

# COMMISSION OF THE EUROPEAN COMMUNITIES

COM(84) 125 final

Brussels, 2<sup>nd</sup> March 1984

FIVE YEARS OF MONETARY COOPERATION IN EUROPE

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(Communication from the Commission to the Council)

## FIVE YEARS OF MONETARY COOPERATION IN EUROPE

(March 1979 - March 1984)

### Introduction

Before March 1979, monetary cooperation in the Community was organized under the relevant provisions of the Treaty and by Council decisions. But the introduction of the European Monetary System meant a new dimension and a new approach, with the explicit purpose, clearly stated from the outset, of establishing "closer monetary cooperation leading to a zone of monetary stability in Europe". Indeed, the EMS has been so important to the history of monetary cooperation in Europe that, since March 1979, the two are coterminous, and a review of one is necessarily a review of the other.

This report is a review of the EMS. It begins by analysing the system's contribution to the convergence on which stability depends, i.e. by assessing the degree of convergence achieved through the workings of the EMS and by describing its results.

It then considers how the EMS mechanisms have ensured orderly exchange management, by seeking to analyse their adequacy and assessing their scope.

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I. THE EMS, INSTRUMENT OF ECONOMIC POLICY CONVERGENCE

The success of the EMS should be measured in terms of the two-fold purpose assigned it : its ability, on the one hand to induce a greater degree of economic policy convergence and, on the other, to achieve stability in the monetary variables.

A. Convergence induced by the EMS

a) The EMS has given substance to Community monitoring procedures

The introduction of the EMS did not lead to any official change or extension in the monitoring procedures gradually set up in the Community over the previous decade. But it did act as a powerful incentive to revive existing procedures and exploit them in pursuit of a coherent project.

During the 1970s, it became apparent that Community monitoring and coordination was in some ways a failure. That failure was, indeed, one of the main reasons why the first attempts to introduce a stable exchange-rate system in the Community (the "Snake") did not work out very well. Faced with a seriously disturbed international environment where fixed exchange relations had been abandoned and oil prices were soaring, the member countries sometimes opted for economic policy choices which were fundamentally different; no one being really prepared to submit to an exchange-rate constraint if that entailed sacrificing a domestic aim.

The EMS was set up as a result of a defensive reaction against the disorderly movements of the dollar and against the danger of economic deterioration in the Community if uncoordinated behaviour continued. As the system came into operation, the soundness of this reaction gradually became more apparent.

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- Attitudes converged on recognizing that the main thrust of national economic policies should be directed towards achieving price stabilization, and that the level to be desired was that of the most successful performer on this front. This was the approach that in fact prevailed in response to the second oil shock.
  
- Concertation in Community bodies is now active and systematic. The constraints imposed by EMS rules have given a concrete and effective character to the regular examinations of economic and monetary policies by the Committee of Governors and the Monetary Committee.
  
- Disciplinary effects have resulted from the internal pressures generated by the system. Realignments now provide a privileged opportunity for a thorough examination of national economic policies. Although this practice is not explicitly provided for in the rules governing the EMS, it has become usual since the realignment of February 1982. Earlier realignments had been essentially technical operations; changes in par values since then have been accompanied by back-up programmes in the countries requesting a devaluation of their currencies. In an inflationary environment, this method, although not symmetrical, is consistent with the aim of stability.

b) However, convergence is still limited

Some progress has been made towards convergence, especially in the past two years; but not, so far, enough, and not sufficiently solid. The EMS has, it is true, made for closer cooperation between participants in specific monetary policy areas; but the member States remain almost entirely free, and domestic reasons can lead them to deviate from the line most consistent with common objectives.

The adjustment experiences of the different member States, in response to the two oil shocks and the course of the dollar, have shown that convergence is primarily a result of the political will of governments to undertake the appropriate policies. In this, the EMS participants have been sustained by the discipline which an exchange rate obligation implies.

To comply with the requirements of EMS mechanisms, the participants have been obliged to adopt more closely concerted monetary policies. Moreover, pursuant to the declared aim of internal and external stabilization, quantified money supply or credit expansion targets have been defined in terms of a gradual reduction in monetary growth rates in most of the member States. Closer cooperation and tighter monetary discipline have raised effective defences against pressures on exchange rates and prices. But the pursuit of convergent quantitative aims has not, on its own, sufficed to guarantee lasting stability in the EMS. Compatibility between monetary policies on the one hand and exchange-rate objectives on the other depends on a complex set of interrelations that are in turn determined by the degree of openness of the economy concerned, the way in which the money supply growth target is met (excessive expansion of bank credit accompanied by capital outflows can have a similar effect on monetary creation to that of controlled domestic credit expansion), and especially the general stance of economic policy and the expectations it creates. From this point of view, the persistence of sizeable budget deficits and the inability to keep the nominal trends of incomes and costs sufficiently under control has made it more difficult to maintain a restrictive monetary policy stance.

The influence of the EMS on means of action not directly within the scope of monetary policy has been only intermittent, and generally delayed; two factors in particular contribute to weakening the impetus of general adjustment policies towards convergence.

- First, several member States have maintained restrictions on the free circulation of capital; these restrictions hamper the dissemination to the rest of the Community of effects induced

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by national monetary and economic policies, and consequently reduce the scope of monetary cooperation, even if they only delay the emergence of pressures on exchange rates.

- Secondly, the opportunities and facilities for unconditional borrowing on international markets available to member States have rendered resort at an early stage to the short-term and medium-term borrowing facilities provided under the system unnecessary. Since the EMS became operative, only the Community loan mechanism (which is in any case outside the system) has been called upon. Thus the capacity of the EMS credit facilities to promote convergence has not been exploited, and consequently the opportunities they afford to facilitate adjustment programmes have not been availed of.

