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In this number :
The Ecu Markets

SUMMARY

The ecu continues to evolve as a major international currency. Its development to date has been most rapid and extensive in the financial sphere, wherein ecu bond, derivatives and swap markets are all well developed and offer market participants many interesting investment and trading opportunities.

There are two facets to the ecu. Firstly, and arguably of most importance in the short term, it is defined as a basket currency composed of a fixed amount of twelve component (EMS) currencies. This in turn gives to it a number of advantages, in comparison to its components. These include, in normal market conditions, greater exchange and interest rate stability than the weaker EMS currencies and an opportunity to spread exchange, and other, risks compared to all of its components. Secondly, the ecu has been designated as the future single currency of those Member States which will participate in Stage III of European Monetary Union. This has important implications for the future development of ecu financial markets, for instance in terms of a strengthening of the ecu on the currency markets and a concurrent reduction in yields premiums relative to comparable instruments in participating currency sectors, due to the policies to be pursued by the European Central Bank from the beginning of Stage III, and a significant increase in amounts outstanding and of liquidity in ecu.

This report is divided into three sections. The first part discusses recent structural improvements and developments within the ecu currency sector, primarily from the perspective of highlighting ongoing efforts to maintain, in common with all other major currency sectors, orderly and efficient markets in ecu. The second section discusses developments in the ecu financial markets during the second quarter of 1994, within the wider context of global market trends and developments. Finally, the third section offers a statistical presentation of the ecu financial markets, highlighting key developments during the second quarter of this year, within the context of these markets' historical evolution.

I. RECENT STRUCTURAL CHANGES AND INITIATIVES IN THE ECU MARKETS

Market participants are sensitive not only to the investment and trading opportunities offered by a market, but also to the adequacy of its institutional structures. Consequently, it is important that the process of structural reform and improvement is pursued persistently by the domestic authorities in a particular market. While the ecu is no different from any other major currency in terms of the need to effect on a continuous basis structural improvement, it is different to the extent that there is no domestic authority directly responsible for ensuring the maintenance of orderly and efficient markets in ecu. As a result, the responsibility for structural reform, assumed primarily by the European Commission and, since the beginning of 1994, the European Monetary Institute, is also shared by national authorities in Member States, although this does not imply any obligation to offer lender of last resort facilities in ecu.

The Treaty on the European Union, which entered into force on November 1, 1993, represented a significant step forward for the ecu markets, particularly in terms of the degree of certainty which has subsequently attached to the definition of the ecu during the transition to a single European currency (that is, the Treaty froze the monetary amounts, and number, of component currencies within the ecu basket until the beginning of Stage III of European Monetary Union (EMU), at which time the ecu will become a currency in its own right). In addition, however, structural reform has continued in the wake of this Treaty, most notably in four areas: an Ecu Package of legal texts concerning the ecu; introduction of an ecu yield curve; introduction of Same Day Clearing and Settlement Facilities in ecu; and introduction of an ecu-linked settlement system for the countries of central and eastern Europe.

(A) The Ecu Package

In order to further clarify several legal questions concerning the modalities and consequences of the transformation of the ecu into the single currency of EMU, the European Commission approved, on 19 April 1994, a package of three legal texts concerning the definition of the ecu. These texts were published in the Official Journal of the Communities on 16 May 1994. Via this package of legislation, the Commission wishes to clarify the situation of the ecu in the light of the Treaty, as modified by the Treaty on European Union signed in Maastricht.

(i) The proposal of Council Regulation (N° 94/C 130/06)

The first text is a proposal to the Council for the consolidation of existing EC legislation concerning the definition of the ecu. The aim of this text is twofold :

- to retain in EC legislation only those rules which are coherent with Art.109G of the Treaty establishing the European Community, while drawing in particular the consequences of the "freezing" of the ecu basket (art.1);
- to proclaim the principle of the existence of one and only one definition of the composition of the ecu (art.2). The unique definition of the ecu is :
  - the common denominator for every use of the ecu in EC legislation
  - and at the same time the legal element ensuring that there can not be a differentiation in the modalities of conversion of the ecu from a basket currency into the single currency of the Union (every ecu is presently defined by the same definition contained in this regulation and will be transformed into the same single currency defined by Art.109G and Art.109L(4) of the Treaty.

(ii) The Commission Recommendation (N° 94/284/EC)

The second text is a recommendation to both Member States and contractual parties in contracts denominated in ecu or making reference to the ecu. Its aims are :

- to recommend to the Member States that they draw the first consequences of the Commission's White Book 'Removing the Legal Obstacles to the Use of the Ecu' (December 1992).. In particular the Recommendation suggests :
  - that the ecu is given everywhere and for the moment being the statute of "foreign currency" with a clear legal basis (art.1);
  - that the Member States observe a principle of "non-discrimination" of the ecu with respect to other currencies having the same statute of foreign currency (art.2). Through this principle of "non-discrimination" all advantages deriving from the application of the liberalization of capital controls shall be automatically extended to the use of the ecu;
  - that the Member States extend to the ecu adequate legal protection, applying to the ecu all existing legal norms which defend their national currencies.
- to invite the Member States to inform the Commission in 12 months from the notification about the measures taken as a result of its application (art. B).
- to recommend the following to the parties in contracts denominated in ecu or making reference to the ecu :
  - in case of doubt, they should interpret any reference to the ecu as a reference to the definition of the ecu in EC law, since the official definition of the ecu in EC law clearly considers as certain the future transformation of the ecu into a single currency having the same name and the same external value, that is into a single currency which will be exchanged against the basket ecu at a conversion rate of 1:1 (art.5)
  - future contracts should make reference to the ecu as defined in Art.109G of the Treaty and, as a consequence, parties to these contracts should interpret their monetary obligations in the basket currency ecu in the sense that they will be transformed into an obligation to pay the same amount in the single currency ecu (art.4).

(iii) The Explanatory Note

While not a "typical' act in the sense of Art. 189 of the Treaty, this explanatory note has legal implications.

The note explains why, after the entry into force of the Treaty on European Union, the Commission decided to modify the prospectuses of its own bonds and loans. The modifications relate both to contracts denominated in ecu and in national currencies.

As a result, ecu bond and loan contracts now contain conditions which ensure without doubt that obligations to pay a sum in ecu baskets will be honoured as an obligation to pay the same nominal amount of ecu as the single currency of Stage III. Bonds and loan contracts in national currencies contain a new clause which informs the counterparts about the possibility of the payment of due interest and repayment of capital in ecu if the countries issuing such currencies participate in Stage III.

(iv) The legal force of the three instruments

The Proposal for a Council Regulation is not a final and binding document. Following Articles 235, 109c(1) and 109f.(6) of the Treaty, the Parliament, the Monetary Committee and the European Monetary Institute must give advice before a decision is taken by the Council.

The Commission Recommendation is a final, but not binding act, which the Commission has made under its own unique responsibility according to Article 155. The reaction of the Member States and of private parties to the recommendation will be examined in 12 months.

The Explanatory Note is not a formal legal act: however, several borrowers in the ecu markets have subsequently begun to take into account the content of the note and have introduced in their prospectuses clauses equal or very similar to those of the Commission.

(v) A path toward certainty of law and monetary stability

The Ecu Package is the starting point of a path which, following a pragmatic approach to monetary union, must lead the European Union to a smooth and ordered introduction of the ecu as the single currency of EMU. One component of this reform is to ensure legal certainty to all parties (Member States, banks, companies, households) which have contracted monetary obligations running beyond the starting date of Stage III of EMU.

(B) The Ecu Yield Curve

Directorate General II and XVIII of the European Commission and EUROSTAT, the Commission's statistical office, have developed a new model to determine an ecu yield curve. This yield curve displays the term structure of interest rates based on a regression model[1]. The approach developed for the ecu extends information on interest rates which is already available for other currencies.

For most currencies, representative bond yields are published daily on the basis of first class benchmark issues (mostly liquid sovereign government bonds). Since the ecu is (de facto) a foreign currency in any country, no generally accepted ecu yield curve exists at the moment, partly due to a lack of a domestic market and of a lender of last resort. In addition, although ecu interest rates are closely related to yields in its component currency markets, other elements, such as expectations on the realization of EMU and the evolution of the basket–market exchange rate spread, influence ecu yields and give them individual and (limited) independent characteristics and behaviour. This is already well known for ecu market exchange rates which diverge regularly from their theoretical basket rates. In sum, good reasons exist to develop an analytical tool to study the ecu's interest rate behaviour.

It was considered very useful to offer to analysts, market participants and academia an instrument which meets the usual requirements to ensure that it is perceived not only as accurate and authoritative but also as representative. In this respect, the proposed yield curve has certain advantages over instruments already existing in the market :

- while these instruments lack transparency, for instance the methodology and sources of data and criteria for the selection of benchmarks are not fully disclosed, the new yield curve is completely transparent;
- while the existing instruments are generally biased, for instance they take an explicit investors view, are portfolio-based or are in some way or other dependent upon on particular interests, the Commission's yield curve aims to be unbiased in this sense, thus offering a neutral approach which also takes the issuers perspective into account;
- in addition, the new yield curve will appear in several Commission publications on a regular and continuous basis.

