter. It will be put into effect through an agreement between the Central Banks.

The discussions between the Heads of State or Government did not greatly change the System's principles. It will basically respect the draft approved by the Ministers of Economic Affairs and Finance at their most recent meeting. They based their draft on extensive preliminary work by the Monetary Committee and the Committee of Governors of the Central Banks. New items are the definition of the currency basket's role in the event of intervention and the definite fixing of the instruments of credit for short- and medium-term assistance. A compromise has also been reached on the subject of very short-term assistance for an unlimited amount.

The European Currency Unit (ECU) at the core of the System is the weighted basket unit of all Community currencies; it corresponds to the value of the present European Unit of Account. It is the point of reference for the creation of mutual exchange rates between the currencies, the basis for what is known as the divergence indicator and the operation denominator for interventions and loans; it will be used for reconciling balances between Central Banks. The weighting of the currencies, defined on the basis of the share in the national product, in Community trade and in credit commitments for mutual assistance, will be initially reviewed within the first six months of the System's coming into force and at five-yearly intervals thereafter. Earlier changes will be made on request if a currency's weighting changes by 25 %.

On the basis of the central rates, which correspond to the relations of the various currencies to the ECU, a bilateral exchange rate grid (parity grid) will be established. Changes to the central rates may then be made by mutual agreement. Consultations on this subject at Community level will also be attended by countries that do not participate in the System. The exchange rates will have fluctuation margins of 2.25 % for interventions. If either the upper or lower margin is reached, an intervention in one of the currencies of the participating countries will be compulsory.

It is crystal clear that an intervention will be made only when the upper or lower margin has been reached. The currency basket, which was long controversial, retains the role of an indicator, as the Federal Republic had demanded from the outset. The indicator, however, has now been assigned certain functions which exceed the original concepts of the German negotiators.

While the parities will initially be frozen at the currencies' entrance rates, the currency basket will undergo daily changes in line with market movements. Depending on this development, differences may occur between the status in the currency basket and the applied parities. If a currency in the basket reaches 75 % of the actual fluctuation margin, what is known as a 'divergence threshold' is triggered, and the country in question is 'expected' to take 'adequate measures' such as diversified intervention, domestic monetary policy measures, changes in central rates or other economic policy measures.