B. Results on the stability front

a) The system has made a positive contribution to exchange-rate stability

Despite the instability of the international monetary environment, the EMS has managed to reduce the volatility of exchange-rate relations between the participating currencies and to impose order on their movements.

As expected, the requirement to maintain exchange rates within a narrow band has meant much more stability in the short run. Between 1979 and 1983, the average changes from one month to the next in the exchange rates of the other EMS currencies against the mark (taken as the standard reference currency) ranged from 0,5 % to 0,8 %; those of the three major non-participating currencies, the dollar, the yen and sterling, were three times as wide : between 2,4 % and 2,7 %. The average rate

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of change against the mark of the French franc and the lira, which floated freely before joining the EMS, was reduced by more than half after 1979, in relation to 1974-78 : for the French franc, it fell from 1,7 % to 0,8 %; for the lira, from 2,2 % to 0,8 %.

As intra-Community trade is a major component of the member countries' foreign trade, more stable exchange relations between the EMS participant currencies have meant, on the whole, more stable effective exchange rates (the effective exchange rate is the average rate of exchange weighted for the composition of the global foreign trade of the country concerned). Average changes from one month to the next in the effective exchange rates of the EMS currencies ranged from 1,2 % to 1,5 % between 1979 and 1983, much lower than the range of 1,3 % to 2 % for the same currencies from 1974 to 1979, or the range of 2,3 % to 2,8 % for the major non-participants (the dollar, the yen and sterling) since the introduction of the EMS.

There have been seven realignments since the EMS was introduced. That they should be so frequently required illustrates the limitations to medium-term stability in exchange rates between the currencies of economies where inflation rates and balance-of-payments performances diverge. On each occasion, however, the par value changes were consistent with the development of fundamental economic factors, and prevented erratic fluctuations of real exchange rates (i.e. effective exchange rates adjusted for the inflation differential between the country concerned and its trade partners). From 1979 to 1983, the maximum deviation from medium-term underlying trends of the real exchange rate against the other EMS currencies of the mark, the French franc, the Italian lira and the Irish pound was only about half as large as that recorded during the previous five-year period. Indeed, the rates of all the participating currencies against a set of major currencies deviated much less from the real exchange-rate trend (with deviations ranging from 8,2 % to

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13,1 %) than did those of the major non-participants (with 16,6% for the dollar, over 29 % for the yen and over 41 % for sterling). There is no doubt that the orderly management of exchange relations prevented protectionist reactions that might otherwise have emerged in response to marked fluctuations in rates or competitive depreciation.

b) Price convergence : mixed results

Over the five-year period, achievements on the inflation front have been modest. Average inflation in the Community in terms of the consumer price index declined by 2,7 points, from 8,9 % in 1979 to 6,2 % in 1983. Taking the countries actually participating in the EMS, the average inflation rate declined by slightly less than 2 points from a lower initial level : 8 % in 1979, to 6,1 % in 1983. The trend of inflation is expected to continue to slow down in 1984 to 5,2 % on average for the Community and to 5 % for the countries participating in the exchange-rate mechanism of the EMS. Price trend differentials between Community countries narrowed only slightly over the five years (the mean absolute deviation fell from 4,3 percentage points in 1979 to 3,9 in 1983), and not at all (mean absolute deviation : 4,2 points in 1979, 4,4 in 1983) if the participants in the exchange-rate mechanism alone are considered. Substantial progress in reducing these differentials is, however, expected in 1984, when the mean absolute deviation should be down to 2,5 points in the Community and 2,7 points for the participants in the exchange-rate mechanism.

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The five-year period can be subdivided into two broad stages; considering in particular the price trends in the EMS participants, we note that :

- for the first two years of the EMS, the average rate of price rise in the area was gathering momentum; it reached 10,3 % by 1980; at the same time, inflation rate differentials were widening;
- subsequently, inflation rates began to converge on a gradually declining path, especially from 1982.

Internal factors, but also the influence of the international environment, help explain these developments.

From the internal point of view, and allowing for the divergences accumulated, there was no prospect of achieving stabilization in all the countries within the same time span. France, Italy and Ireland joined the EMS with their currencies in a favourable relative position in terms of their real exchange rate, while the real exchange rates of the snake currencies were fairly high. In the first stage, inflation differentials could thus develop before the exchange-rate constraint became fully operative. As subsequent realignments only partially offset these differentials, the system gradually came to exercise discipline towards stability. In the second stage, that discipline became more deliberate and resulted in particular in remarkable convergence between monetary policy stances and re-adjusted economic and fiscal policies.

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The impact of the two oil shocks on the industrialized economies was broadly similar; on each occasion, it corresponded to a cut of about 2 % of GDP in the OECD countries. But the inflationary impact of the second oil shock on the EMS countries was much more successfully countered than that experienced in 1974. The average inflation rate in the countries that are now in the EMS soared from 6,3 % in 1972 to 12,9 % in 1974; the acceleration was less pronounced in 1980, when the rate reached 10,2 % compared with 6,7 % in 1978. The dollar was the cause of another external shock : its exchange rate against the ecu has appreciated by around 70 % since 1979. The rise in the dollar has fuelled inflationary pressures in the countries where prices were difficult to control, while high US interest rates had varying impacts on member States' current balance positions. However, the steady rise in the dollar has also helped to ensure stable exchange relations within the EMS by exercising downward pressure on the effective exchange rate of the system's major currency - a particularly useful contribution during the period when the notion and practice of convergence were gradually taking shape.

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## II. THE EMS AS AN INSTRUMENT OF ORDERLY EXCHANGE MANAGEMENT

The stabilization of exchange relations between the EMS currencies has been achieved not only thanks to the policies and behaviour adopted as a result of the introduction of the system, but also to the actual working of the system itself. The EMS will be examined from the point of view of its daily functioning and in the light of the Resolutions of the European Councils of Bremen and Brussels and the provisions of the agreement of 13 March 1979 between the central banks of the member States. The examination will be conducted from the two-fold standpoint of the use made of the EMS mechanisms - how well they fulfil their purpose - and of their scope - which fields they cover.