(C) Same Day Clearing and Settlement Facilities in Ecu

A significant contribution to the continued strengthening of institutional structures in the ecu currency sector has been made by the introduction in the UK and France of new facilities making possible same day clearing and settlement of ecu denominated securities and in Germany the introduction of an ecu quoting, clearing and settlement system. As a result, the range of possible market operations is increased for example to include very short–term repurchase agreements. A repo agreement involves the sale of a security (generally, but not exclusively government paper) against cash for a fixed period at a fixed price[2]. At the conclusion of the agreement, the security is bought back by the (original) owner. From the perspective of the buyer of the security, therefore, the repo agreement in effect constitutes a fixed term collateralised loan[3].

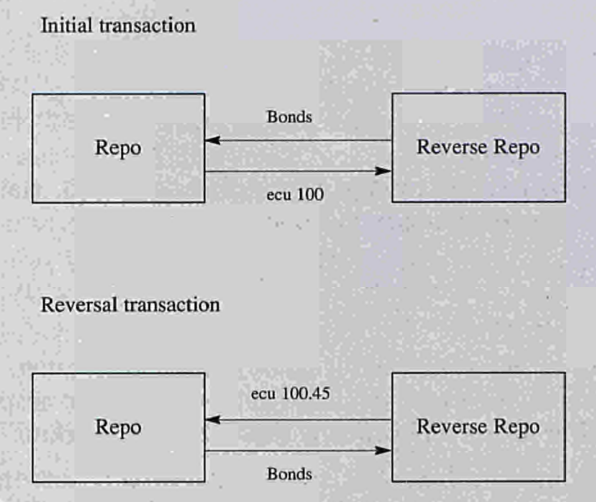
The Banque de France launched its integrated ecu paper system SIRE (Système Intégré de Règlement-livraison en Ecus) in March 1993. SIRE is a delivery versus payment system for ecu-denominated securities built, on the one hand, upon the both already-existing French security exchange and settlement systems SATURNE and RELIT. On the other, it uses the TBF system, a gross payment system provided by the Banque de France. SIRE is open to all

1 The model is estimated on the basis of the following equation : $Y = c_o + c_1MM + c_2M^2 + c_3M^2 + c_6\max(M - 5.0)^3$ where Y is the yield and M the maturity.

2 In addition to an interest payment, the price of a repo agreement will include a margin payment similarly to a futures contract.

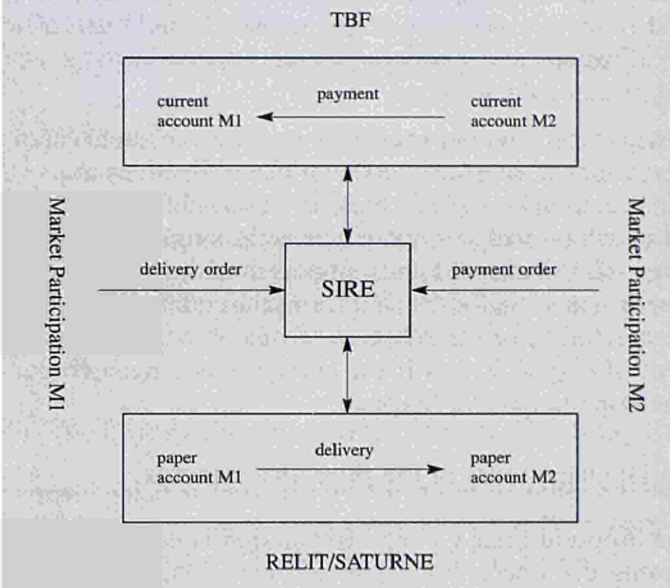
3 Neil Brown, 1993 (Q4), The Repo Market. Money Market Review, LIFFE.

GRAPH 1 : **Repurchase agreements**



Source : Neil Brown

GRAPH 2 : **SIRE**



Source : European Commission (DGII)

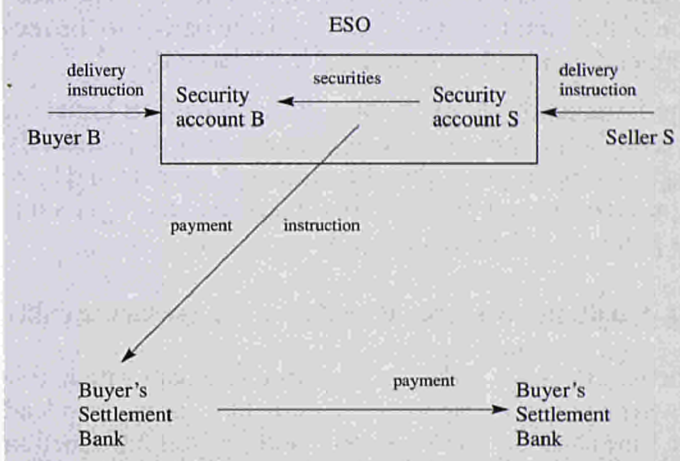
credit and financial institutions registered in France, and can be used to clear and settle all kinds of financial transactions in ecu-denominated securities. These include outright operations, security transfers without cash payment, and so on. While securities transfers continue to be processed by SATURNE and RELIT (RELIT for OATs, SATURNE for BTANs), payment is done via TBF, using the ecu dominated accounts of each participant opened in the Banque de France. In order to secure same day value for payments in ecu securities transactions, the Banque de France grants payment via an automatic repo-operation within SIRE. Moreover, through a clearing bank, it is linked to the Ecu Clearing System operated by the EBA.

The Bank of England has been operating a real time same day settlement system with automatic trade matching for all ecu denominated money and capital market securities, the European Settlements Office (ESO), since September 1993. However, the service is not confined to domestic debt but offers access to a broad range of ecu–denominated securities due to its efficient electronic links to both Euroclear and Cedel. This is of particular benefit to the wholesale ecu market by facilitating the development of the overnight markets in both securities and cash lending against collateral (repo and reverse repo).

Unlike SIRE, ESO operates a system of assured payments involving the generation of irrevocable payment instructions to the seller's settlement bank simultaneously with the transfer of securities to the buyer, such payment instructions being finalised in the ecu clearing later that day. Targeted primarily at the professional market, ESO's membership currently comprises 26 key ecu market players, including the Bank of England.

Via the introduction of SIRE and ESO, the national authorities in France and the UK intended to improve the strength of ecu market structures. More precisely, they intended to encourage the emergence of a daily or overnight ecu money market by facilitating more sophisticated money and capital market operations, such as short term repo agreements. Italy will introduce a similar facility during the second half of 1994.

GRAPH 3 : **European Settlements Office**



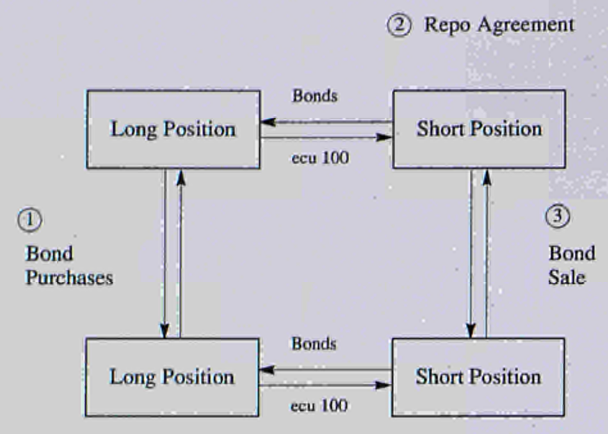
Source : European Commission (DGII)

Due to repos, securities holdings can be managed more efficiently, enabling the realisation of additional returns on securities in longer term portfolios. Moreover, repos offer the ability to go short of specific securities, that is to sell without first owning them.

Of course, ecu repos could be, and, indeed have been, cleared and settled outside of both SIRE and ESO, by using Euroclear and Cedel.

Nevertheless, due to SIRE and ESO, shorter term repos may be undertaken than are possible via Euroclear and Cedel. From the perspective of repo operations, this is the main advantage of ESO and SIRE : the shorter the term of repo activity which exists, the easier it is to cover open positions in securities. In turn, this ease of short covering will encourage more participants and more activity in the ecu currency sector. Consequently, the liquidity of the underlying cash market will increase as a result, but will also reinforce liquidity in the repo markets.

GRAPH 4 : **Short covering via Repurchase Agreements**



Source : Neil Brown

Ecu markets in Germany are less developed, compared to those in France and the UK. Nevertheless, their structure has recently been improved also, both in order to prepare the German capital market for monetary union, but also to gain from the future development of the ecu market. In September 1993, the Frankfurter Wertpapierbörse — the only German bourse where ecu bonds are listed — introduced quoting, clearing and settlement in ecu. Previously, ecu bonds were cleared, settled and quoted in DM. Market operators in ecu bonds are obliged in order to access these new facilities to have an ecu clearing account with one of the three German ecu clearing banks (Deutsche Bank, Dresdner Bank and Commerzbank). Clearing will always take place through DKV[1] clearing facilities. Credit lines with the ecu clearing banks are based on individual contracts.

(D) ABC Ecu-linked Clearing and Settlement System for central and eastern Europe

On 18 April, 1994 a new clearing and settlement system for payments in hard currencies among central and eastern European commercial banks became operative in its first stage. The system is based on the use of the ecu as common clearing currency (it is also called an ecu–linked clearing system). It will be supervised by a banking association, called the Clearing Bank Association, which was created for this purpose in December 1992 in Moscow by ten commercial banks of central and eastern Europe. Following a progressive approach, this system will grow in complexity and velocity to become in three stages a full and autonomous clearing system ensuring same day value payment in hard currencies and in ecu.

