Central rates

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Bilateral central rates pegged to the European Currency Unit (ECU) were set for the currencies taking part in the European Monetary System (EMS). Fluctuations between currencies were limited to a maximum of 2.25 %.

Italy, whose currency had left the currency snake in December 1978, was granted a temporary dispensation to fluctuate by as much as 6 % from the central rate. Whenever the authorised limit was on the verge of being overstepped, the central banks of the participating Member States were expected to intervene on the currency market. The central banks were required to maintain the rate of their currency within the authorised limits by buying or selling currencies. This principle required a great deal of mutual support among the members in the system and a convergence of economic policies.

The Member States had to adopt economic and budgetary measures which would enable currency fluctuations to be kept to a minimum. Credit mechanisms were introduced to give the central banks the wherewithal to put this intervention policy into effect. These mechanisms, such as the European Monetary Cooperation Fund (EMCF), were created in April 1973 to fund loans to central banks. The EMCF helped to narrow the fluctuation margins of European currencies and to spread over a number of countries the debts and liabilities arising from the automatic intervention of the central banks.