

COMMISSION
OF THE EUROPEAN COMMUNITIES

Directorate-General
For Economic and Financial Affairs



**ECU
MARKETS
REVIEW**

PART 1
The ecu markets: revival

PART 2
Statistical review and assessment

II/85/93 EN, n° 2

I. Performance of the ecu markets during the first quarter of 1993

- * The positive result of the December 1992 Edinburgh summit, the return to more stability within the ERM, and the decrease in interest rates, strengthened the ecu markets. Although the political sensitivity of the ecu led to some vulnerability of the market, it performed rather well, returning to levels of 1990 - 1991.
- * Investors use ecu bonds as an efficient instrument to provide diversification at low cost. Due to the high proportion of hard core currencies, investors benefit from a lower risk of devaluation, while, at the same time ecu bond yields remain above the core markets.
- * The primary bond market was marked by a revival of issuing activity, mainly from E.E.C. institutions and Member States, reaching ecu 6.03 bn in total at the end of March. But no private issue had been launched.
- * Benefiting from the increase of liquidity on the primary market, the secondary bond market and the derivative markets have rebounded, whereas the swap market remains rather quiet.

II. Outlook

- * Given the redemption of many bonds (ecu 18.1 bn in 1993), markets still provide enough liquidity for new issues, evidence for which is given by the high demand, always by far exceeding supply.
- * During the last months, the market was hampered by the operators "attentisme". If, on the 18th of May, the result of the Danish referendum is positive, not only further national and institutional issues but also new private issues are expected to be launched.

PART 1

THE ECU MARKETS: REVIVAL

DG II - D 2 - ECU / E.W.

I. Performance of the ecu markets in 1993

- 1 The re-opening of the markets
 - 1.1 Long term-financial markets
 - 1.2 Short-term financial markets
 - 1.3 Derivative markets and ecu clearing
- 2 The political sensitivity of the ecu
- 3 Short term domestic programmes

II. Reasons for the recovery of the ecu

- 1 Renewed confidence in the ratification of Maastricht
- 2 Convergence of bond yields
- 3 Sustained issuing activity and strong demand

III. Conclusion

I. Performance of the ecu markets in 1993

The ecu markets have recovered significantly since January 1993, after the 1992 crisis, which was the result of the summer financial crisis and the ERM turmoil since September.

Due to the euphoria about the European Monetary Union after the signing of the Maastricht Treaty, the ecu markets experienced an enormous upshot in 1991, continuing during the beginning of 1992, in which the ecu became the second most used currency on the eurobond markets.

The events since June 1992, such as the negative outcome of the first Danish referendum, the fears before the French referendum in September, and the ongoing turbulence in the EMS exchange rate mechanism were over-valued and strongly affected the ecu markets, especially the primary and the secondary bond markets. With the positive results of the December 1992 Edinburgh summit and the return to greater stability within the ERM and given the resilience of market structures during the crisis, operators regained confidence in the ecu markets as, reassessing positively the portfolio usefulness of the ecu.

1. The re-opening of the markets

1.1 Long term financial markets

After the halt of issuing activity between September and mid December 1992, the first quarter of 1993 was marked by a recovery of the **primary bond markets**.

The Commission was the first to re-enter successfully the market in December 1992. The French Treasury followed with the announcement of the issue of the 2003 10-year OAT on the 28th of January. The tender proved to be very successful: the demand (ecu 2.04 bn) was more than three times the amount offered (ecu 680 mn allotted). According its announced plans to fund about 15 % of its fiscal deficit in ecu, this year, the French Treasury should hold one auction every quarter.

In addition to this, the French Treasury reaffirmed its commitment to contribute actively to the development of the ecu market by launching and inaugurating an ecu BTAN series with an ecu 2 bn issue. The issue was rapidly absorbed by the market with the bulk of demand coming from institutions in Asia, although not Japan, the US and across Europe.

On the 2nd of February and the 20th of April, the Bank of England offered tenders of a 3-year ecu euro-note. With an almost five times oversubscription the ecu 1000 mn issue of UK ecu Treasury notes was a complete success. Another ecu 1.0 bn will be offered for tender on the 20th of July and the 19th of October.

This set the scene for an ecu 500 mn issue for the Republic of Finland, an ecu 500 mn issue for the EEC and an additional ecu 100 mn tranche of the Council of Europe's ecu 1 bn issue.

Furthermore the Italian Treasury issued ecu 1.25 bn 3-year CTE in two tranches (500 mn on the 22nd of February and 750 mn on the 19th of March).

The turnover on the ecu denominated **secondary bond market** followed basically the activity pattern of the primary bond market. After the sharp drop in the second half of 1992, when the market share of ecu denominated bonds fell from 20 % in June 1992 to 5 % by the end of the year, the first quarter of 1993 showed a slight recovery and ecu's share rose to 6 %. It must be stressed that even if the activity on the secondary market slowed down significantly during the crisis, the turnover reached a minimum of ecu 41.6 bn in December 1992, which is still a noteworthy figure.

The March 1993 figures with an average monthly turnover volume of ecu 83.5 bn exceeding the average of 1992 (ecu 82 bn) underline that the trend for the ecu is clearly upward oriented. The ecu now ranks number six among the most used currencies after being number two in the first half of 1992.

1.2. Successful activity on short-term financial markets

Also on the **Treasury bill market**, a regular activity marked the first quarter of 1993: The Banca d'Italia and the Bank of England issued a total of ecu 5.25 bn in the period January-April.

The Bank of England continued with its monthly ecu T-bill programme, offering monthly ecu 1 bn T-bills (1,3,6 month). Due to the success of its issues which were, with few exceptions, significantly oversubscribed, the Bank of England offered the last ecu 1 bn tender (13 April 1992) on a bid yield basis without announcing a highest acceptable yield. Dropping the maximum acceptable yield policy, introduced in October 1992 in order to avoid paying excessive interest rates, the Bank of England clearly indicates its confidence that the short-term markets are back to normal conditions.

1.3. Derivative markets and ecu clearing

On the derivative markets the MATIF 10-years ecu-bond futures contract and the 3-month ecu interest rate futures contract traded at the LIFFE which were actively traded during the crisis, performed well.

Since the beginning of 1993, the volume of the exchange-traded ecu-bond futures contract has increased steadily. The average daily turnover of the MATIF ecu contract reached nearly 8.500 lots in the second week of March, a volume which exceeds the 1991 figures and comes close to the levels experienced before the September turmoil in 1992. This increased activity has mainly to be associated with the roll-over period between the March and the June contracts. From mid March on, the ecu contract suffered from the lack of activity on the underlying cash markets as the need for hedging decreased, resulting in a declined volume of contracts at the end of March.

The **LIFFE** contract was even more successful than in September 1992. The number of short-term interest rate contracts traded per month rose from 36.133 in January to 51.802 in March. Open interest contracts underwent a similar development. The increase in liquidity can be primarily attributed to the growth in client orders coming from large American and European brokerage houses. Due to the increased liquidity the ecu contract can be traded with a reduced risk indicating good prospects for future market performance.

The daily turnover in the **ecu clearing system**, which had suffered only a minor setback in the second half of 1992, increased again in 1993 and reached a daily turnover of ecu 47 bn in March 1993, thus exceeding the daily average of ecu 46 bn in 1992.

2. The political sensitivity of the ecu

Though all the issues mentioned above were very successful, the ongoing uncertainty in the ERM during the French election and the political crisis in Belgium and continuing sensitivity to developments in Russia affected the markets negatively. No new issue was launched between mid March and mid April. As a consequence of this, the swap market was marked by a very low liquidity.

From mid April on, however, the market picked up. In addition to the 3-year notes issued by the Bank of England and the Italian Treasury, Eutelsat launched ecu 100 mn 5-year notes and the European Investment Bank re-opened its 7-year note from February with an ecu 150 mn tranche.

The total amount issued on the long-term financial market until April 25, reaches ecu 7.53 bn.

The expectations of the second Danish referendum seem to impede any further development up to the 18th of May, but markets should rebound immediately after.

3. Some indicators for the strength of the market

The good performance of the ecu markets was clearly reflected in the development of the **spread** between the theoretical and the market value of the **ecu exchange rates**. After the ERM-crisis in September 1992, where the spread reached a peak of 200 bp, the situation has returned to normal conditions at the beginning of 1993. During the first two months of 1993 the spread remained positive, never exceeding 20 bp. Mid March the spread fell from +10 to -10 bp, showing a re-evaluation of the market ecu towards its basket.

Until last summer, the actual **yield on ecu bonds** was lower than the theoretical yield, reflecting the belief that after the monetary union the ecu would be as strong as the strongest currency in the Union. After June, the actual yield rose above the theoretical one. Since January, however, the gap narrowed and, as the ecu bonds outperformed the underlying bond markets, longer dated bonds became very expensive. This was reflected by the stable negative **spread** between actual and theoretical **10-year yields**.

II. Reasons for the recovery of the ecu markets

Taking the ongoing ERM tensions into account, it is even the more remarkable that the ecu bond market outperformed the bullish underlying bond market. Several factors have independently contributed to the positive performance of the ecu bond market.