At present, seven commercial banks, of the Czech Republic (Komercni Banka and Investicni Banka), Hungary (Inter-Europa Bank and the Foreign Trade Bank), the Slovak Republic (Vseobecna Uverova Banka), Bulgaria (First Private Bank) and Russia (International Moscow Bank) participate in the system.

Participating banks are linked to each other through the choice of one western correspondent bank member of the EBA Clearing System (the clearers). For the time being, three clearers have been chosen by eastern banks and participate in the scheme: Barclays Bank of the UK, Générale de Banque of Belgium and San Paolo Bank of Italy.

Payments are effected through SWIFT, which has elaborated a slightly modified language and architecture for messages belonging to the ecu-linked clearing system. Payment orders among the participating banks are accepted in all major western currencies.

However, the settlement of interbank payment orders are effected in ecu for each bank through a single correspondent account, which is used solely for payments in this system. Payment orders in the various currencies are then converted into ecu to enter the system and the ecu into the currency of the originating payment order to get out at the same fixed exchange rate, which is published daily by Reuters. This allows this system to exploit the same day value EBA Ecu Clearing System.

The finality of payments is guaranteed by a system of mutual credits between the participating banks and by an agreed ceiling to payments with the same value date which can be initiated by each of the banks.

The system offers member banks a number of advantages :

- when completed in its final stage it will be a state-of-the-art settlement system which has been conceived specifically for the needs of participating banks in their mutual relations, and permitting same day value payment;
- in its present state of development, it guarantees final payment with two days value between countries which experience problems in their international payments networks.

II. ECU BOND AND CURRENCY MARKET DEVELOPMENTS DURING THE SECOND QUARTER OF 1994

The downward correction in major international bond markets, and by consequence in the ecu bond market, persisted during the second quarter of 1994. Triggered by US monetary tightening during February and following in the wake of the strong gains observed during 1993, significant volatility was sustained during this period by uncertainty concerning the timing and extent of further interest rate increases in the US and the pace of real sector activity within Member States of the European Union.

Traded volumes, in national and ecu currency sectors, were consequently generally low by historical standards, while price movements were at times very sharp. Market rallies during the second quarter were quickly ended by renewed bouts of selling, as investors took available opportunities to move shorter along the yield curve. Borrowers were discouraged from entering the ecu primary market by the higher servicing costs attached to new debt, due to the increase in volatility and the perceived change in interest rate environment, as well as a general lack of swap opportunities.

1 Deutscher Auslandskassenverein, the German clearing institution for securities.

In contrast to the bond market, the ecu currency market was generally quiet, although the evolution of the market/theoretical exchange rate spread during the quarter was noteworthy.

Uncertainty concerning monetary stance in the US and the European Union continued to inhibit bond market activity...

The increase on May 17 in the US Fed funds and discount interest rates (by 0.5%, to 4.25% and 3.5%, respectively) was sufficiently large as to have a calming influence upon bond markets generally, as it appeared to move US monetary stance firmly from an expansionary to a neutral stance, on the basis of implied real interest rates.

This respite was relatively short-lived, however. During the latter stages of the quarter, renewed worries concerning the pace of economic activity in the US, and the weakness of the US dollar encouraged speculation as to the timing of the next interest rate increase by the Federal Reserve[1]. In turn, this speculation dampened down activity in the US Treasury's market (which had earlier begun to firm) and undermined any signs of recovery in ecu and component currency bond markets; indeed, it encouraged additional rounds of selling, leading to further steepening in European yield curves.

Throughout the second quarter European factors were generally negative for bond markets, also. Of primary importance was market uncertainty concerning future policy moves of the Bundesbank and, related to this, the pace of economic recovery within Member States of the European Union. This led to re-evaluations by the markets of inflation expectations, and therefore of expected future short term interest rates, with knock-on effects for primary and secondary bond market activity.

1 US/Japanese trade talks also had an effect, via their impact upon the US dollar.

GRAPH 5 : **10 Year Yields-Benchmarks** (1.2.1993 – 30.6.1994)

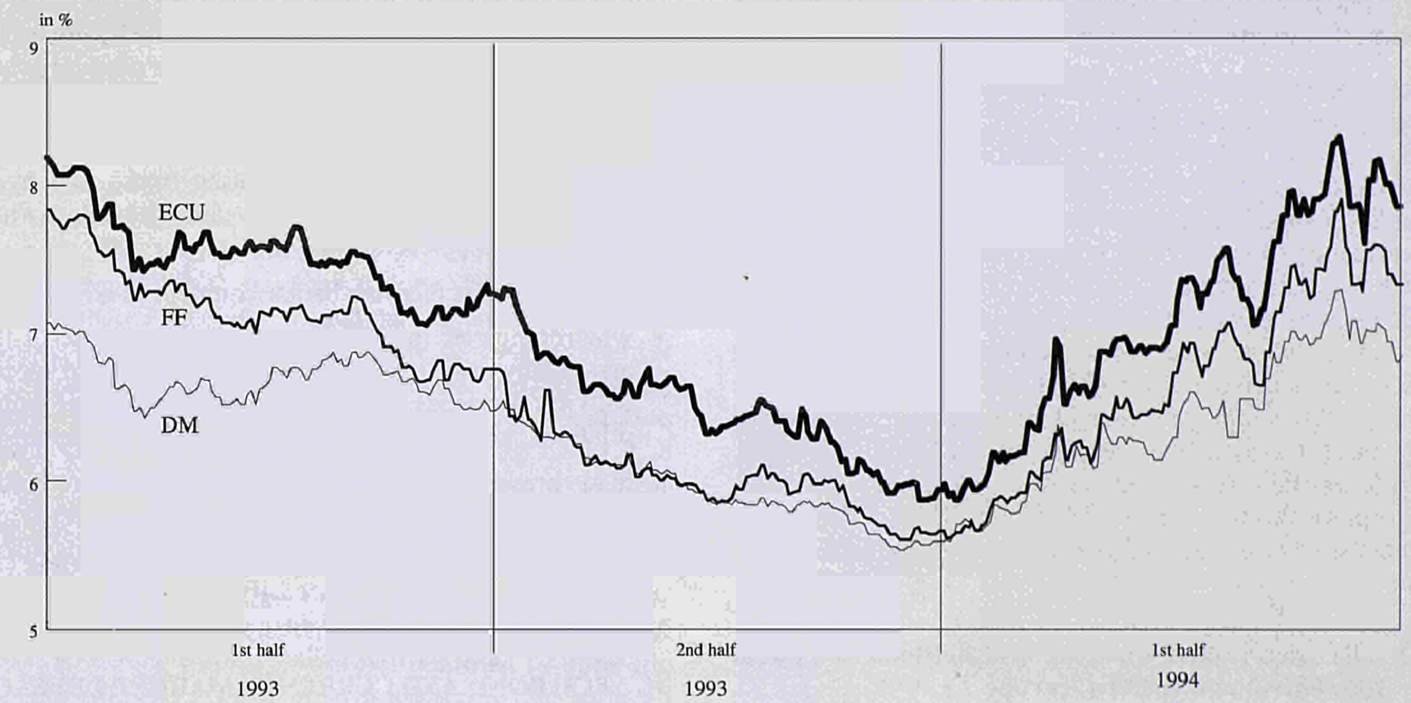


TABLE 1 : **Issuing activity during the second quarter of 1994**

Type	Cat. of Issuer	Date of Issue	Issuer	Nationality	Maturity	Amont (ecu mn)	Coupon	Lead Manager	Cover ratio
Dom.	Sov.	14.04.94	Italy (CTE)	IT	02.1999	1000.0	6.25%	Banca d'Italia	2.5
Euro	Sov.	13.04.94	Kingdom of Sweden	SE	05.1999	400.0	6.25%	Morg. Stanley, SBC	n/a
Dom.	Sov.	19.04.94	UK (T-note)	UK	05.1997	500.0	5.25%	Bank of England	3.75
Dom.	Sov.	11.05.94	France (BTAN)	FR	03.1999	434.0	5.00%	Trésor Français	3.6
Dom.	Sov.	16.05.94	Italy (CTE)	IT	02.1999	1000.0	6.25%	Banca d'Italia	n/a
			TOTAL SOVEREIGN			**3334.0**			
Glob.	Int.	12.04.94	EBRD		05.1999	500.0	6.00%	GSI & Paribas	n/a
Euro	Int.	14.04.94	Council of Europe		05. 2004	300.0	6.75%	Swiss Bank Corp.	n/a
			TOTAL INTERNATIONAL			**800.0**			
Euro	Private	27.04.94	Crédit Local de France	FR	12.199	100.0	5.25%	Société Générale	n/a
Euro	Private	17. 05.94	Gen Electric Capital Corp.	US	04.1999	100.0	6.08%	Crédit Commercial	n/a
Euro	Private	17.05.94	Crédit Local de France	FR	09.1998	65.0	6.00%	Swiss Bank Corp.	n/a
Euro	Private	28.06.94	SBC Finance Ltd	Cayman Is.	07.1998	150.0	7.25%	Swiss Bank Corp.	n/a
			TOTAL PRIVATE			**415.0**			
			1994 TOTAL (end June)			**12657.0**			

Source : European Commission (DGII)

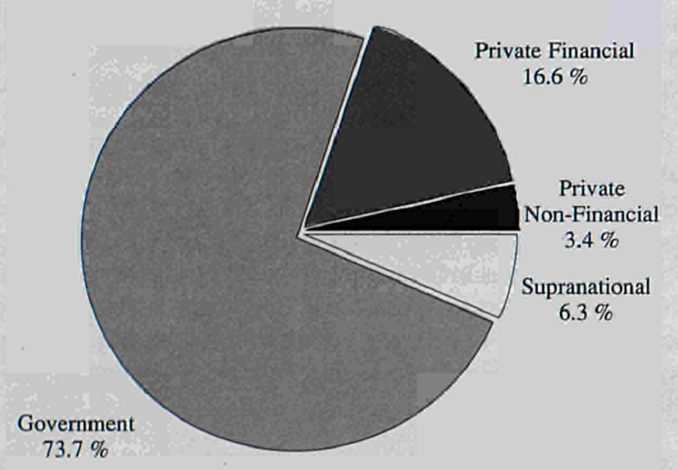
Issuing activity was low during the second quarter...