### A. How well the mechanisms fulfil their purpose

#### a) The use of the ecu

The ecus received by central banks in exchange for gold and dollar contributions are not put to extensive use. As an asset, they are precarious, on the one hand, because they are created by means of a temporary swap system with no indication as to what may happen after the transitional stage, and, on the other, because the volume in existence is unstable given that it depends on volatile variables : the price of gold and the exchange-rate of the dollar. Their attractiveness as an asset is further circumscribed by their limited acceptability (creditors are under no obligation to accept ecus except in settlement of a claim maturing under the very short-term financing facility and only up to 50 % of that claim); accumulated creditor positions in ecu are not convertible; and the yield is low (being an average of official discount rates). For all these reasons, ecus are only used on a small scale even in cases where debtors are explicitly entitled to do so. A new type of operation has, nevertheless, been introduced with swaps between ecus and national currencies being utilised in order to mobilise available ecus. In practice, however, the ecu is considered not so much a reserve asset as a means of credit that will eventually have to be settled using other assets.

From 1979 to 1983, about 80 % of very short-term financing operations were unwound without recourse to the ecu through offsetting or advance repayments with creditor currencies. The cumulative amount of settlements in ecu is in the order of 2 000 million ecu over the whole period. This figure compares with a total ecu stock of 53 000 million at end-1983. Voluntary transactions have resulted in net repurchases of ecu, which is also indicative of central banks' efforts to hold down the level of net ecu balances.

b) Exchange-rate mechanism and intervention

Intra-marginal interventions, carried out before the compulsory intervention limits are reached, have accounted for four fifths of total interventions by EMS central banks.

When the original idea for the exchange-rate mechanism was worked out, it was not intended, or expected, that intra-marginal interventions would be so important. Only one rule was imposed for such interventions in 1979 : the use of a Community currency (and subsequent eligibility for very short-term financing) requires the prior agreement of the issuing central bank. The main Community currency of intervention has been the mark, since the Bundesbank has agreed to its use for sizeable interventions by other central banks. But the bulk of intra-marginal interventions have been effected in dollars, for no restrictions whatsoever apply to their use.

In general, the use of the dollar for intra-marginal interventions has represented no major inconvenience, given the dollar's strength over most of the period under review and the sizeable balance-of-payments deficits of the EMS countries with the rest of the world. But it does seem a little odd, for example, when the dollar is overvalued, to purchase it in order to bring pressure to bear on a relatively strong EMS currency - and, on the other hand, it would be equally illogical, if the dollar were undervalued, to sell dollars in order to support an

EMS currency whose position in the system was weakening. Besides, the effects of interventions in dollars on the position of an EMS currency in the band are as a rule less pronounced than those of interventions in Community currencies.

In practice, the management of exchange rates within the EMS band has been determined by various considerations : maintaining a given exchange rate against some other participating currency; protecting domestic money market conditions and interest rates; and smoothing erratic fluctuations in the national currency. These are legitimate aims; but the repeated interventions they have implied have not always been in the best interests of coherence in the system.

c) The indicator of divergence

The indicator of divergence was intended to identify deviations and elicit corrective action, but it is no longer fulfilling its purpose efficiently. It has lost much of its significance, and has often failed to give the expected signal for two main reasons : first, its technical shortcomings, due to the impossibility of taking full and accurate account of different weights in the ecu, and of entirely eliminating the influence of component currencies that are not subject to the narrow band; and secondly, the bias introduced because certain bilateral relations within the system have been considered, in practice, more important than others. What is more, the call for action when the divergence threshold is crossed does not carry the same weight as the one that results from the respect of the bilateral spreads.

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d) Credit mechanisms

Apart from drawings on the Very Short Term Facility, neither of the system's other two credit mechanisms, short-term monetary support and medium-term financial assistance, has been used. To some extent, this omission may have enhanced the financial credibility of the system. Nevertheless, recourse to these mechanisms could, in certain cases, have led to the earlier introduction of adjustment measures.

e) Changes in central rates : when and how

One of the means of action provided for under the system is that of changing central rates. Changes, decided by common accord on the occasion of a realignment and by a procedure that has gradually emerged, serve to correct the effects of insufficient convergence. Realignments were supposed to be infrequent and small : they have in fact been fairly frequent (there have been seven), and the agreed changes in bilateral central rates on occasion ranged from 8 to 10 %. They have not always been carried out in ideal conditions of calm, because of speculation in anticipation of sudden breaks in the continuity of exchange market trends. Experience has shown, however, that under the present exchange-rate mechanism, speculation can be costly and has proved not to be a one-way-bet.

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f) Transfers

In December 1978, the European Council, aware that the convergence of economic policies and of economic performance would not be easy to achieve, recognized the need for measures "to strengthen the economic potential of the less prosperous countries of the Community". Those measures took the form of interest-rate subsidies (200 million ecu a year for five years) on EIB and NCI loans to finance infrastructure projects in Italy and Ireland. The choice of this form of transfer was determined by the intention to concretely reinforce structures in the less prosperous countries and to reconcile pre-existing ambitious growth and employment aims with the aim of stability introduced by the system. The Council is currently considering the renewal of these interest subsidies, which have made it possible to increase considerably the volume of Community financing for Ireland and Italy, and thus to funnel a growing share of the Community's lending resources to those two countries, and to contribute to structural convergence.

B. The scope of the mechanisms

The EMS does not cover all aspects of monetary relations of member countries of the Community. It is not yet a complete system, since there are two Community currencies that do not participate, and another is subject to temporary special arrangements. Moreover, there are vast areas of monetary relations over which it has no control, that is to say, the external aspects of the system and an allied development : the extension of the private use of the ecu.