1. Renewed confidence in the ratification of Maastricht

The Edinburgh summit gave a clear signal of the commitment of Member States to the Treaty. Investors regained confidence in the **ratification of the Maastricht Treaty**, since the positive outcome of the second Danish referendum on the 18th of May is very likely -according to recent polls, 54% yes-votes and 15 % undecided (mid April)- and the ratification by the British is expected to follow suit.

The provisions of the Maastricht treaty related to monetary and fiscal policy, will have a positive impact on the development of the ecu markets:

- Firstly, the freezing of the basket at the day of ratification, will lead to a hardening of the ecu and to the elimination of the risk stemming from periodic basket revisions.
- Secondly, the foundation of the European Monetary Institute which will facilitate the use of ecu and the increased cooperation of fiscal and monetary policies will provide a positive framework for the development of the ecu markets.
- Thirdly, in order to meet the convergence criteria, the Member States have to strive for a more stability oriented monetary policy, which will contribute to a calming of the exchange rate movements. As public finances will become more sound, the credit-worthiness of the governments of the EC Member States -naturally representing the bulk of the issuers- will rise and thus enforce the attractiveness of ecu bonds.

2. Convergence of bond yields

On the other hand the yield **convergence** has become a major feature in the European bond market. In this context ecu bonds serve the investors as an instrument to provide automatically diversification as well in currencies as in bonds. Due to the absence of high transaction costs associated with buying a basket of currencies, the costs of funding for ecu bonds are lower. Furthermore the investors benefit from the lower risk of devaluation of the ecu compared to the basket currencies resulting from the high portion of hard core currencies, while at the same time the ecu bond yields still remain higher than the core markets.

Even the non-ratification of the Treaty would not change these advantages of ecu bonds as these reasons stood behind the success of ecu bonds in the early eighties. In addition, markets believe that in the case of non-ratification, a "mini-EMU" could emerge leading to an even quicker convergence in the participating countries, thus leading to a hardening of the ecu.

3. Sustained issuing activity and strong demand

The revival of issuing activity, mainly from sovereign borrowers has also contributed to the revival of the ecu market. This effect was strengthened by the increasing attractiveness of bonds due to the significant cut in the money market rates (-200 bp), while at the same time the bond markets only fell by 100 bp.

Given the high amount of bonds due to mature shortly, the liquidity in the market has increased. As investing in some other currencies, such as the Swedish and the Norwegian crown and the Finnish mark which withdrew from the link to the ecu basket, seems to be more dangerous, the demand concentrated on ecu bonds.

III. Conclusion

The recovery of the ecu markets since January 1993 was caused by reasons internal and external to the Maastricht Treaty. The recent recovery shows the fundamental interest of the markets in the ecu which derives its attractiveness not only from its status as the future single currency of the Union but also from its characteristic as an efficient diversification instrument and the resilience of its market to the crisis.

Thus the recovery seems to be based on a sound basis which makes it more robust to possible disturbances of the ratification process or currency turmoil.

Nevertheless the market is marked by a kind of "attentisme" which will last until the Danish referendum has taken place. Therefore another strengthened upward movement of the ecu markets can be expected in case of a positive outcome.

PART 2

STATISTICAL REVIEW AND ASSESSMENT

DGII - D - 2 - ECU / E.W.- A.R.

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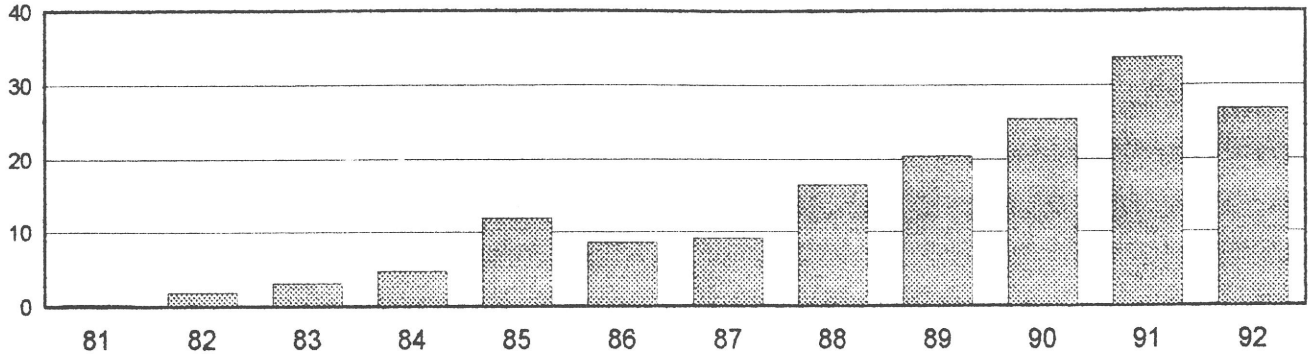
I. FINANCIAL MARKETS

A. PRIMARY BOND MARKET

(Amounts issued in Billions Ecus)

Last update : 31.03.1993

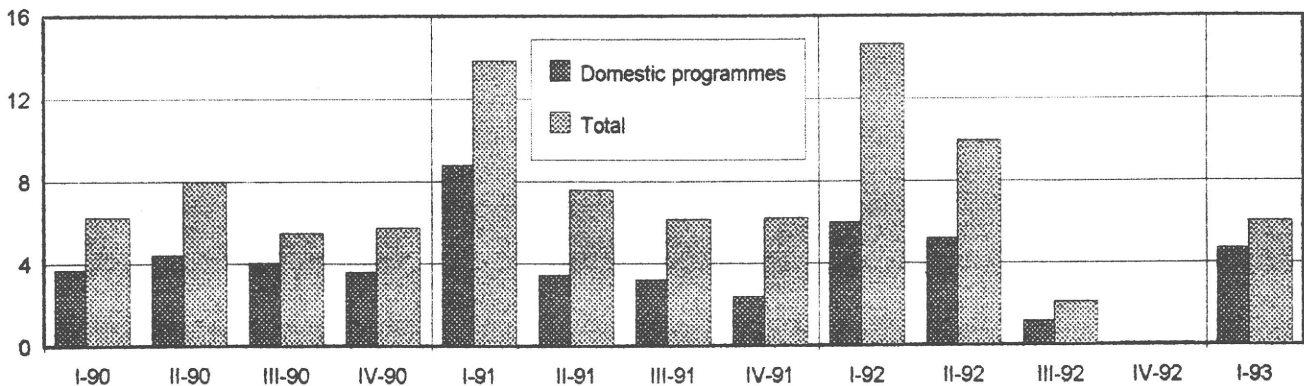
Historical Evolution



After the peak in 1991, where issuing activity reached ecu 33.8 bn, and a good performance until mid 1992, the primary bond market suffered a near-halt in issuing activity throughout the second half of 1992, caused by the financial turbulences and the ERM crisis since September 1992.

Mainly due to the renewed hope of ratification of the Maastricht treaty in Denmark and in the UK, after the positive results of the Edinburgh summit and the existence of liquidity in ecu, the primary bond market was marked by a substantial recovery at the beginning of 1993.

Recent Evolution



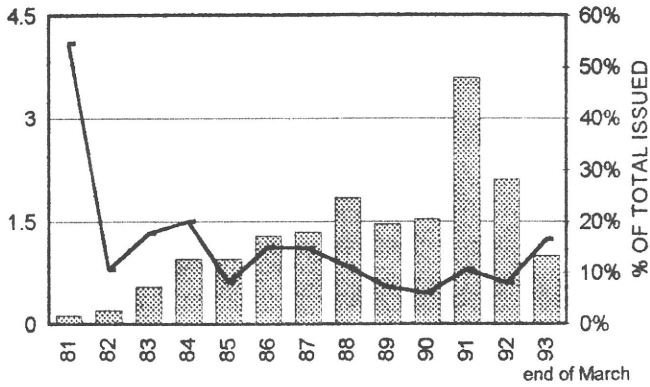
The first quarter started promisingly with new issues from EC-institutions (EEC, EIB), France, Italy, the UK and Finland, reaching a total amount of ecu 6.03 bn up to mid March.

Since then, as a result of the ongoing uncertainty in the ERM and the future of EMU, no new issues were launched until the 15th of April.

From mid-April, the UK and the Italy 3-year notes, the Eutelsat 5-year note and the re-opening of the 7-year issue by the EIB re-stimulated the market.

Bonds by type of issuer

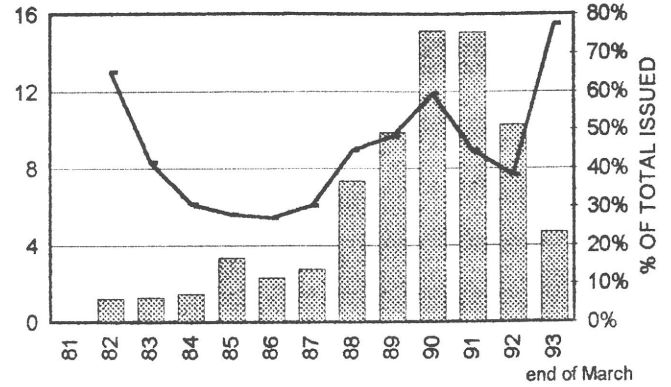
E.E.C. INSTITUTIONS



The European Investment Bank and the Commission confirmed their confidence in the market with new issues.