Thus, only ECU 4.6 bn of ecu bonds was issued during the second quarter, compared to ECU 8.1 bn during the first[1]. At the same time, compared to the first half of 1993, issuing activity so far during 1994 has increased from ECU 10.7 bn to Ecu 12.7 bn. Furthermore, it is also noteworthy that bid-to-cover ratios for Italian, UK and French sovereign ecu issues has been as strong during 1994 as ever, indicating that there is demand for new ecu bond issues.

In terms of secondary activity, although in value terms monthly average turnover in the ecu sector increased during the second quarter, to in excess of ECU 80 bn (equivalent to the 1992 average value, the highest for this market), in percentage terms the ecu's market share is little changed since the beginning of 1994, at marginally over 5% of total market turnover, and still appreciably lower than the high point achieved during 1992 (approximately 18%).

By way of counter-balance, however, activity in the EBA Ecu Clearing System, an approximate measure of total activity in ecu (including financial and commercial usage), has continued to increase during 1994, in terms of daily average turnover, and is now at a new high for the system (approximately ECU 52 bn per day).

GRAPH 6 : **1994 issuing activity, by type of issuer**



Source : European Commission (DGII)

Most bond market activity during the second quarter, as with other currency sectors, concentrated on the futures market (allowing investors exposure to ecu without the degree of commitment required in the cash market). However, even on these markets turnover was much lower than in previous periods while the price of the MATIF contract was marked down significantly during the quarter, reflecting the negative sentiment on bond markets generally.

Low liquidity in the MATIF contract was also an important restraining factor on the ecu cash markets. The lack of liquidity in this contract was due in part to the change in underlying bonds. In addition, however, it appears also to be self-reinforcing, encouraging market participants to use alternative hedges instead.

GRAPH 7 : **Evolution of June 1994 MATIF Bond futures contract** (14.2.1994 – 13.6.1994)

Source : Bloomberg

Further improvement was made to the LIFFE contract during the quarter, with the listing of two additional trading months (there are now six in all), making this contract a more extensive hedge against short term ecu exposure. However, given the relatively low turnover in this contract as a whole, compared to other LIFFE-traded futures contracts, these new months will, in particular, require the support of the ongoing market-maker scheme.

Market rallies were not sustained...

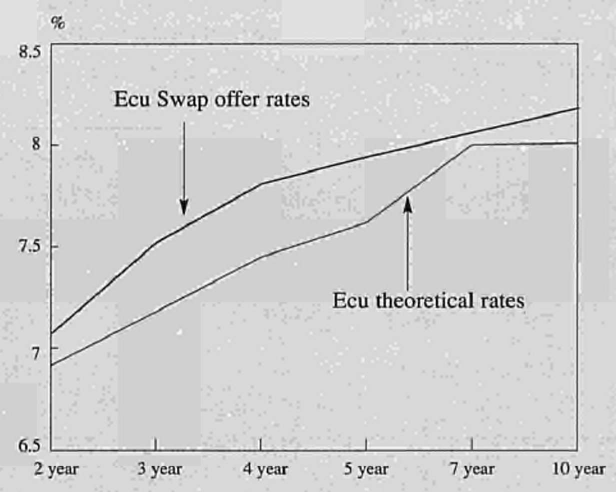
All market rallies during the second quarter were short–lived, as investors used opportunities to reduce exposure further or to move shorter along the curve, for short-covering and for bargain-hunting.

There were tentative signs at the very end of June that investors (primarily retail, although some institutional interest also, particularly American and Japanese funds) were looking afresh at ecu bonds, as well as (for those already with exposure to ecu) seeking to extend maturities. Short (particularly in the four to seven year range of the curve) and very long maturities attracted most interest from buyers. Furthermore, swap opportunities, scarce during much of the second quarter, became (and remain) a little more encouraging to potential issuers towards the end of the quarter.

As before, however, this recovery was quickly terminated by further nervousness in the markets, again driven by the expectation that the US authorities will be obliged to tighten policy again soon in order to cap domestic inflation

1 These figures do not include Greek government ecu-linked bonds. For a description of this programme, see section III of this report.

GRAPH 8 : **Ecu swap and theoretical yields** (as at 1.7.1994)



Source : UBS

pressures and to lend support to the US dollar. Dollar weakness itself contributed directly to market uncertainty, too, affecting ecu markets more than core components. As a result, the ecu yield curve steepened once more, with the 10/3 year yield spread widening above 100 basis points, compared to 80 basis points at the beginning of 1994.

Volatility could continue into the third quarter...

Although ecu fundamentals are now clearly positive (see discussion below) volatility could continue into the third quarter, too, possibly leading to some further, short term, steepening of the yield curve before any well-founded recovery gets underway[1]. In addition, it implies that ecu bond markets will continue to track major components for the time being, rather than establish a distinct path of their own (for much of the second quarter, the ecu markets tracked French franc developments, for instance).

Volatility could persist in the near term for a number of reasons. Firstly, despite the extent of the market correction during this year investors appear on balance to be still long ecu, by perhaps as much as ECU 4bn. This situation has arisen because many were unwilling to reduce their exposure to the ecu when yields first began to rise, since to do so would have incurred immediate losses. Given the extent of the subsequent market correction, however, these investors have to some degree been locked in to the ecu market. To the extent that they are forced to close these positions at a loss at the end of reporting periods, so this will tend to push the market lower, or at least constrain any signs of market recovery. The negative influence of this factor will be reduced in so much as some of these investors buy additional ecu paper at the bottom of the market, in an effort to reduce total losses. However, this strategy requires that investors be confident in their ability to read market trends.

Secondly, since a large number of investors did either leave the ecu sector or moved into more liquid issues (primarily benchmarks), market-makers in ecu were obliged to buy in large amounts of less liquid ecu paper (some switching took place at the end of the second quarter from French 10-year OAT ecu paper into more liquid 5-year BTAN's, for instance), which they will seek to off-load when market conditions allow.

Thirdly, and despite expectations to the contrary at the beginning of the year, it appears that while retail demand held up reasonably well during the quarter (and has been notably strong in Germany recently, for instance) a significant proportion of funds released during the first half of 1994 from maturing ecu bonds has neither been reinvested in this currency sector nor fully replaced by new capital.

An absence of positive "ecu news" does not help market activity..

In addition to these three factors, which will act to sustain the current period of volatility, the lack of a revival to date in the demand for ecu instruments, in terms of (institutional) investors committed long term to the ecu sector, can be explained by two other missing ingredients.

Firstly, the ecu markets are unlikely to show signs of sustained recovery until core European markets also rally. Until this time, and despite positive ecu fundamentals, ecu bonds will continue to under-perform component currency markets.

This type of contradiction is not a new phenomenon for the ecu markets, in the sense of reflecting the existence of structural difficulties. Rather, it is traditionally the case that, in a rising market, the ecu generally outperforms component sectors, as investors increase its weight within portfolios in an effort to spread risk. This causes ecu paper to become slightly expensive, relative to its theoretical (that is, market ecu yields trade at a modest discount to their theoretical equivalent).

Conversely, in a weak market, as has been predominant during much of 1994, investors look to sell off ecu in greater volume than other currency bonds, preferring to return to core markets, and in particular Deutschemark and US dollar (of course, the investor base in ecu is totally foreign). As a result, ecu yields tend to rise above their theoretical, while the spread to comparable Deutschemark instruments widens also. Consequently, the ecu market currently appears under–priced.

Secondly, a recovery in the ecu markets will be assisted by more positive "ecu news". The relative lack of such news during the second quarter of this year, allied to the difficult conditions in other European bond markets, was a significant factor driving the decline in primary issuing activity, compared to the first quarter, and the rather lacklustre performance in the secondary market.

While the referendum on membership of the European Union in Austria and the European parliamentary elections were certainly positive "ecu stories", they were not sufficiently important as to move the market significantly in a particular

1 During the second half of 1994 as a whole, however, there is reason to conclude that yields will decline, modestly, from current levels. See also the discussion below.

direction[1]. In addition, however, this lack of market direction can also be explained by an absence of clear political messages reaffirming the credibility of EMU.

Some recovery should be expected during the second half of 1994 as a whole...

However, as and when market volatility subsides, and fundamentals therefore reimpose themselves, the ecu markets can be expected to show tangible signs of recovery, although there is no expectation that market conditions during the second half of this year will come even close to those observed during 1993.

In support of the notion that the markets will, on balance, recover during the second half of 1994, it is clear that there is real value in the ecu markets at the moment. For instance, as the following table highlights, total-return projections (assuming an unchanged yield curve) and spread analysis for UK and French ecu benchmark issues and one–year cash indicate that a significant increase in returns can be achieved by moving from cash into any of these benchmark issues.