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a) Non-participating currencies and special arrangements

The lira is in a special position in the EMS, because of the widely divergent inflation rate prevailing in Italy when the system was set up, and the 6 % band has allowed a gradual decline of its exchange rate and protected it from speculation. However, the Italian authorities have abstained from taking full advantage of the available margins for competitive purposes, and have even accepted a gradual rise in the real exchange rate as a weapon in the battle against inflation. On the other hand, the wider fluctuation band of the lira and its devaluations in the wake of others, have insulated the Italian economy both from spectacular exchange-rate crises and from the consequent compulsory reappraisal of its underlying economic policy stance. Indeed, it is not inconceivable that, if Italy has been less successful in achieving stabilization, this is partly because it was not subject to such strong EMS pressures to adjust as the other participants.

The absence of the pound sterling from the exchange rate mechanism was probably beneficial for the system at a time when a fundamental change was taking place in United Kingdom economic and monetary policy and when the country had to adjust to its new rôle as a net oil exporter. Now, however, the absence of sterling and the drachma is a clear sign that Europe as a monetary unit is not coterminous with Europe as an economic unit. But where sterling is concerned, non-participation is particularly significant : it hampers the EMS in achieving its full potential and reduces the Community's weight in discussions on the shape of the international monetary system. Moreover, it has aggravated the polarization of the system around a single reserve currency that now in practice acts as a link between the EMS and the international monetary system. For sterling's inclusion, in view of its importance in international monetary relations, would necessarily have led to a more balanced share out of

responsibilities - and heavy responsibilities they are, as experience has shown. The absence of sterling has, moreover, complicated exchange rate management for EMS countries like Ireland with particularly close trading and financial links with the United Kingdom. It has also made association with the EMS a much less attractive proposition for non-Community countries.

b) The system's external relations

The incomplete system and its currency unit, the ecu, have not proved attractive enough to incite any European country with particularly close economic and financial ties with the Community to conclude an agreement with the EMS. Although the stabilizing influence of the EMS has spread to such countries, the devaluation of the Swedish Krona in October 1982 drew attention to the real dangers involved in competitive devaluation in the immediate monetary environment of the system.

Although the system has no common policy towards major non-EMS currencies, there has been some improvement in the coordination of participants' policies towards the dollar. Progress has been made in several areas, some more important than others: central banks are in touch round the clock to exchange information; concerted action has been taken on specific occasions as part of the day-to-day management of exchange markets; and, more recently, thorough discussions have been held in the appropriate committees on common approaches in response to actual or foreseeable disturbing international developments in interest rates and exchange rates. All these developments have helped to a greater or lesser extent to give substance to coordination. There have been two obstacles to further progress: the US authorities' indifference to the exchange rate of the dollar, and the difference in EMS participants' situations in relation to the dollar. The mark has become a reserve currency; the level and movements of the dollar have not equally affected all the

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member economies; economic and monetary situations vary from one member State to another; all this obviously complicates the attempt to define the shared view of and attitude to the dollar that was explicitly called for in the Bremen annex and the Brussels resolution.

c) An associated development : the private ecu market

The ecu is becoming increasingly popular with private operators in a rôle that is quite independent of its rôle in the system and the official circuit. The short-term ecu market (interbank market and short-term transactions) is at present estimated at 10 000 million ecu; the volume of long-term issues totals 3 300 million ecu - making the ecu the currency unit with the third largest share in euro-market borrowing in 1983; outstanding medium-term syndicated bank credits amount to about 2 000 million ecu.

This may be a promising development both for European monetary cohesion and for the resistance of the EMS to external shocks. Freer use of the ecu in commercial and financial operations in Europe could contribute to convergence, affecting both interest rates and financial integration. More extensive international use of the ecu for invoicing, settlement, borrowing and investment would also help to reduce the impact of external shocks, and spread it over the entire set of Community currencies.

To date, the ecu's rôle on the markets has developed more or less spontaneously, with the varying discreet approval of the member States. But the ecu market has grown so large that a more uniform response to market needs is now required of the member States.

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### Conclusion

The situation as outlined is not unambiguous and the assessment must, therefore, be a qualified one. The most striking achievement recorded is surely the progress that has been made towards economic policy convergence : there is no doubt that this, recent, progress was made possible by the EMS, which provided the necessary framework. Achievements to date are, nevertheless, fragile and must be consolidated and broadened but the requirements imposed by the introduction and operation of the system have at least given rise to conventions that are now part and parcel of accepted practice in running it.

On the whole, the mechanisms have worked satisfactorily even if they have not been used in practice in exactly the way intended. But this general assessment should not be allowed to overshadow the fact that certain aspects of the system's functioning have been less than satisfactory. As a reserve asset, the ecu is very much a second-class instrument; intra-marginal interventions and their financing lack transparency. The indicator of divergence has shown itself to be deficient. The scope of the system remains limited, something which has implications for its internal equilibrium, its solidity and its external aspects. As regards all these points, the review is broadly similar to that drawn up by the Commission two years ago and on the basis of which it proposed to the Council amendments regarding in particular the official and private use of the ecu and certain mechanisms of the exchange rate system.

FIVE YEARS OF MONETARY COOPERATION IN EUROPE

Statistical data

1. Month to month exchange rate variability.
2. Medium term real exchange rate variability.
3. Trends in real effective exchange rate/EMS weighting.
4. Evolution of dollar and yen against the ecu.
5. Changes in money stock : annual rate and average absolute variance (average EC and EMS).
6. Changes in consumer prices : annual rate and average absolute variance (average EC and EMS).
7. Changes in balances of payments on current account, in % of GDP.

