

'Fixed central rates in the new Monetary Union' from the Frankfurter Allgemeine Zeitung (19 September 1978)

Caption: On 19 September 1979, in its coverage of the implementation of the European monetary system (EMS), German daily newspaper Frankfurter Allgemeine Zeitung describes the negotiations of the Nine on the fixing of central rates.

Source: Frankfurter Allgemeine Zeitung. Zeitung für Deutschland. Hrsg. Eick, Jürgen; Welter, Erich; Fack, Fritz Ullrich; Deschamps, Bruno; Fest, Joachim; Reißmüller, Johann Georg. 19.09.1978, Nr. 205. Frankfurt/Main: FAZ Verlag GmbH. "Feste Leitkurse im neuen Währungsverbund", p. 11.

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Fixed central rates in the new Monetary Union

Negotiations in the European Community are making progress / The 'snake' is to serve as a model

STD. 18 September. According to the present state of discussions, a new European Monetary System can be expected to come into effect at the beginning of 1979. The Federal Finance Minister, Hans Matthöfer, announced this after the meeting of the European Community Finance Ministers in Brussels on Monday. Moreover, all Community Member States were likely to participate. Contrary to certain expectations, the negotiations were conducted in a 'cordial atmosphere'. All participants apparently agreed with the French Finance Minister's observation that 'enormous progress had been achieved' during the discussions on Monday.

The Finance Ministers mainly discussed the Monetary Committee's interim report which proposes various methods for the individual rules. The Ministers have now instructed the Committee Chairman to submit a final report with unequivocal final recommendations by 16 October. The US is to be informed about the current state of discussions on the margins of next week's International Monetary Fund meeting.

The most important agreement reached on Monday, consistent with the one reached between the Federal Chancellor, Helmut Schmidt, and the French President, Valéry Giscard d'Estaing, in Aachen, relates to the exchange rate mechanism. The future European Currency Unit (ECU) will become the basis for the central rates. The exchange rates of all the national currencies, valued on the day of the system's coming into effect, in relation to the ecu, which represents a basket made up of the currencies of the participating Member States, will be established in a grid and thus defined as central rates. As in the existing small Monetary Union ('snake'), there will be a firmly established exchange rate relationship between the various currencies as opposed to a daily varying reference unit linked to a constantly changing currency basket, as originally proposed by some countries, Great Britain in particular. As in the present Monetary Union, the fluctuation margin is to be fixed at 2.25 %.

In addition to this rule, and as a kind of early warning system, a statistical comparison with a currency basket in line with actual market developments will be kept. The Belgian negotiators had already submitted this proposal at last week's meeting of the Monetary Committee. It was obviously intended as a compromise between the different views and probably accepted by the Federal Republic only for that reason. The Belgians even wanted to intervene on the basis of trends in the foreign exchange reserve, which also plays the role of an indicator, but this was rejected by Germany. It has now been decided that talks will be held in the event of considerable 'indicator' divergences. After the meeting on Monday, the German participants called the currency basket an 'instrument of cognition'.

All participants also accepted the proposal that the European Monetary Cooperation Fund, available for mutual assistance loans, should consist of 20 % of the foreign exchange reserves. If all Member States participated, this would amount to a sum of between 'ECU' 25 000 and 26 000 million, the equivalent of some DM 65 000 million according to the present exchange rate. Some countries, Italy and Great Britain above all, that had previously called for a higher endowment for the Fund, now seem to have accepted this figure as the upper limit. If the German negotiators have nevertheless expressed some reservations, they seem to be based on domestic policy considerations. The Bundesbank had expressed serious doubts about an excessively large Fund. Mr Matthöfer, however, confirmed on Monday that the Bundesbank's Vice-President, Karl Otto Pöhl, who had taken part in the Finance Ministers' discussions, had approved everything.