One can also derive supporting evidence for the recovery hypothesis from analysis of market expectations of future short term interest rate trends.

The markets currently believe that ecu and Deutschemark three month interest rates have already bottomed out, and will rise to 6.9% and 5.7%, respectively, during the period to June 1995[2]. This compares with end-June 1994 market rates of 5.87% for the ecu and 5.0% for the Deutschemark. Any such rise in interest rates over the coming year will only influence bond market activity to the extent that trend developments diverge significantly from expected paths, as the markets will have already fully discounted current expectations on short term interest rates into portfolio allocation strategy.

An element of the expected increase in the ecu short interest rate reflects a lack of credibility on the part of some constituent policy-makers concerning their ability to deliver stable prices over the medium term. However, market expectations of future interest rates are traditionally excessively pessimistic, compared to outturn, in a bear market. Consequently, and taking a lead from Germany, there is still reason on the basis of market fundamentals to consider that further, modest reductions in short term interest rates in a number of EU Member States remain probable. Timing of discount rate reductions in Germany will be linked to further progress on inflation and M3 growth. As a result, market expectations are likely to be revised downwards during the second half of this year.

The ecu three month interest rate contract is also being driven by the extent of the expected rise in the short sterling rate over the coming year, to 7.56% from 5.13% at the end of June 1994. Although arguments concerning excessive market pessimism appear to apply in the UK, too, it is generally agreed that the scope for any further reductions in sterling short interest rates is very limited, reflecting the extent to which the UK economy is in advance of other EU Member States in the business cycle. Consequently, while further reductions in short rates in other Member States will, by themselves, push the ecu rate lower, its trend direction during the remainder of 1994 is somewhat difficult to gauge at present. However, it is unlikely to match fully current market expectations. This appears to be borne out by the recent evolution of ecu swap rates, which have generally suggested that ecu interest rates can be expected to rise rather more modestly than the market currently expects.

1 This will be the case also with the referenda in the three Scandinavian candidate countries during the second half of 1994. Indeed, rather than affecting the performance of ecu markets, their outcome will be more relevant for the domestic markets of these countries. The Austrian schilling market was boosted temporarily by the positive referendum result in that country.

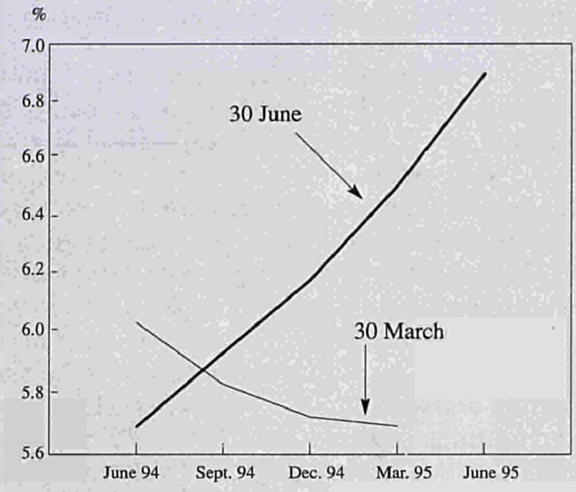
2 June 1995 forward interest rates quoted are the settlement prices reported by LIFFE on June 30.

TABLE 2 : **Relative Value in the Ecu Market: BTAN/OAT and UK**[1]

ECU	Coupon	Maturity	Settlement Yield	Yield in One Year	Total One Year Return	Current Spread to Cash, bp	Spread to Cash in One Year, bp
Cash	–	06–30–95	6.30%	6.30%	6.30%	–	–
UK	8.00	01–23–96	6.87%	6.37%	7.04%	57	7
UK	5.25	01–21–97	7.25%	6.85%	7.79%	95	55
OAT	8.50	05–12–97	7.31%	6.91%	7.95%	101	61
BTAN	7.25	03–16–98	7.39%	7.28%	7.61%	109	98
BTAN	5.00	03–16–99	7.49%	7.39%	7.78%	119	109
OAT	9.50	04–25–00	7.79%	7.53%	8.73%	149	123
UK	9.13	02–21–01	7.93%	7.79%	8.45%	163	149
OAT	10.00	02–26–01	7.93%	7.79%	8.44%	163	149
OAT	8.50	03–15–02	7.98%	7.92%	8.21%	168	162
OAT	6.75	04–25–02	7.97%	7.97%	7.94%	167	167
OAT	8.00	04–25–03	7.98%	7.98%	7.94%	168	168
OAT	6.00	04–25–04	7.98%	7.98%	7.95%	168	168
OAT	8.25	04–25–22	8.45%	8.43%	8.61%	215	213
Total Market			**7.71%**	**7.53%**	**8.07%**		

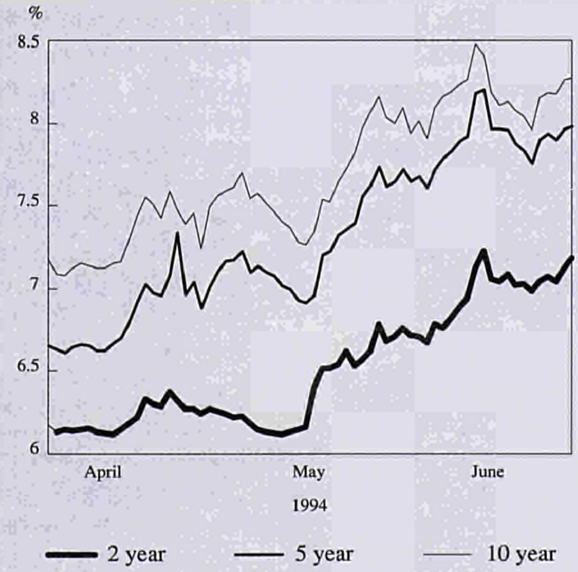
1 As at July 1 1994. This table, as well as all other information in this report, is intended solely for informational purposes and should not be interpreted as a solitication to buy or sell any security or investment or to participate in any particular trading strategy.
Source : Morgan Stanley.

GRAPH 9 : **Implied future Ecu 3 month interest rate**



Source : LIFFE.

GRAPH 10 : **Ecu swap curves**

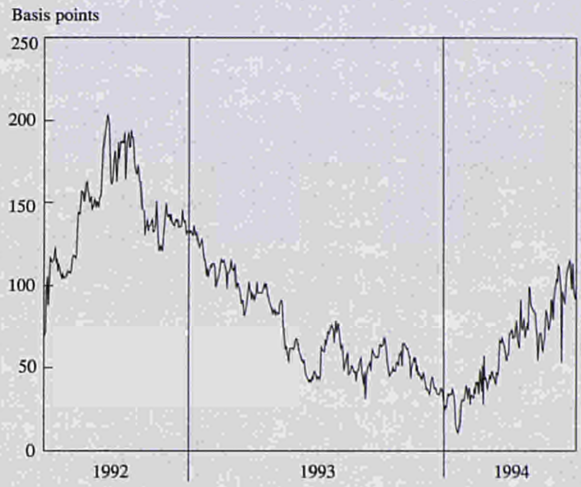


Source : Eurobrokers Capital Markets.

A lower ecu short interest rate during the remainder of this year than the market at present expects would lead, other things being equal, to further steepening in the yield curve (in addition to any steepening in the short term due to continued volatility in the markets, as discussed above), encouraging some subsequent recovery in the ecu bond market, with a concurrent decline in longer yields.

Current ecu yield spreads, to the theoretical and to comparable Deutschemark paper also argue that market ecu yields should, on balance, post declines during the second half of this year. This appears to be the case even allowing for an increase in risk premia attached to ecu instruments, relative to Deutschemark bonds, since the beginning of 1994 due to higher market volatility.

GRAPH 11 : **Ecu/DM long term interest rate historical spread** (1.6.1992 – 15.7.1994)



Source : European Commission (DGII).

Thus, at the end of the second quarter market yields were trading at 14 basis points over the theoretical yield at 10 years and 13 over at 5 years. In addition, the spread between ecu and Deutschemark paper at 10 years increased to 98 basis points at the end of June, from 37 basis points at the beginning of 1994, and even widened to 111 basis points mid-June.

Finally, supporting evidence for lower ecu yields in the second half of 1994 can be derived from the yield on the 10-year US Treasury bond. At the end of June, this yield was approximately in line with the comparable Bund yield although the US economy is much further into the business cycle than Germany and other core EU Member States. Consequently, one can expect that long component currency bond yields are likely to decline somewhat from present levels[1]. Declines in component currency bond yields, of course, feed directly into theoretical ecu yields.

Once a sustained recovery in European bond markets is in place, the ecu can be expected to outperform its component currency sectors. This is due both to the degree to which the ecu is currently under-priced against these other markets and that the scope for declines in core component yields is in any case generally more limited, for instance due to the expected volume of domestic currency issues during the remainder of this year, relative to issues in ecu, in particular to fund public borrowing requirements. Nonetheless, it is again worth emphasizing that, although fundamentals argue that the ecu bond market should recover during the second half of 1994 from its present position, this recovery will at best be modest.

The ecu was largely stable on the currency markets...

From an ecu perspective, and in stark contrast to the bond market, the foreign currency markets were generally stable during the second quarter, particularly in terms of key crosses.