1. Month to month exchange rate variability

(average % changes from end month to end month regardless of sign)

|                                     | <u>1974</u> | <u>1975</u> | <u>1976</u> | <u>1977</u> | <u>1978</u> | <u>1974-78</u> | <u>1979</u> | <u>1980</u> | <u>1981</u> | <u>1982</u> | <u>1983</u> | <u>1979-83</u> |
|-------------------------------------|-------------|-------------|-------------|-------------|-------------|----------------|-------------|-------------|-------------|-------------|-------------|----------------|
| <u>Against DM</u>                   |             |             |             |             |             |                |             |             |             |             |             |                |
| FFr                                 | 2.8         | 0.8         | 1.9         | 1.1         | 1.7         | 1.7            | 0.5         | 0.8         | 1.0         | 1.0         | 0.7         | 0.8            |
| Lit                                 | 2.2         | 1.0         | 4.4         | 1.5         | 1.8         | 2.2            | 1.0         | 0.6         | 1.2         | 0.8         | 0.6         | 0.8            |
| HFL                                 | 1.1         | 0.4         | 0.6         | 0.6         | 0.4         | 0.6            | 0.5         | 0.4         | 0.4         | 0.6         | 0.4         | 0.5            |
| FB Lux                              | 0.8         | 0.4         | 0.5         | 0.5         | 0.4         | 0.5            | 0.5         | 0.3         | 0.8         | 1.3         | 0.4         | 0.7            |
| \$US                                | 2.9         | 2.5         | 1.3         | 1.6         | 3.6         | 2.4            | 1.9         | 2.7         | 3.2         | 2.3         | 1.7         | 2.4            |
| Yen                                 | 2.4         | 2.0         | 1.1         | 1.7         | 3.2         | 2.1            | 2.9         | 4.0         | 3.3         | 1.9         | 1.5         | 2.7            |
| £                                   | 1.7         | 2.0         | 3.1         | 1.3         | 2.4         | 2.1            | 2.2         | 2.5         | 3.1         | 1.7         | 2.5         | 2.4            |
| <u>Against all major currencies</u> |             |             |             |             |             |                |             |             |             |             |             |                |
| DM                                  | 2.1         | 1.4         | 1.9         | 1.3         | 2.2         | 1.8            | 1.3         | 1.5         | 1.9         | 1.4         | 1.2         | 1.5            |
| FFr                                 | 2.4         | 1.5         | 2.0         | 1.0         | 2.1         | 1.8            | 1.2         | 1.5         | 1.9         | 1.7         | 1.3         | 1.5            |
| Lit                                 | 1.9         | 1.3         | 3.8         | 1.1         | 1.9         | 2.0            | 1.3         | 1.6         | 2.0         | 1.6         | 1.1         | 1.5            |
| HFL                                 | 1.8         | 1.2         | 1.6         | 1.1         | 1.8         | 1.5            | 1.1         | 1.2         | 1.6         | 1.3         | 1.0         | 1.2            |
| FB Lux                              | 1.5         | 1.0         | 1.5         | 1.0         | 1.7         | 1.3            | 1.0         | 1.0         | 1.4         | 1.8         | 0.9         | 1.2            |
| \$US                                | 2.0         | 1.8         | 1.5         | 1.3         | 2.9         | 1.9            | 2.0         | 2.4         | 2.9         | 2.6         | 1.5         | 2.3            |
| Yen                                 | 2.1         | 1.5         | 1.4         | 1.8         | 3.5         | 2.1            | 2.6         | 3.5         | 3.0         | 3.3         | 1.5         | 2.8            |
| £                                   | 1.7         | 2.0         | 2.8         | 1.3         | 2.5         | 2.1            | 2.4         | 2.4         | 3.2         | 2.0         | 2.3         | 2.5            |