Thus, the share of the EC institutions in total issuing activity recovered from 8 % in 1992 to 16 % in the first quarter of 1993.

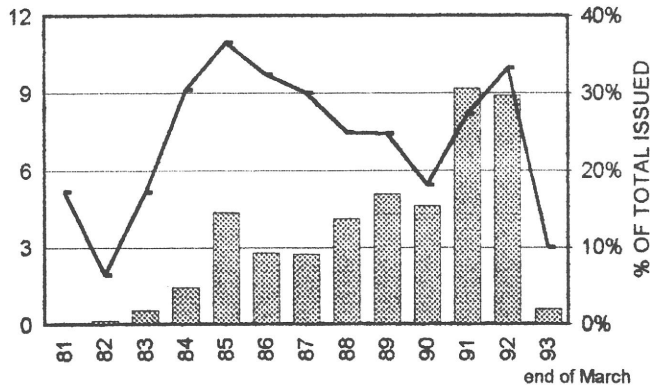
MEMBER STATES



In the first quarter of 1993, the issues of the Member States reached 75 % of the total after 38 % in 1992.

This development is mainly due to the high issuing activity of France, Italy and the UK. The total amount of issues of ecu 4.68 bn in the first quarter of 1993, represents nearly half of the total amount issued during the whole year 1992 (10.25 bn)

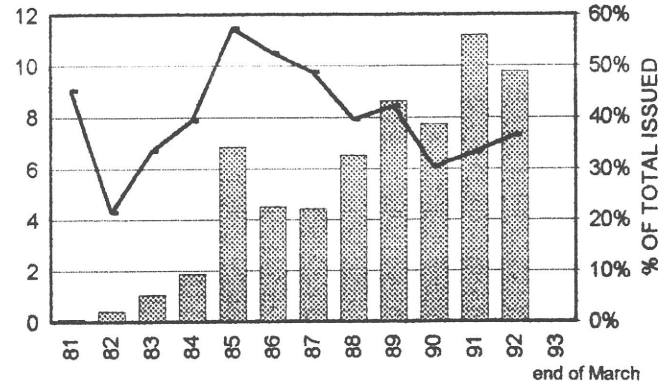
NON E.E.C.



Finland re-entered the market with an ecu 500 mn 5-year note in March.

The Council of Europe launched ecu 100 mn on the 15th of March.

PRIVATE SECTOR

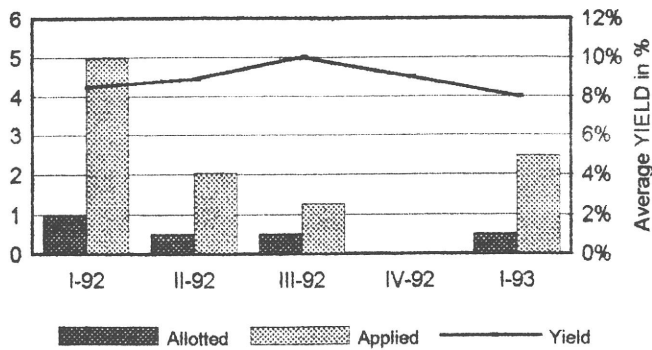


No private issues were launched in the first quarter of 1993.

In mid-April Eutelsat issued an ecu 100 mn 5-year note.

Long Term Domestic Programmes

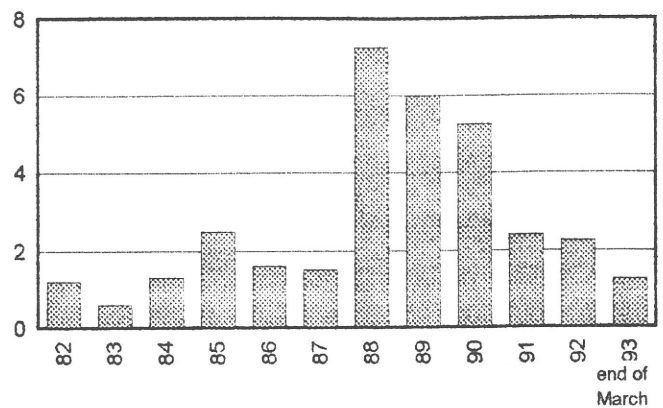
UK T-NOTE PROGRAMME IN ECU



On the 2nd of February the Bank of England continued its T-note issues with a 3-year ecu 500 mn issue. The large demand (2.483 bn) demonstrates the receptiveness of the market.

Another ecu 500 mn UK Treasury notes were tendered on the 20th of April and 4 times over-subscribed.

ITALIAN TREASURY CERTIFICATES IN ECU (CTE's)

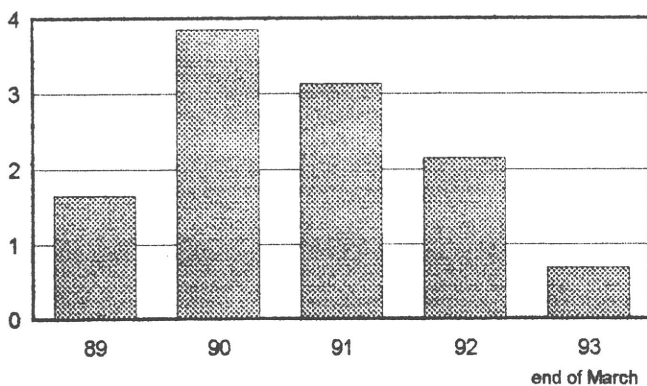


The Italian Treasury returned to the market with an ecu 750 mn BTE issue, on 22 February.

With the second tranche of this issue, launched on 19 March, the total amount of the February 1996 issue reached ecu 1.25 bn.

The global demand (ecu 2.176 bn) nearly doubled supply.

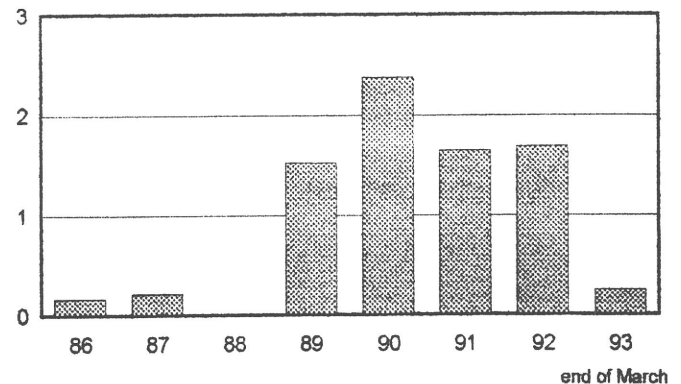
FRENCH FUNGIBLE TREASURY BONDS IN ECU (OAT's)



The ecu 680 mn 2003 10-year OAT issue on 28 January proved to be very successful with a demand of ecu 2.04 bn.

According to the plans of funding 15% of the deficit in ecu this year, the French Treasury will hold one auction every quarter.

GREEK ECU-LINKED BONDS



The regular monthly issues of 1-and-3-year bonds reached a total amount of ecu 436.2 mn of which ecu 351.1 mn were 1 year bonds.

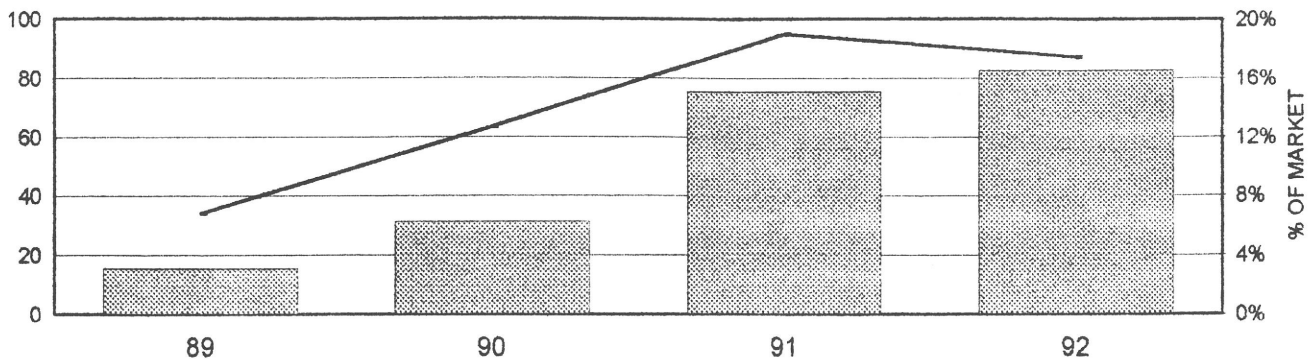
Following the general interest rate release, since January 93 the gross yield for both maturities dropped by about 1% each to 8.4% and 8.45%, respectively.