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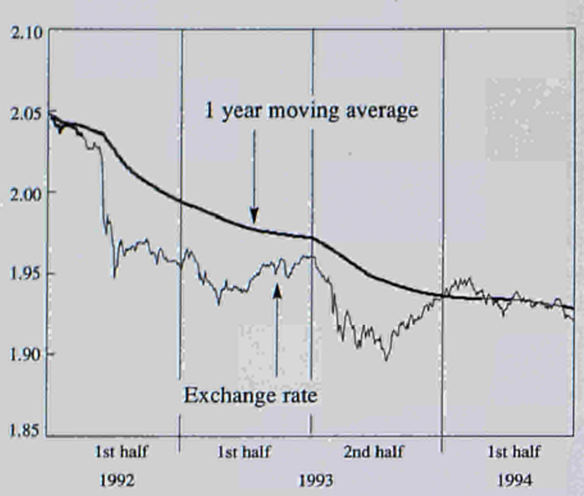
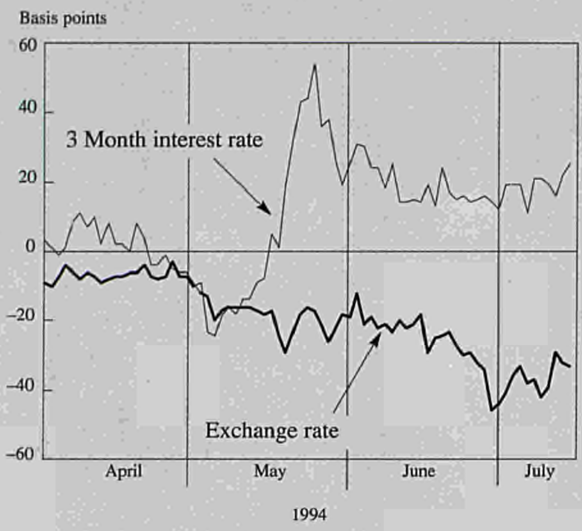
1 Depending upon views as to the relative course of US real interest rates during the remainder of 1994,, one could of course argue the opposite here, that is that US nominal bond yields should rise further during the second half of 1994.

GRAPH 12 : **DM/Ecu exchange rate**



Source : European Commission (DGII).

GRAPH 13 : **Exchange and interest rate spreads**[1]



1 Spreads are defined as the respective ecu market minus theoretical rate.
Source : European Commission (DGII).

However, mid-period the spread between ecu market and theoretical exchange rates widened to, and then remained at, approximately minus 25 basis points. This compares to a normal trading range of about ±10 basis points. This widening in the spread was the result of a number of factors.

Of most importance, however, was renewed uncertainty concerning the composition of the ecu basket. This is a problem which periodically affects the ecu markets, despite numerous legislative measures — including the Treaty on European Union, the Treaty of adhesion of the new Member States and the recent European Commission Ecu Package — which clearly state that the monetary amounts of component currencies, as well as the number of component currencies, within the ecu basket is frozen until the beginning of Stage III of EMU, at which time the ecu will become a currency in its own right. Nonetheless, unfounded rumours to the contrary, related to the Austrian schilling and the currencies of the three Scandinavian countries seeking to join the European Union at the beginning of 1995, circulated for a time during the second quarter. Although completely misplaced, they caused the market ecu exchange rate to trade at a significant discount to its theoretical.

Concurrent with developments in the ecu exchange rate spread, the three month ecu market interest rate moved to a significantly positive premium on its theoretical, reaching a peak of +54 basis points at the end of May, before falling back somewhat subsequently. Both spreads remained outside of normal ranges for the remainder of the quarter, sustained also by the sharp increases in drachma and escudo interest rates during May, in support of domestic currencies[1], and the redemption of a large number of ecu bonds during June, which led to an increase in the supply of ecu in the market, since these funds appear for the most part not to have been reinvested in ecu paper.

1 In fact, the market ecu interest rate clearly over-reacted to these events, and any associated difficulties in constructing basket ecus.

Most activity as there was in the currency market focused upon a shift from ecu cash into, principally, the Deutschemark. In turn, this reallocation reflected the desire of investors, as discussed above, to move out of ecu bonds and into core markets. Consequently, and despite some market concerns over the direction of German monetary policy during this year, the Deutschemark appears to have reaffirmed its role as a principal international "safe-haven" currency.

Low demand for ecu in the currency market during the second quarter can also be explained by the fact that the advantages associated with using the ecu, in terms of minimizing and sharing exchange risk, for instance, are less important during periods of relative currency stability than during more volatile periods.

III. ECU STATISTICS – SECOND QUARTER 1994

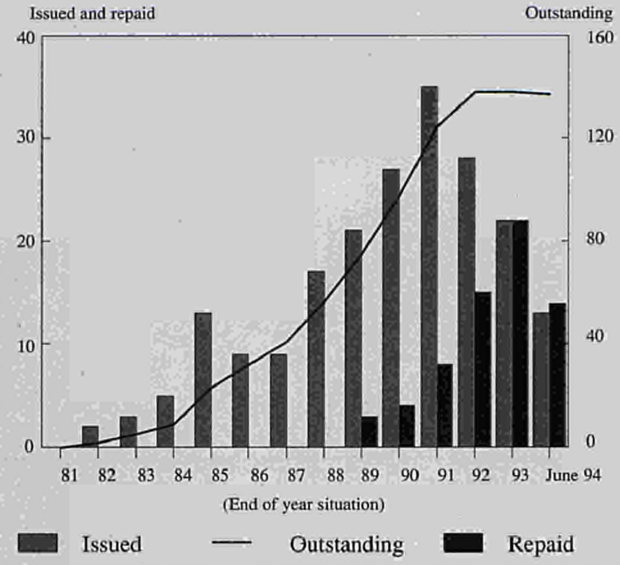
(A) Financial Markets

(i) Primary Bond Market

Historical Evolution

Since mid-1992, and in the wake of the most active in the market's history (the previous three years), the primary market has been subject to intermittent periods of difficulty; in particular during September 1992 and July/August 1993, and related to problems within the Exchange Rate Mechanism (ERM). These periods had the effect of significantly slowing issuing activity in ecu. At the same time, however, the primary ecu market was rather less affected by the second ERM crisis than the first, due to the continuation of European Commission and sovereign borrowing programmes (the United Kingdom, France, Italy and Greece) and the persistence of private and institutional issuers at this time, all of which guaranteed liquidity to the market.

GRAPH 14 : **Ecu primary bond market — Historical evolution** (Ecu Billions)



Source : Eurostat, Cedel, IFR, European Commission (DG II).

Recent Evolution

During the second quarter of 1994, the upwards trend in ecu issuing activity, observed since the ratification of the Maastricht Treaty, was halted by adverse bond market conditions, as discussed in part II of this report. New issues during the second quarter amounted to ECU 5.9 bn (compared to ECU 3.4 bn issued during the same period of 1993 and more than ECU 7.4 bn issued during the first quarter of 1994)[1]. Furthermore, issuing activity was concentrated in the first half of the quarter. Total debt outstanding has decreased during 1994 since not all funds redeemed by maturing paper have been reinvested in ecu.

Fifteen new issues were brought to the market during the second quarter: nine by sovereign borrowers (the United Kingdom, France, Italy, Sweden and Greece), two by supranational (EBRD and Council of Europe) and four by private issuers. Issues were in the main met by good demand, despite the difficult conditions on bond markets during this period.

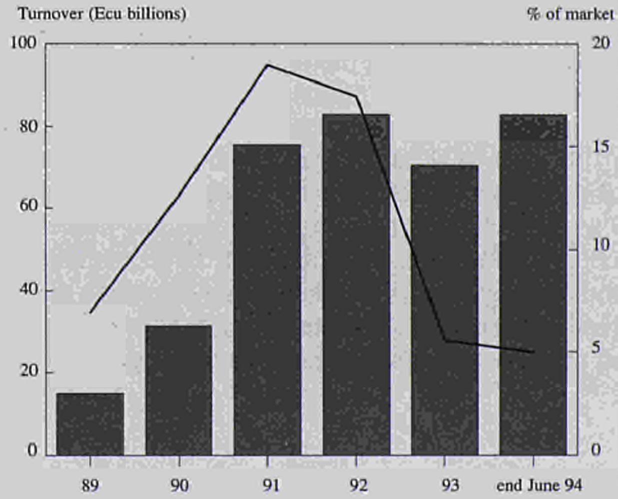
Issuing activity by type of issuer

- The Council of Europe, with an issue of ECU 300 mn, was the only **Community institution** to utilise the ecu primary market during the second quarter of 1994. This represented 5% of total issuing activity during this period, compared to 24% for Community Institutions during the fourth quarter of 1993. Community institutions did not issue in ecu during the first quarter of 1994.
- **Member States** accounted for approximately 66% of new issues during the second quarter of 1994, compared to 75% during the first quarter.
- The **UK** continued its regular 3-year ecu **Treasury Note borrowing programme** with a tender of ECU 500 mn. The issue was well received despite difficult market conditions and had a bid-to-cover-ratio of 3.8 (compared to approximately 3.0 for the previous auction, of ECU 1.0 bn).
- In accordance with its new ecu borrowing arrangements (issues every two months, with a minimum value of ECU 100 mn), the **French Treasury** issued in May ECU 434 mn of 5-year domestic ecu bonds (BTANs). The demand for the issue was again strong (the bid-to-cover-ratio was 3.6).
- At the end of the second quarter, the stock of **Italian** CTEs outstanding was unchanged at ECU 2.75 bn, as the Italian Treasury simply rolled over maturing CTEs during the period.
- During the second quarter, **Greece** issued ECU 261 mn of ecu-linked bonds (ELBs). This amount was higher than the first quarter (ECU 191 mn), but lower that the second quarter of 1993 (ECU 422 mn).
- The **Kingdom of Sweden** was the only non–Community country to utilise the ecu markets during the second quarter, with an issue of ECU 400 mn.
- **Private issue** activity slowed significantly during the second quarter, with only four new issues, to a total value of ECU 415 mn. Consequently, the private sector represented only 8% of total issuing activity during this period, down from 25% in the previous quarter.