2. Medium term real exchange rate variability  
(maximum % spread around trend)

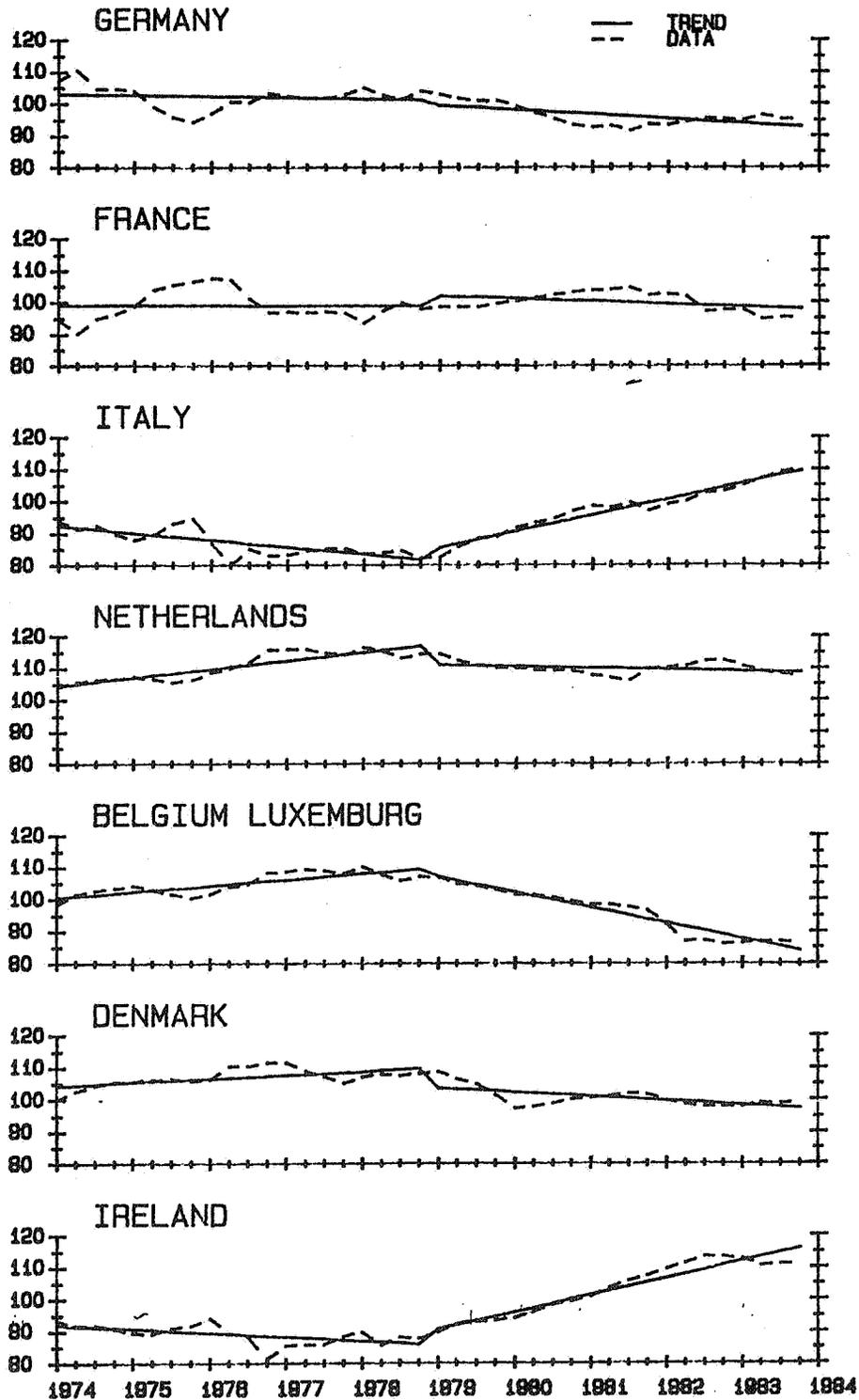
a) Between EMS currencies

|        | <u>1974-78</u> | <u>1979-83</u> |
|--------|----------------|----------------|
| DM     | 16.8           | 8.5            |
| FFr    | 15.1           | 8.8            |
| Lit    | 16.9           | 7.0            |
| Hfl    | 6.7            | 6.5            |
| FB Lux | 6.0            | 8.1            |
| DKr    | 7.5            | 10.2           |
| £ IRL  | 14.3           | 8.4            |

b) Against all major currencies

| <u>EMS currencies</u>   | <u>1979-83</u> |
|-------------------------|----------------|
| DM                      | 13.1           |
| FFr                     | 8.2            |
| Lit                     | 10.1           |
| Hfl                     | 11.2           |
| FB Lux                  | 11.6           |
| DKr                     | 12.2           |
| £ IRL                   | 12.3           |
| <u>Other currencies</u> |                |
| § US                    | 16.6           |
| Yen                     | 29.1           |
| £                       | 41.5           |
| SFr                     | 18.4           |
| NKr                     | 9.7            |
| Os                      | 8.7            |

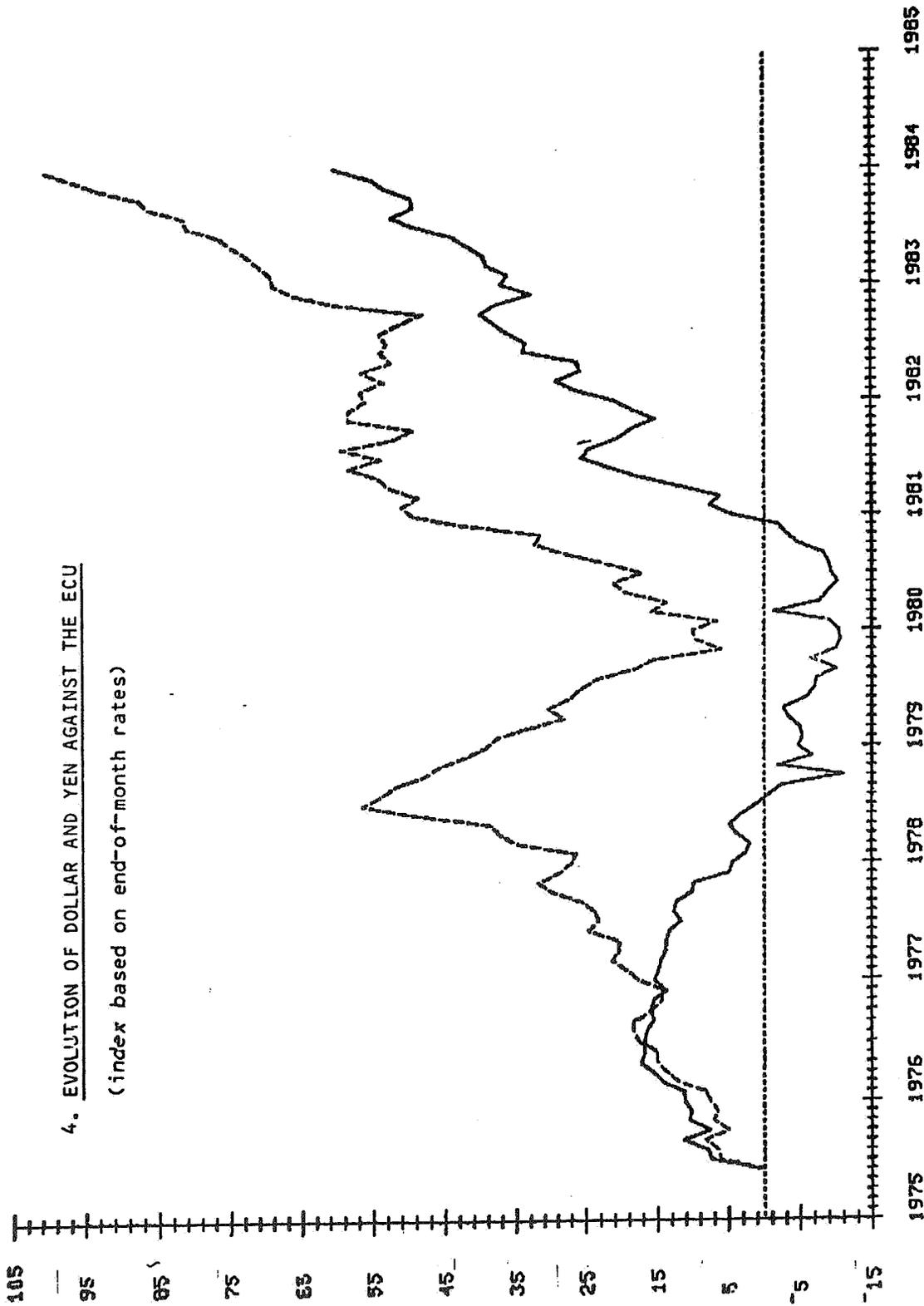
### 3. REAL EFFECTIVE EXCHANGE RATE/EMS WEIGHTING