B. SECONDARY BOND MARKET

(Billions Ecus)

Last update : 31.03.1993

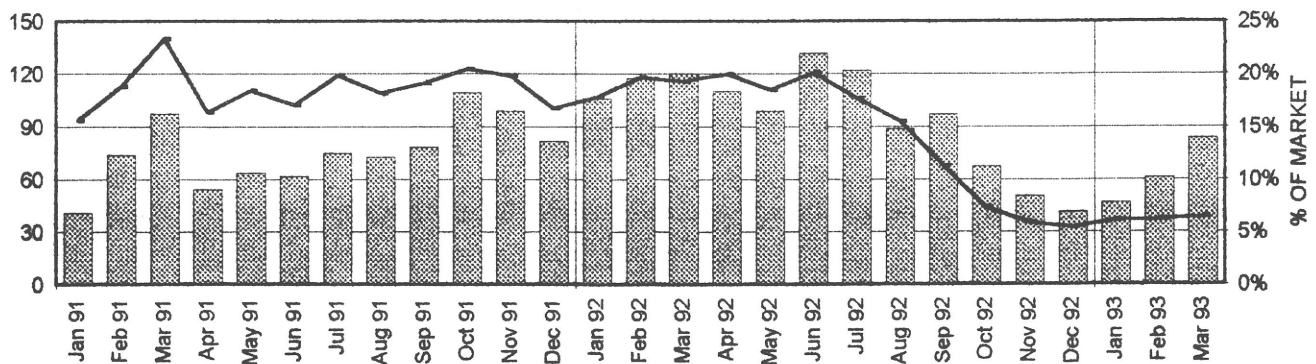
Historical Evolution (Average Monthly Turnover per Year)



The average monthly turnover of ecu bonds increased quite steadily until mid 1992. In June 1992 it amounted to 131.8 bn, bringing the ecu market-share to 20 % of the secondary bond market.

Although the activity on the secondary bond market slowed down significantly throughout the second half of 1992, the average monthly turnover value in 1992 (82 bn) increased by 7 bn compared to 1991 (75 bn).

Recent Evolution (Monthly Turnover)



The second half of 1992 was characterized by a steady decrease, reaching ecu 41.6 bn and a share of 5 % in December 1992. This was the result of the absence of new issues, the lack of swap activities and the redemption of a lot of actively traded bonds.

Due to the recovery on the primary market, the secondary market has strongly rebounded since the beginning of 1993. With an monthly turnover of 83.5 bn in March 1993, the average volume of 1992 was even exceeded, while the ecu share of bond turnover remained at the low level of 6 %.

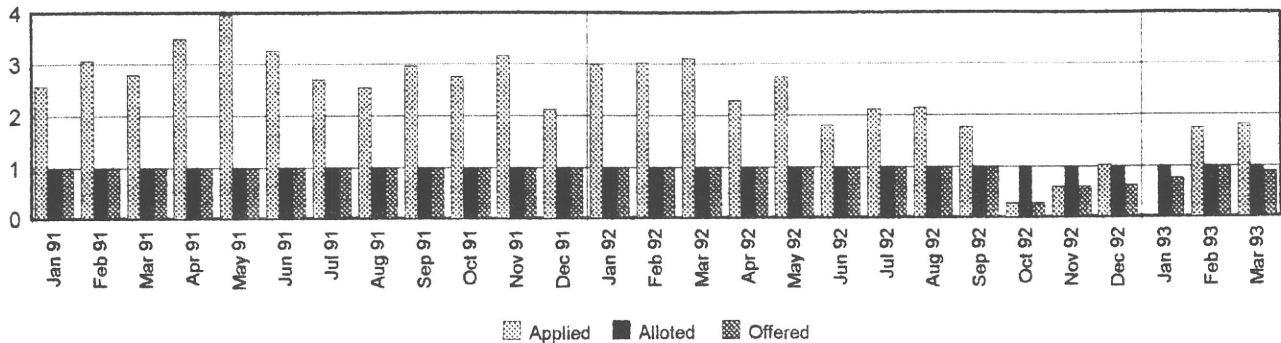
C. SHORT TERM DOMESTIC PROGRAMMES

(Billions Ecus)

Last update : 31.03.1993

BRITISH TREASURY BILLS

Primary market

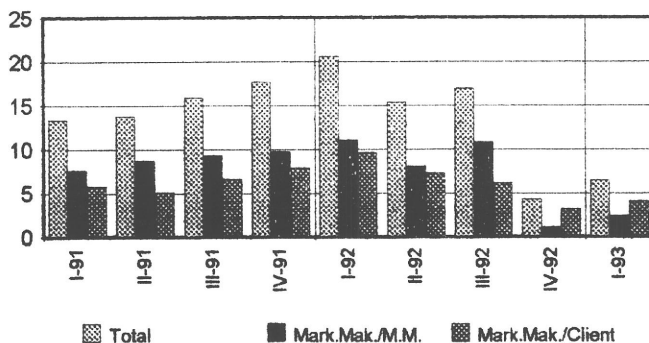


In January the 1 and 3 month bills were oversubscribed, whereas the demand for the 6 month bills was only ecu 165 mn. In February, however, all maturities (1,3 and 6 month) were oversubscribed with a total demand of ecu 1.7484 bn. In March, demand for 1 month bills only reached 202.5 mn, whereas demand for 3 and 6 month bills exceeded supply (845 mn and 760 mn, respectively).

Referring to the re-stabilization of the T-bills market, in the April auction the Bank of England has put an end to the policy of maximum acceptable yields, introduced in October 1992, clearly indicating that on the short-term market the crisis is over.

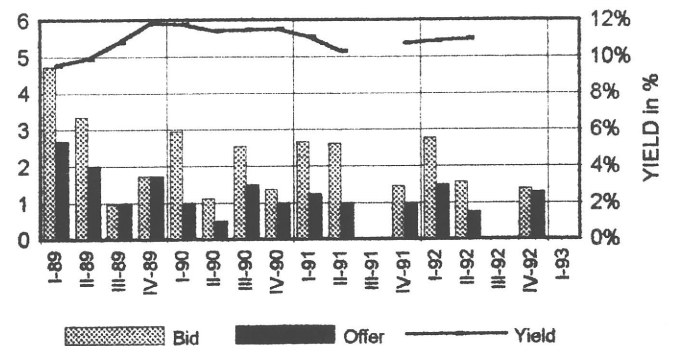
BRITISH TREASURY BILLS

Secondary market



ITALIAN TREASURY BILLS

Primary market



Given the low amount of T-bills on the primary market, in 1992, total turnover on the secondary market suffered a significant decrease.

In the first quarter, the market recovered, and the total turnover reached ecu 6.5 bn.

On the 14th of January a new ecu 750 mn BTE was issued for the first time after the last disappointing ecu 1.5 mn BTE issue in October 1992. Demand totalled ecu 2.766 mn.

Also, the second issue of ecu 500 mn, offered on 19 February, was nearly four times oversubscribed with a demand of ecu 1.819 bn.

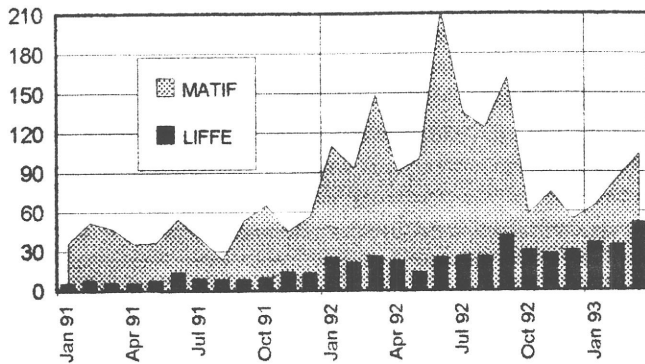
D. DERIVATIVE MARKETS

(Billions Ecus)

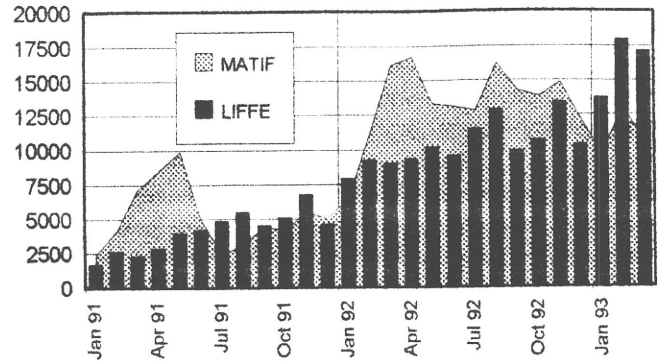
Last update : 31.03.1993

LIFFE and MATIF Futures Contracts

Monthly Turnover
(thousand contracts)



Open Contracts
(end of month)



MATIF

The average daily turnover of the ecu long-term interest rate futures contract (unit of trading: ecu 100.000 nominal value) traded on the French futures exchange (MATIF) rose from 1037 contracts at the beginning of the year to the peak of 8494 on the 8th of March.

Following the lack of activity on the underlying cash markets from mid March on, the need for hedging decreased, resulting in a declined volume of 1098 contracts at the end of March.

Nevertheless, the total of contracts traded by business day reached 103.502 contracts, in March. Open interest in the long-term ecu future slipped down from 16,239 contracts in August 1992 to 10,566 contracts end March.