(ii) Secondary Bond Market

The pick-up in secondary market activity, in value terms, observed during the fourth quarter of 1993 continued during the first half of 1994. Indeed, during the second quarter, monthly turnover average increased by about 7% compared to the first quarter average (up ECU 6 bn to ECU 85 bn). However, the ecu's share of total market turnover has continued to decline, to approximately 5 %, from a peak of about 18 % in 1992.

GRAPH 15 : **Ecu secondary bond market — Historical evolution** (Monthly average turnover per year)



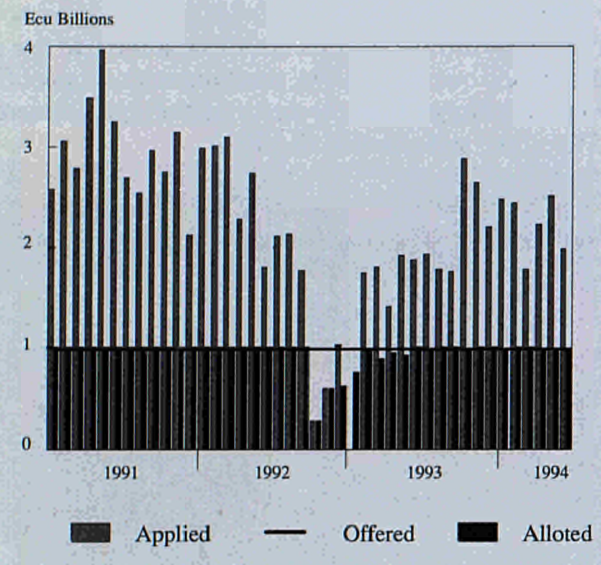
Source : Cedel, Euroclear, European Commission (DG II).

1 Including Greek Ecu-linked issues.

(iii) Treasury Bills and Euro–Notes (Short Term Issues)

The **United Kingdom** continued to pursue its monthly **ecu Treasury bill borrowing programme**. Under this programme ECU 1 bn is issued each month (ECU 200 mn with a maturity of one month, ECU 500 mn at six months, and ECU 300 mn at one year). Debt outstanding is approximately ECU 3.5 bn. Primary demand for UK ecu Treasury bill remains strong, despite recent reductions in yields at each maturity.

GRAPH 16 : **UK Treasury bills**



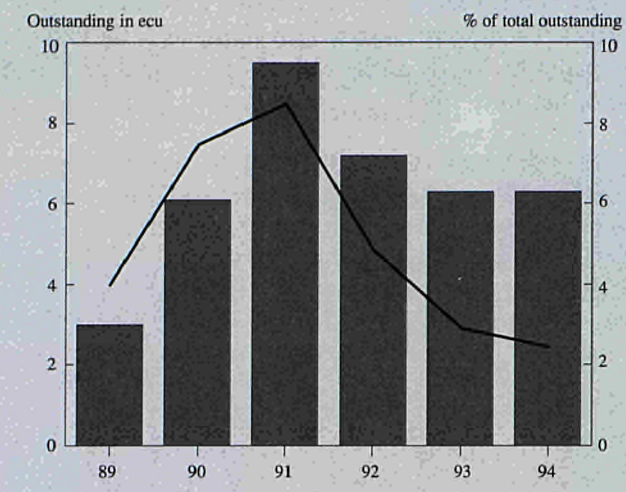
Source : Bank of England.

Consistent with the announcement by the **Italian Treasury** at the end of 1993 that efforts will henceforth be concentrated on CTE issues, with the stock of BTEs simply being rolled over, there were no new BTE issues during the first half of 1994.

At the end of the first quarter of 1994, the total amount of outstanding Euro-notes denominated in ecu was little changed compared to 1993 (slightly in excess of ECU 6 bn), while the total outstanding in other major currencies continued to increase. Consequently, the share of the ecu in this market decreased to less than 2.5% at the end of the first quarter of 1994, from 5% in 1992.

On a disaggregated basis, while short maturity ecu paper has continued to decline, driving the decline in the overall stock outstanding, medium term paper outstanding has actually increased since the beginning of 1992, from ECU 2.9 bn to ECU 3.6 bn at the end of the first quarter of 1994, an increase of 24%.

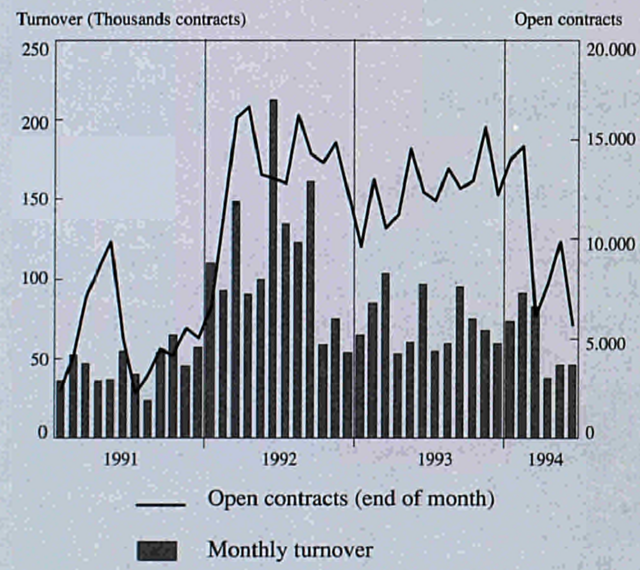
GRAPH 17 : **EURO notes – Commercial paper and medium term notes outstanding** (Ecu Billions)



Source : B.I.S.

(iv) Derivatives Markets

GRAPH 18 : **MATIF future contracts**

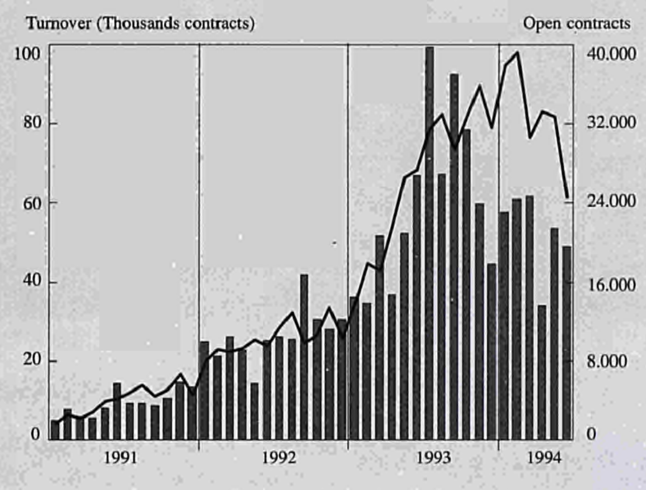


Source : MATIF.

Concurrent to the decrease in ecu primary market activity, turnover in the MATIF long bond futures contract decreased during the second quarter of 1994, compared to the first quarter. Turnover fell to a monthly average level of approximately 43,100 contracts (50% lower than during the first quarter of 1994, and 38% lower than during the comparable period 1993). There were 5,736 open contracts at the end of June compared to 6,142 at the end of March, and 12,367 at the end of June 1993.

Turnover in the LIFFE short term interest rate futures contract decreased during the second quarter of 1994, compared to the first, too. However, taking the period January–June 1994 as a whole, LIFFE traded volumes increased by 14 % year on year. Monthly turnover was 45,400 contracts during the second quarter of 1994, compared to 60,000 during the first quarter of this year, and 51,300 during the comparable period of 1993. There were 24,638 open contracts at the end of June compared to 30,703 at the end of March, and 27,370 at the end of the June 1993.

GRAPH 19 : **LIFFE future contracts**



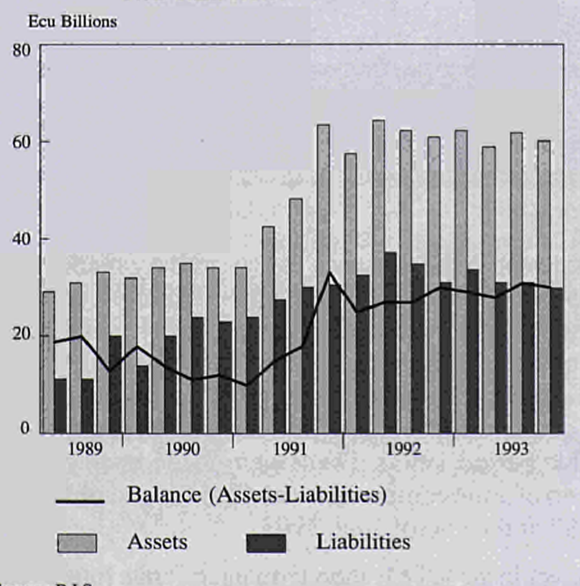
Source : LIFFE.

(B) Banking Sector

(i) Assets and Liabilities

Since mid-1992, the net position of the banking sector vis–à–vis all sectors has remained in the region of zero, having been a modest net liability position during the first half of 1992.

GRAPH 20 : **Banking market – Assests and liabilities — Non-bank sector**



Source : B.I.S.