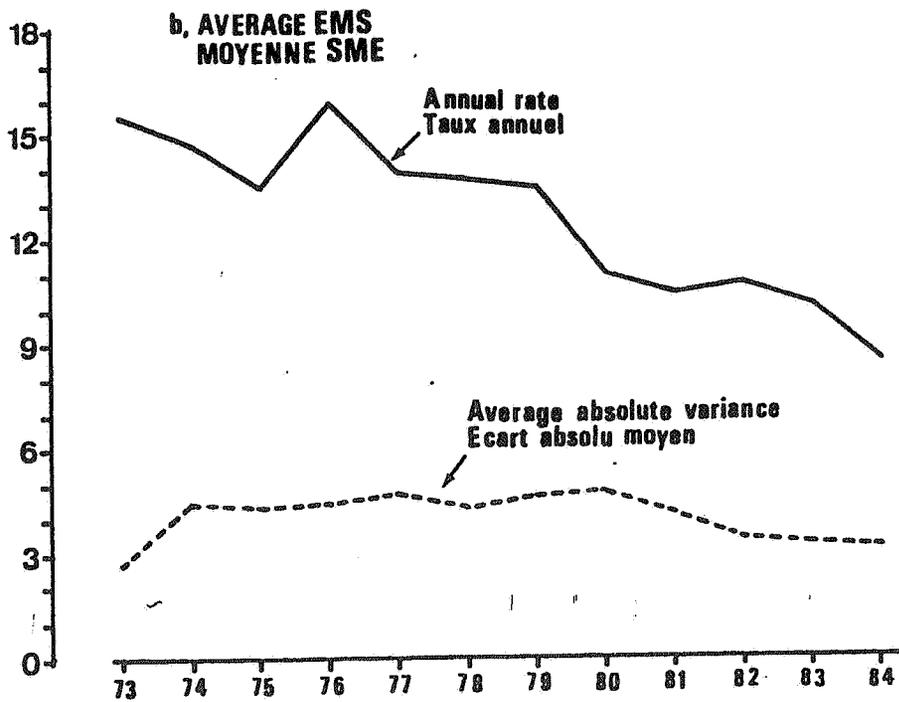
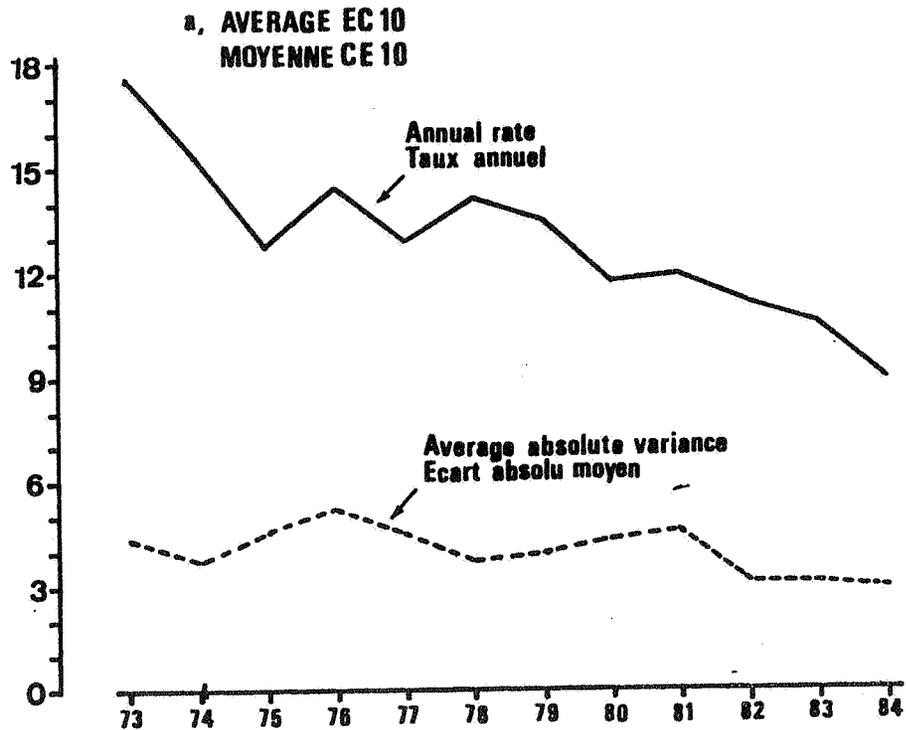
4. EVOLUTION DU DOLLAR ET DU YEN PAR RAPPORT A L'ECU

(indice basé sur les taux de fin de mois)