LIFFE

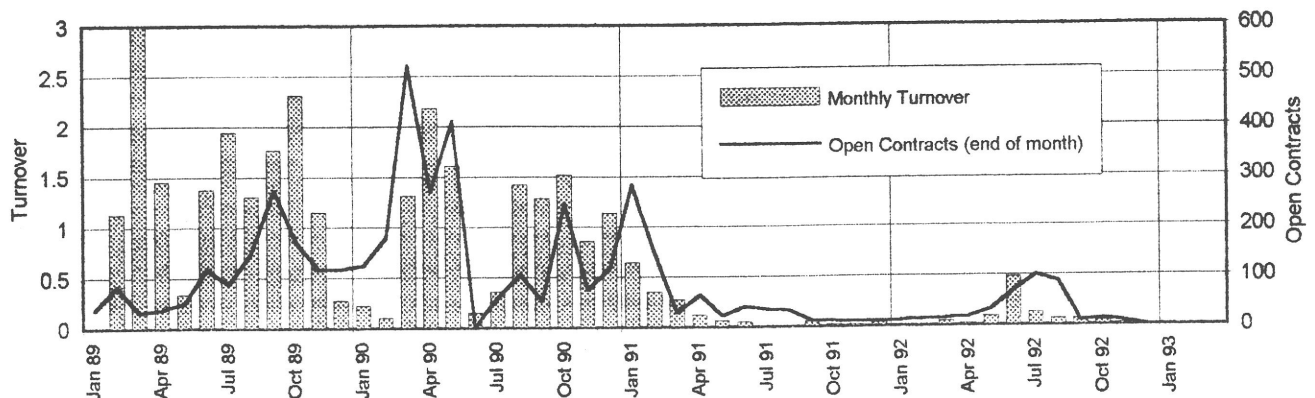
During the last quarter, the short-term interest rate futures contract (unit of trading: 1 000 000 ecu) became increasingly liquid.

In March, more than 2,500 contracts are traded daily, compared to the last quarter of 1992 when the ecu contract saw daily volumes ranging between 1,000 and 1,500 contracts.

The monthly traded number of contracts rose from 36,133 in January to 51,802 in March.

Open interest in the ecu futures has risen from 10,349 contracts in December 1992 to a level of 17,178 end March.

FINEX Ecu / Dollar Options Contract

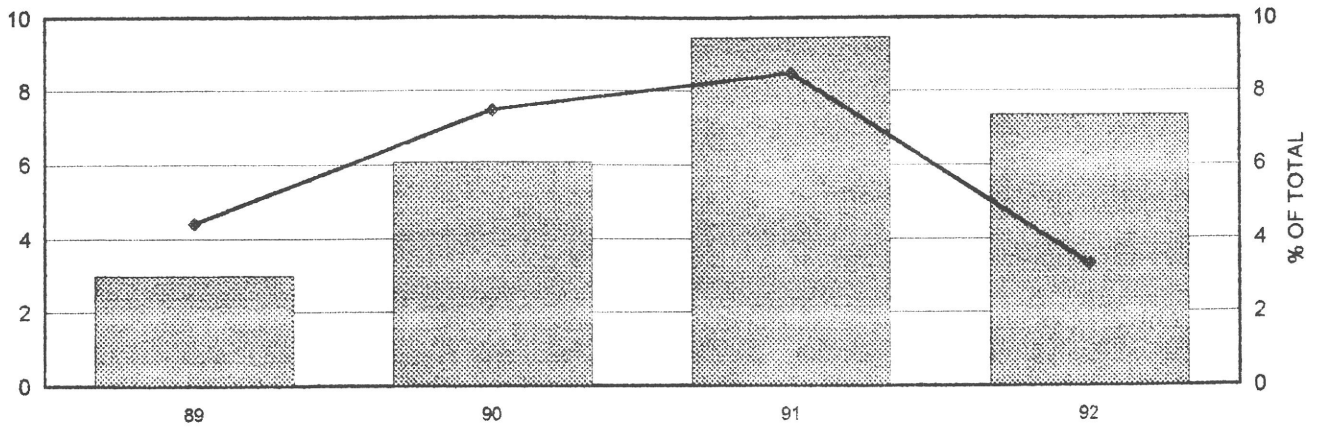


During the first quarter of 1993 no FINEX ecu contracts (unit of trading: ecu 100 000) were made.

E. EURO NOTES

(Billions Ecus)

Last update : december 1992



The ecu euro-notes reached 8.48% of total euro-notes in 1991. The sharp decrease in market-share in 1992 was mainly due to the decline of ecu Euro-commercial-papers from ecu 6.3 (June) to ecu 2.3 bn (December).

Nevertheless, the amounts of the other ecu denominated short- and medium-term Euro-notes, remained similar to the amounts of 1991 with ecu 3.1 bn and ecu 3.4 bn, respectively.

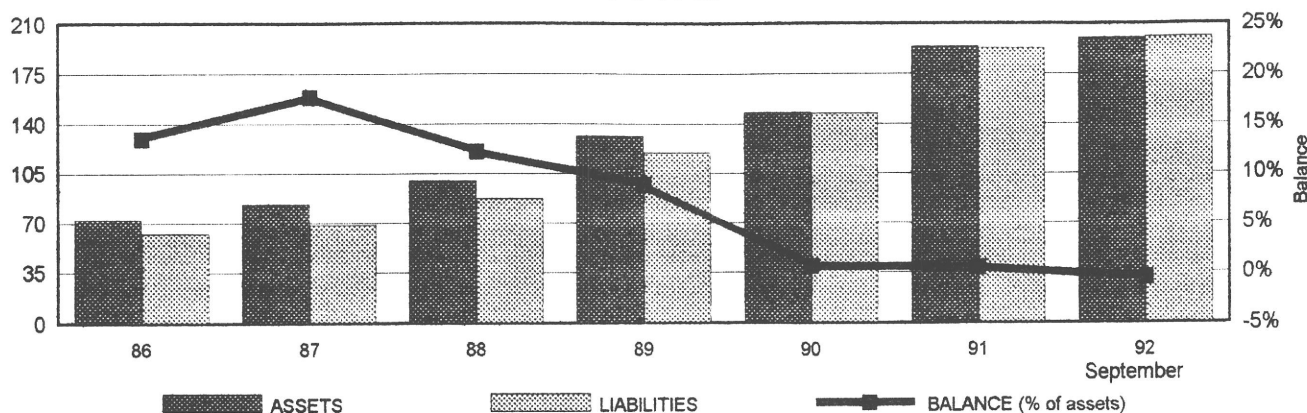
II. BANKING SECTOR

A. ASSETS AND LIABILITIES

(Billions Ecus)

Last update : End of September 1992

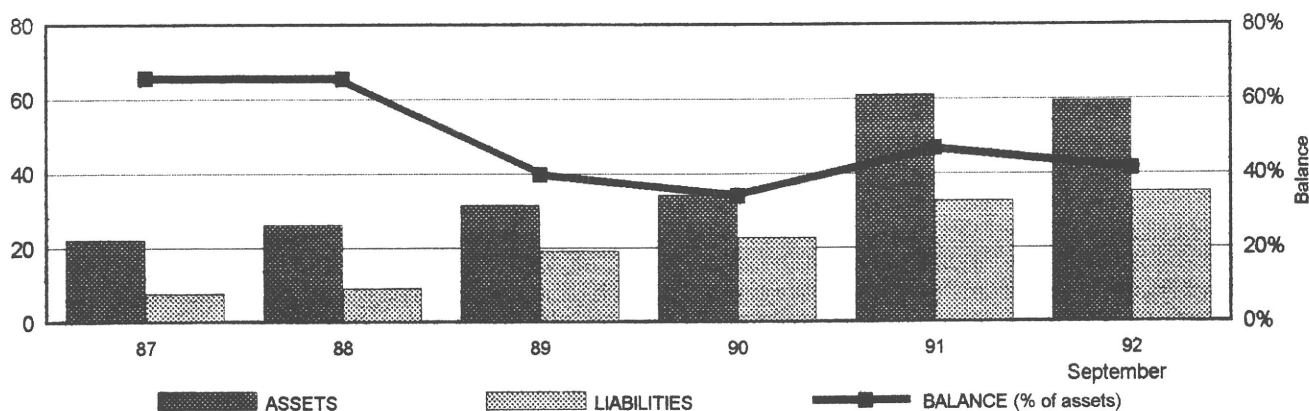
TOTAL



After the continuous growth during the first half of 1992 with the assets reaching ecu 198 bn and the liabilities levelling at ecu 210 bn, the activity of the ecu banking sector has remained quite stable in the third quarter of 1992. The total amount of assets levelled at 200.04 bn. Liabilities dropped slightly to 201.04 bn, but still remaining above the figures of 1991.

The first half of 1992 was clearly marked by a tendency of liabilities to exceed assets. In September 1992, an equilibrium between assets and liabilities was reached again.