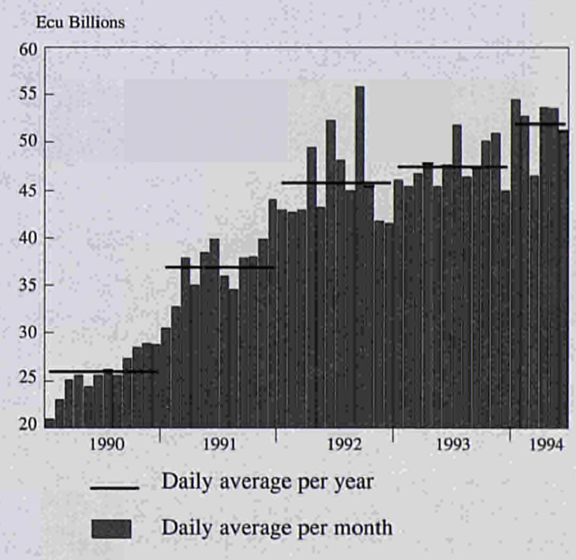
This decline reflected primarily a decrease in ecu reserves held by national authorities, leading to a decline in total ecu liabilities of the banking sector. At end-1993, total ecu assets of the banking sector were ECU 195 bn, down from ECU 199 bn at the end of the third quarter 1993. Total ecu liabilities also declined during this period, from ECU 196 bn at the end of the third quarter 1993 to ECU 190 bn at end-1993.

Declines observed in ecu assets and liabilities of the banking sector vis-à-vis the non–banks during the fourth quarter of 1993 were both relatively small and of similar magnitude (ecu assets down ECU 1.7 bn, to ECU 60 bn, compared to the third quarter of 1993; ecu liabilities down ECU 1.2 bn, to ECU 30 bn, over the same period). Consequently, the structural imbalance (a net asset position for the banking sector) against the non-banks was little changed, at 50% of total assets.

(ii) Ecu Clearing System

Daily average turnover in this system continued to rise during the second quarter of 1994, reaching a new high of ECU 52.9 bn, 3% higher than the first quarter, and an increase of 13% on the same period of 1993.

GRAPH 21 : **Ecu Clearing through S.W.I.F.T. — Average daily turnover per month**



Source : Ecu Banking Association.

(C) Exchange Rates

The reduction in volatility within the ERM, observed following the decision of 2 August to widen temporarily the fluctuation bands of member currencies around their central parities from ±2.25% to ±15%, persisted during the second quarter of 1994. Indeed, for currencies within the hard core of the EMS, other than the Irish punt, exchange rate movements during the second quarter were less than 2.25%.

Consequently, the ecu was generally stable during this period vis-à-vis component currencies, as it has been since the third quarter of 1993.

Outside of the hard core of the EMS, sterling, the lira, escudo, drachma and peseta continued to depreciate against the ecu, although the rate of depreciation of sterling slowed; it fluctuated in a range of 0.5%.

(D) Interest Rates

(i) Short-Term Interest Rate Differential Against Ecu[1]

Except for short term interest rates in Portugal, which rose quite sharply (to reach a differential to the three month ecu interest rate at the end of June of 617 basis points, from 375 basis points at the beginning of the second quarter), short term rates of component currencies were generally stable against the ecu during the second quarter.

(ii) Long-Term Interest Rate Differential Against Ecu[2]

While the premium on the ecu long term interest rate to German, Belgian and Dutch rates widened during the second quarter, by approximately 40 basis points, sterling and lira long rate premia vis-à-vis the ecu increased slightly, too.

The increase during this period in the escudo long term rate, compared to the ecu rate, is particularly noteworthy (it ended the quarter up 123 basis points, to reach a premium to the ecu rate of 383 basis points, compared to 305 basis points at the beginning of 1993).

[1] This analysis excludes Greece.

[2] This analysis excludes Greece.

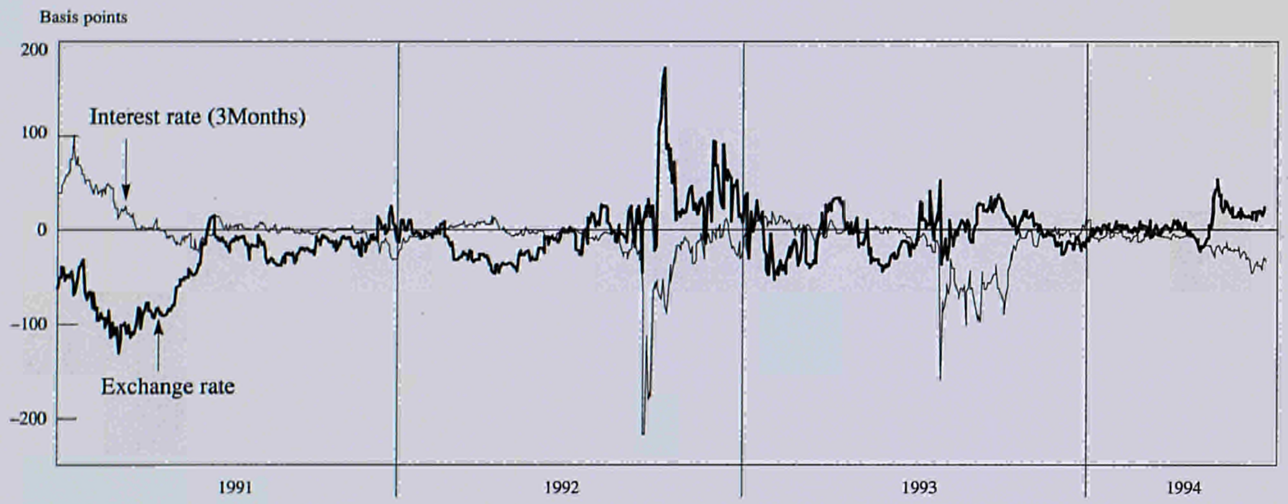
(E) Ecu Exchange and Interest Rate Spreads

During much of the second quarter spreads between ecu theoretical and market exchange and interest rates moved outside of their normal range (±10 basis points).

At the beginning of May, the exchange–rate spread left its normal range, started widening and ended the quarter at –46 basis points, down –39 basis points compared with the end of the first quarter. This behaviour resulted, as discussed in part II, from unfounded rumours concerning the definition of the ecu and also from an increased supply of ecu in the market.

The interest spread also increased mid–May, jumping within two weeks from –18 to + 54 basis points. This jump was primarily due to a tightening in Greek and Portuguese monetary policy, triggered by speculative pressure against the drachma and escudo. Thereafter, this spread tightened and ended the quarter at +15 basis points.

GRAPH 22 : **Theoretical versus market interest and exchange rates spreads**



Source : Reuters, Kredietbank, European Commission (DG II).

Principal economic policy measures — May 1994

Community (EUR–12)

25.5. European Commission approves its recommendation for the Broad Guidelines of the Economic Policies of the Member States and of the Community.

Belgium (B)

4.5. The central bank reduces its central rate by 0.10 of a percentage point to 5.50% and cuts the rate on advances within the ceiling from 7.10% to 7.00%.

10.5. The central bank lowers its official rates in three stages (on 10, 16 and 19 May). It cuts its central rate by 0.15 of a percentage point to 5.25% and the discount rate by 0.25 of a percentage point to 4.50%. It also reduces its rate on advances in excess of the ceiling from 10% to 9% and the rate on advances within the ceiling from 7% to 6.75%.

Denmark (DK)

13.5. The Nationalbank lowers its discount rate by 0.25 of a percentage point to 5% and the certificate of deposit rate by 0.1 of a percentage point to 5.70%.

20.5. The Nationalbank cuts its certificate of deposit rate by 0.1 of a percentage point to 5.60%.

Germany (D)

11.5. The Bundesbank lowers its discount and Lombard rates by 50 basis points each, to 4.5% and 6% respectively .

Greece (GR)

16.5. Greece removes all restrictions on short-term capital movements, ahead of the 1 July target, following two days of speculative attacks on the drachma starting on 11 May. The Bank of Greece raises all its key interest rates.

20.5. Following renewed pressure on the drachma, the Bank of Greece spends USD 400 million of official reserves and raises key interest rates further. In the month as a whole, it uses around 15% of the country's official reserves to support the drachma.

31.5. The government raises interest rates on 3-month and 6-month Treasury bills by 950 and 150 basis points, to 25.50% and 19% respectively.

Spain (E)

12.5. Two out of three laws on labour market reform are approved by Parliament.

13.5. The Bank of Spain cuts its intervention rate by 25 basis points to 7.5%.

19.5. The Parliament approves the law on the autonomy of the Bank of Spain: total independence in the conduct of monetary policy but exchange-rate policy is kept under government control.

France (F)

11.5. The Banque de France cuts its intervention rate from 5.6% to 5.5%.

19.5. The Banque de France cuts its intervention rate from 5.5% to 5.4% and its 5–10 day emergency funds rate from 6.7% to 6.4%.

Ireland (IRL)

None.

Italy (I)

12.5. The Bank of Italy announces that it is cutting the official discount rate from 7.5% to 7%. The fixed-term advance rate is cut by the same amount to 8%.

Luxembourg (L)

None.

Netherlands (NL)

12.5. The central bank cuts its central rate by 0.25 of a percentage point to 4.50% and its rate on special advances by 0.20 of a percentage point to 5.10%.

Portugal (P)

None.

United Kingdom (UK)

None.

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