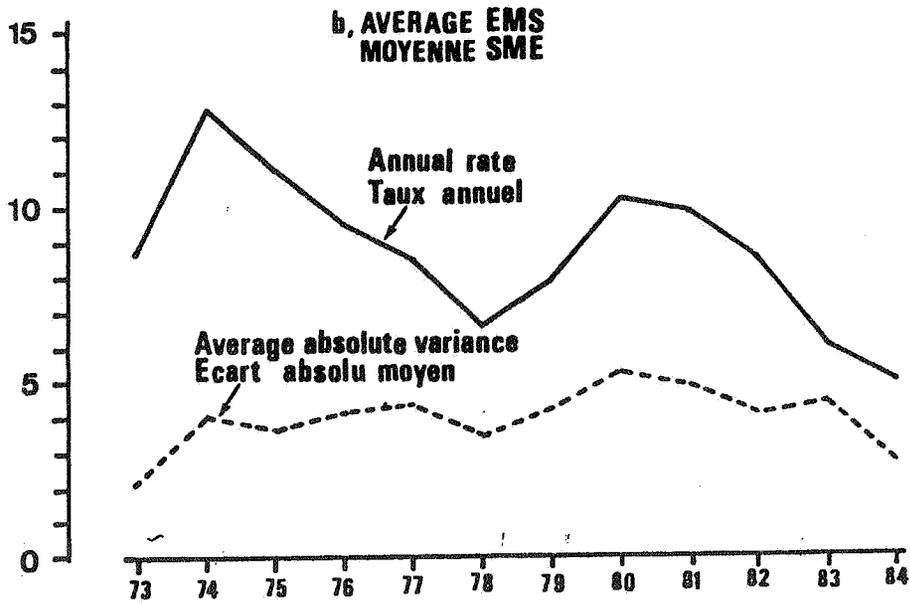
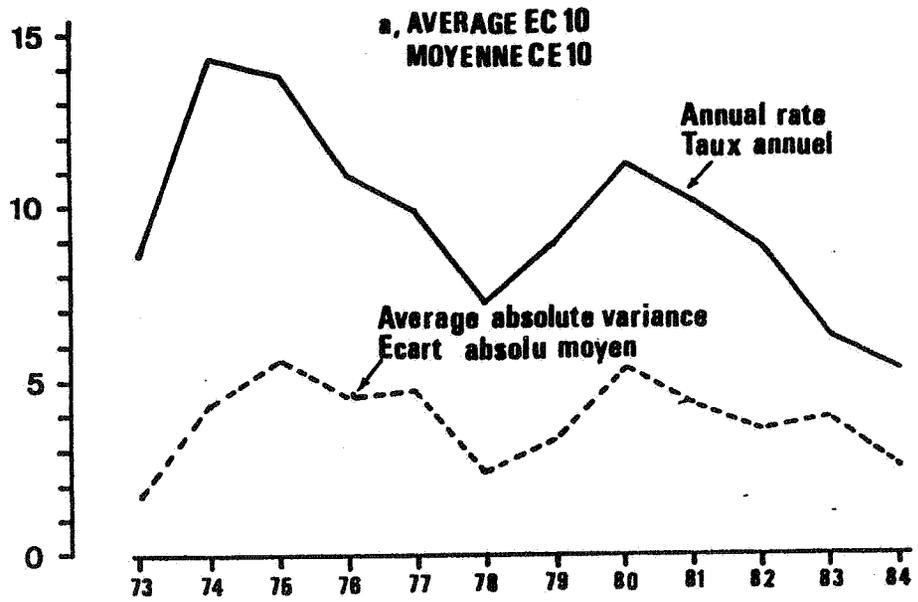
— USD  
- - - YEN



**5- CHANGES IN MONEY STOCK  
EVOLUTION DE LA MASSE MONETAIRE**



**6- CHANGES IN CONSUMER PRICES**  
**EVOLUTION DES PRIX A LA CONSOMMATION**



7. BALANCE OF PAYMENTS ON CURRENT ACCOUNT IN % OF GDP

|     | 1974  | 1975 | 1976 | 1977 | 1978 | 1979  | 1980 | 1981  | 1982    | 1983(1) | 1984(2) |
|-----|-------|------|------|------|------|-------|------|-------|---------|---------|---------|
| D   | 2,7   | 1,0  | 0,9  | 0,8  | 1,4  | -0,8  | -1,9 | -0,9  | 0,5     | 0,5     | 0,8     |
| F   | -1,5  | 0,8  | -1,0 | -0,1 | 1,5  | 0,9   | -0,6 | -0,8  | -2,2    | -1,0    | -0,7    |
| I   | -4,7  | -0,3 | -1,5 | 1,1  | 2,4  | 1,7   | -2,5 | -2,3  | -1,6    | -0,4    | -0,1    |
| NL  | 3,0   | 2,3  | 2,8  | 0,5  | -1,1 | -1,3  | -1,8 | 2,0   | 2,5     | 3,0     | 3,7     |
| B/L | 1,7   | 0,4  | -0,1 | -0,9 | -1,0 | -2,8  | -4,2 | -4,1  | -3,1    | -1,6    | -0,5    |
| DK  | -3,1  | -1,3 | -4,6 | -3,7 | -2,6 | -4,5  | -3,7 | -3,2  | -4,0    | -2,2    | -1,5    |
| IRL | -10,0 | -0,7 | -4,1 | -3,9 | -4,1 | -11,0 | -9,8 | -12,5 | -8,2(1) | -2,6    | -1,4    |
| EMS | 0,0   | 0,7  | -0,2 | 0,3  | 1,1  | -0,3  | -1,9 | -1,3  | -0,9(1) | 0,1     | 0,3     |
| UK  | -3,9  | -1,5 | -0,7 | 0,0  | 0,6  | -0,4  | 1,5  | 2,6   | 1,9     | 0,5     | 0,3     |
| GR  | -6,1  | -4,2 | -4,1 | -4,1 | -3,1 | -4,9  | -5,5 | -6,5  | -5,0    | -5,1    | -5,5    |
| EC  | -0,7  | 0,3  | -0,3 | 0,2  | 0,9  | -0,4  | -1,3 | -0,5  | -0,4(1) | -0,1    | 0,2     |