NON-BANK



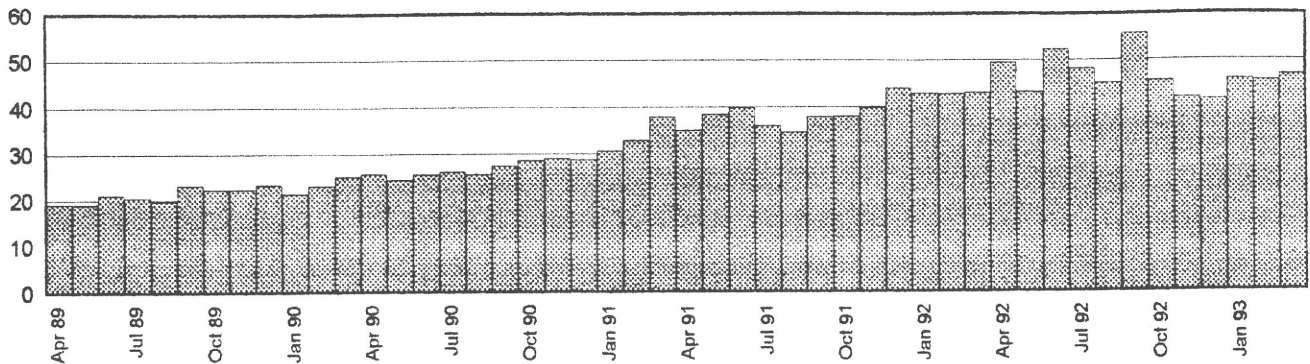
The non-bank sector in ecu has a share of 30 % of the total ecu banking market. As the liabilities decreased by ecu 4.33 bn, whereas the assets remained at about ecu 60 bn, the gap between assets and liabilities widened again in comparison to end of June 1992

B. ECU CLEARING THROUGH S.W.I.F.T.

(Billions Ecus)

Last update : 31.03.1993

DAILY AVERAGE TURNOVER PER MONTH



Until September 1992 the clearing of private banking transactions through the S.W.I.F.T. network increased steadily and peaked at a daily average turnover of ecu 56 bn in September 1992. During the ERM turmoil the amount suffered a slight set-back and levelled at ecu 42 bn.

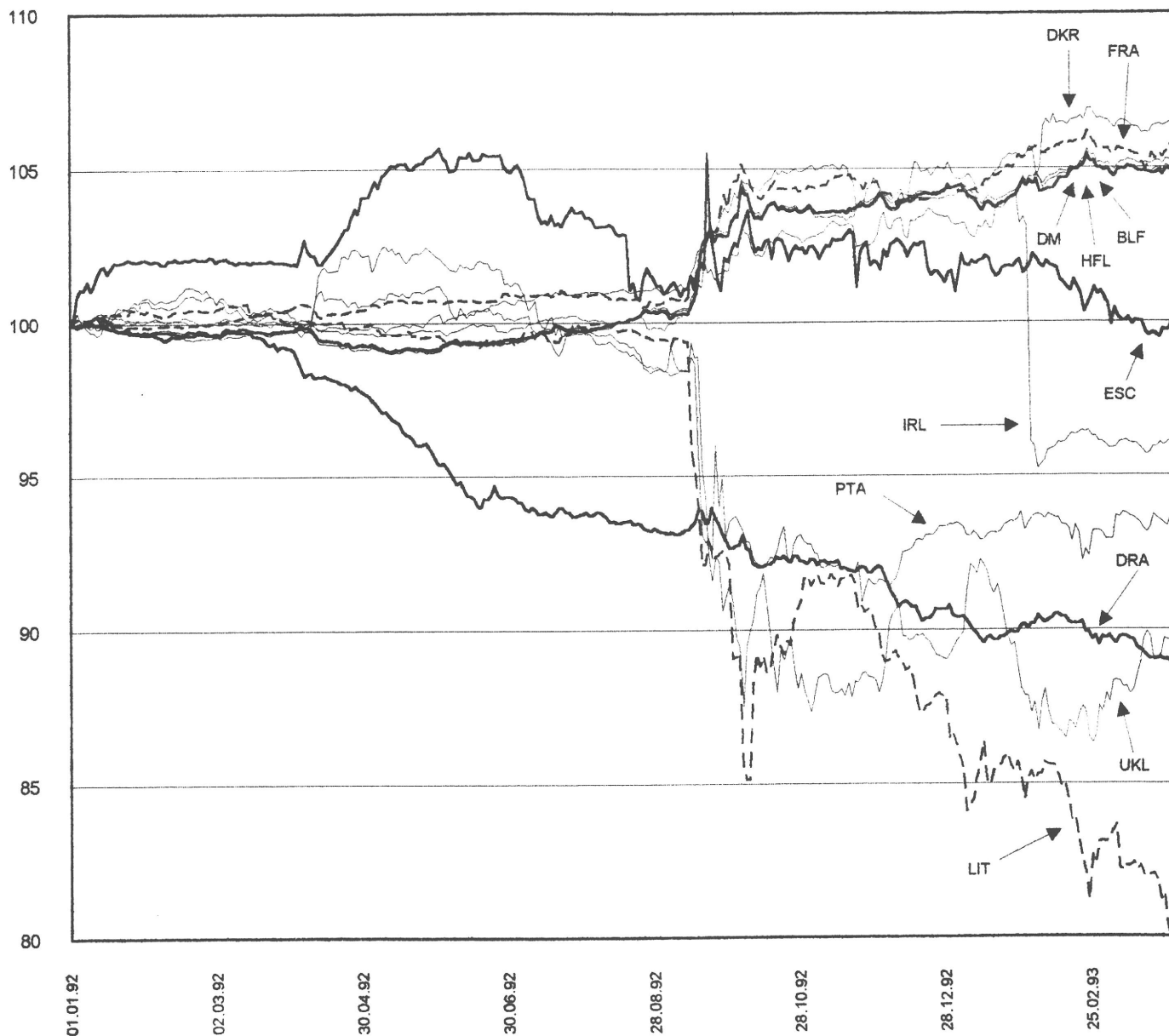
From January 1993 on, the ecu clearing rose again and reached a daily average turnover of ecu 47 bn in March, thus exceeding the daily average turnover of ecu 46 bn in the year 1992.

III. EXCHANGE RATES

Last update : 31.03.1993

EXCHANGE RATE MOVEMENTS VIS-A-VIS ECU

(100 = 01.01.1992)



In September 1992 the Italian lira and the British pound withdrew from the ERM. Since then, the lira depreciated continuously, whereas the pound regained ground steadily, with most indicators pointing to economic recovery.

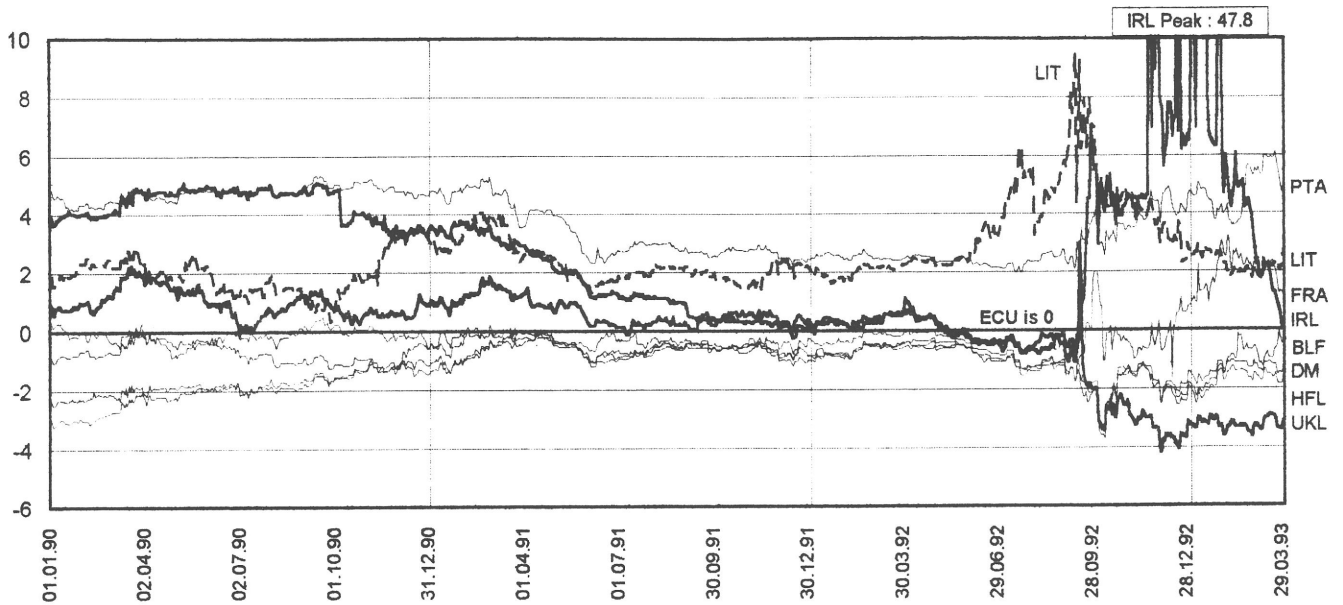
In January 1993 the Irish punt came under strong pressure and subsequently devalued. After a sharp depreciation, it rose to a position second at the top of the grid behind the PTA, but remains the strongest of the narrow band currencies.

The strong position of the Deutschemark and the Dutch guilder remained unchallenged. In spite of the government crisis, the Belgium franc consolidated its position in the band. Against the background of unfavourable economic prospects, the PTA continued to loose ground in the ERM.

IV. INTEREST RATES

Last update : 31.03.1993

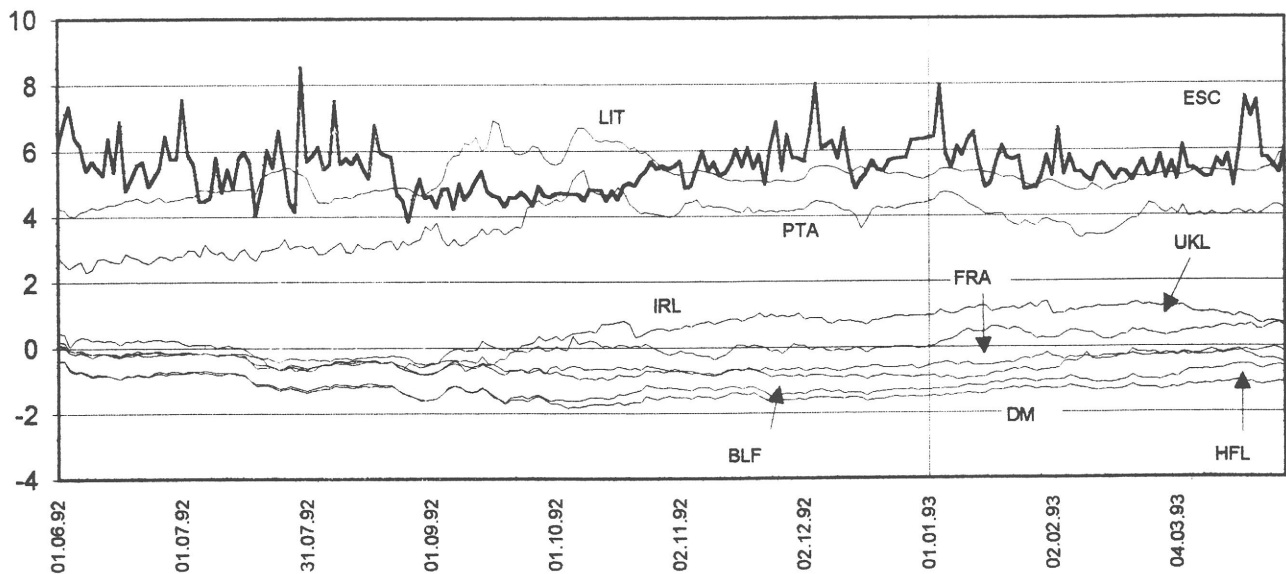
SHORT TERM DIFFERENTIAL AGAINST ECU



As a result of the pressure on the exchange rates, Italy, the UK and Ireland had the highest interest rates. They were all able to reduce their interest rates after the UK's and Italy's withdrawal from the ERM and the Irish devaluation..

The new French government stressed its commitment to the Franc fort policy. As the markets gained confidence in the stability of the Franc, France was able to lower interest rates significantly. Germany, followed by the Netherlands and Belgium, continued its policy of gradual interest rate easing.

LONG TERM DIFFERENTIAL AGAINST ECU



It is noteworthy that after they left the ERM, the UK and Italy were able to cut short-term interest rates significantly. whereas on the long end they both remained above yields on the ecu.

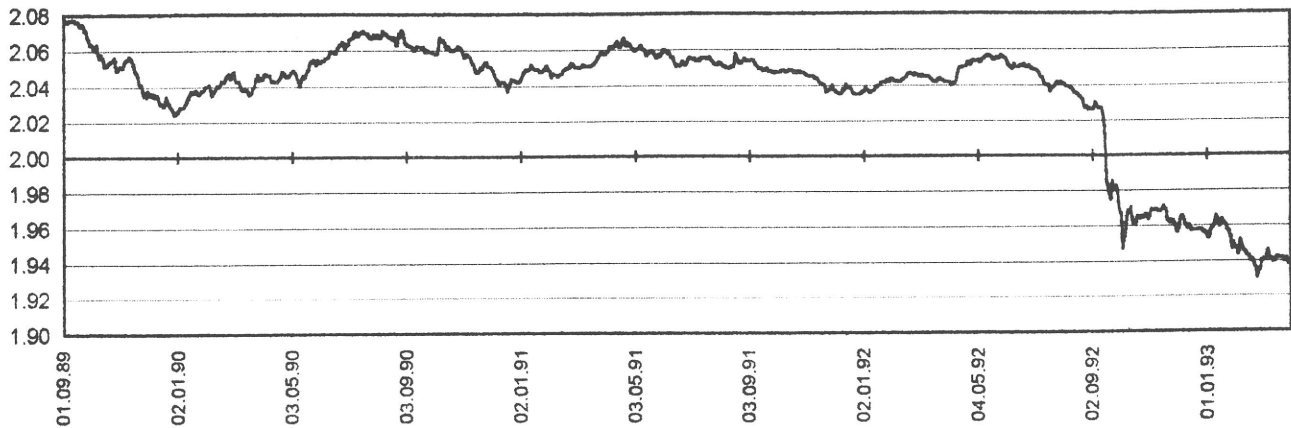
Due to the markets' confidence in their currencies' stability, Germany, Belgium and the Netherlands maintained the lowest long-term interest rates.

Portugal and Spain had to pay a high premium to cover the inherent risk of devaluation of their currencies.

V. ECU / DM : EXCHANGE and INTEREST RATES

Last update : 31.03.1993

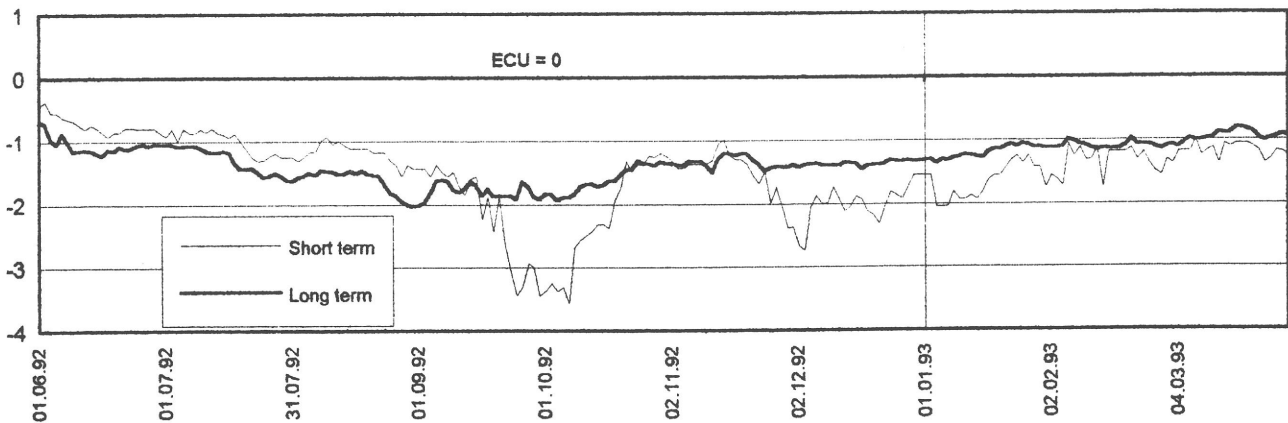
ECU / DM : EXCHANGE RATE



Until the ERM crisis the ecu remained at a level above 2.00 DM. Due to the withdrawal of the British Pound and the Italian Lira from the ERM and the devaluation of the Peseta, the Escudo and the Irish Punt, the Deutschemark appreciated against the ecu, reaching an exchange rate of 1.94 at the end of March.

Since the begin of April the DM started to depreciate. As the Italian Lira and the British Pound may be undervalued, a further depreciation of the DM might be expected.

ECU / DM : INTEREST RATE DIFFERENTIAL



From mid November 1992 on, the interest rate differential has narrowed steadily.

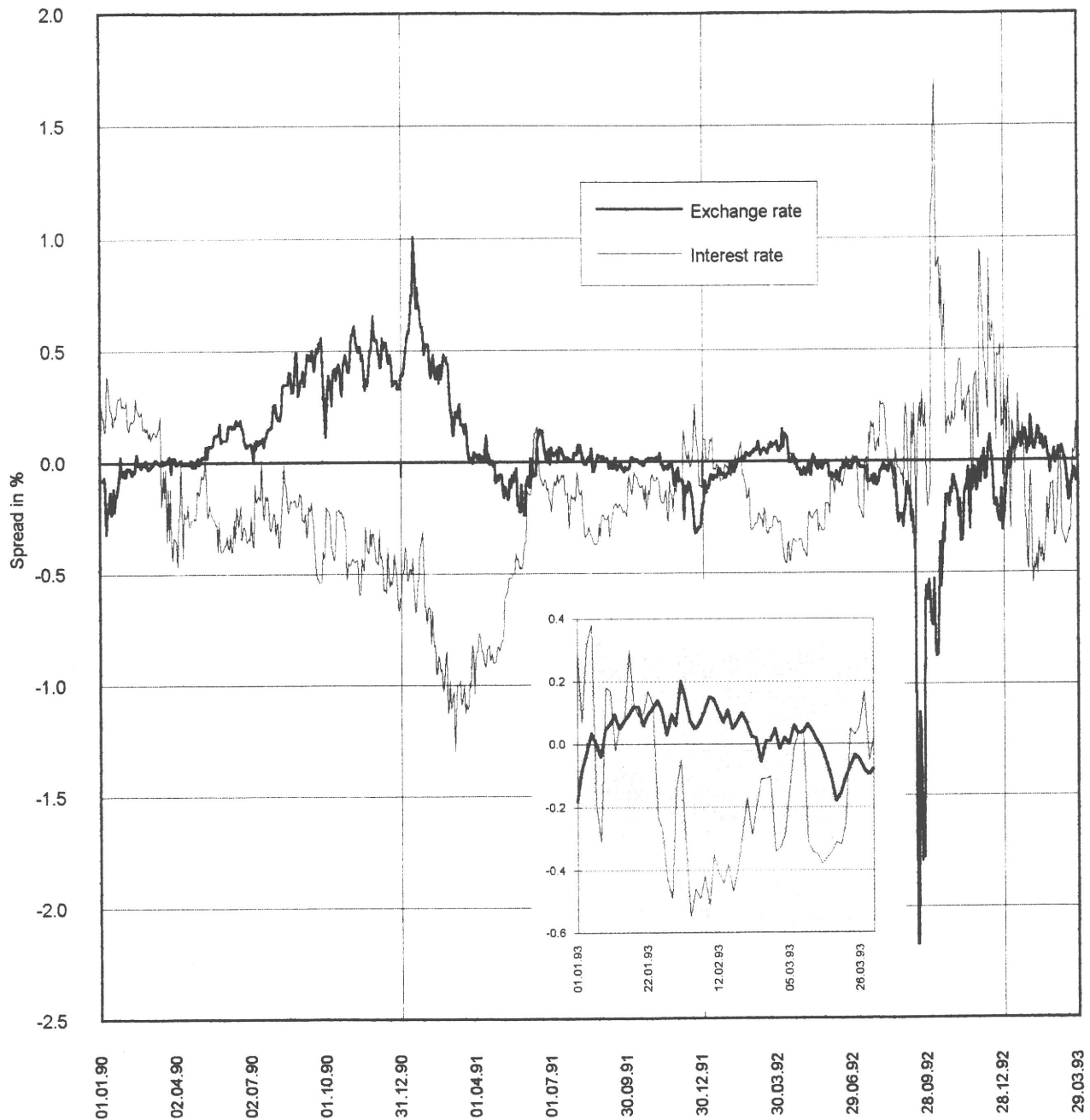
In particular France was able to lower interest rates as markets have confidence in the franc fort policy of the new government.

The gradual interest rate easing policy followed by the Bundesbank will allow further interest rate reductions in the other countries.

VI. EXCHANGE AND INTEREST RATES SPREADS

Last update : 31.03.1993

THEORETICAL VERSUS MARKET RATES SPREADS



After the ERM-crisis in September 1992, where the spread between the theoretical and the market exchange rates reached a peak of 200 bp, the situation has returned to normal conditions at the beginning of 1993.

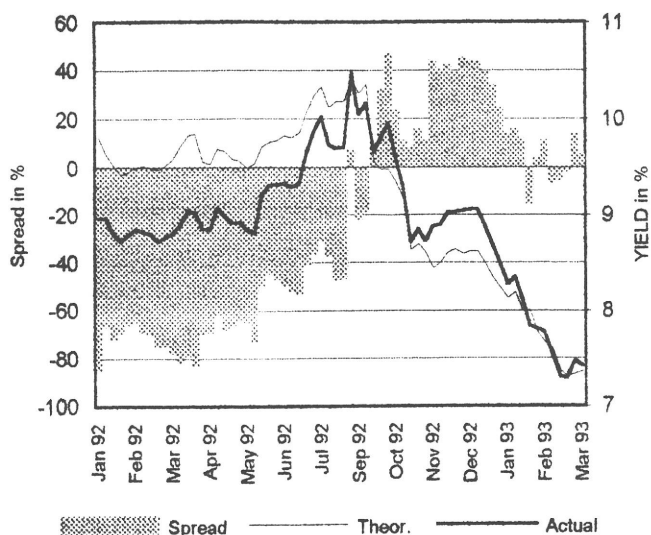
During the first two months of 1993 the spread remained positive, never exceeding 20 bp. Mid March the spread fell from +10 bp to -10 bp.

The spread between the theoretical and the market value of the Ecu interest rates (3 months) became negative and turned around -30 bp at the end of March. This is partly due to the market's expectations of further interest rate reductions, encouraged by the German policy of step-by-step release of interest..

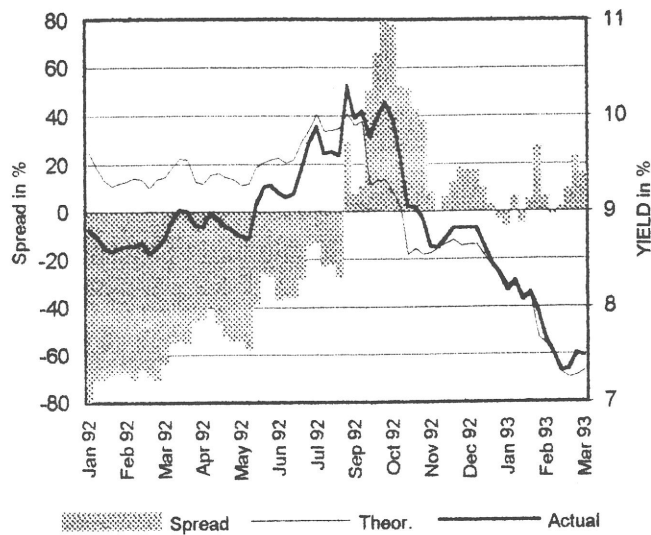
VII. YIELDS

Last update : 31.03.1993

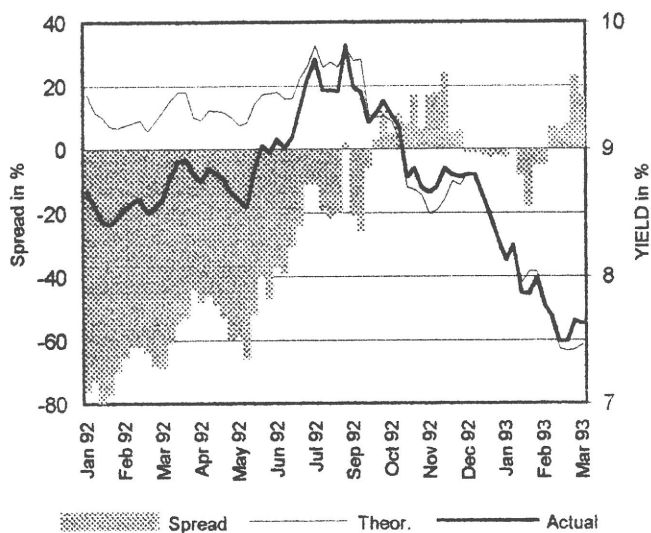
3 YEARS



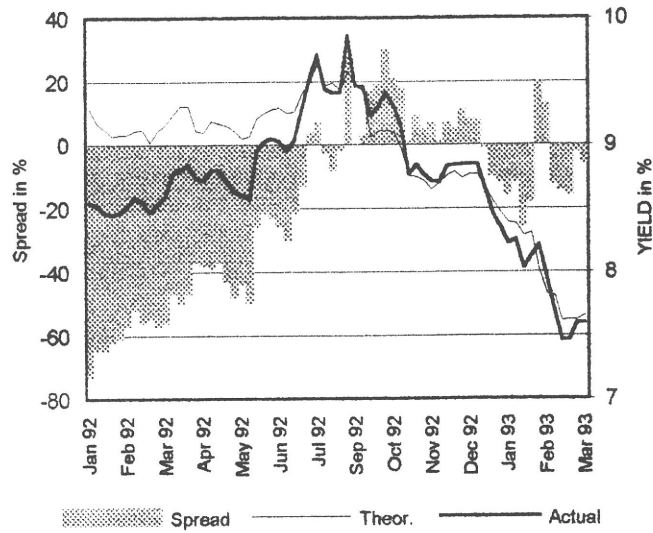
5 YEARS



7 YEARS



10 YEARS



As the result of the global recession in Europe, all countries lowered interest rates significantly.

Up to September 1992 the actual yields for all maturities remained far below the theoretical yields as a result of the positive reaction to the Maastricht Treaty.

Due to the negative outlook after the September crisis, the actual spread exceeded the theoretical spread by up to 80 bp.

Since the beginning of 1993 the markets came back to normal conditions with the spread not exceeding 20 bp.

Only the 10-years yields have a negative spread, indicating that the long end is more attractive as operators expect an EMU with the hard-core countries and thus falling yields after the beginning of the third stage (start 1999 at the latest).