

Confidential
(Translation)

MINUTES *
OF THE 231st MEETING OF THE COMMITTEE OF GOVERNORS
OF THE CENTRAL BANKS OF THE MEMBER STATES
OF THE EUROPEAN ECONOMIC COMMUNITY
HELD IN BASLE ON TUESDAY, 10th JANUARY 1989 AT 9.30 a.m.

Those present at the meeting were: the Governor of the Bank of Greece and Chairman of the Committee, Mr. Chalikias, accompanied by Mr. Papademos, Mr. Karamouzis and Mr. Brissimis; the Governor of the Banque Nationale de Belgique, Mr. Godeaux, accompanied by Mr. Rey and Mr. Michielsen; the Governor of Danmarks Nationalbank, Mr. Hoffmeyer, accompanied by Mr. Mikkelsen; the President of the Deutsche Bundesbank, Mr. Pöhl, accompanied by Mr. Gleske and Mr. Rieke; the Governor of the Banco de España, Mr. Rubio, accompanied by Mr. Linde and Mr. Durán; the Governor of the Banque de France, Mr. de Larosière, accompanied by Mr. Waitzenegger and Mr. Capanera; the Governor of the Central Bank of Ireland, Mr. Doyle, accompanied by Mr. O'Grady Walshe and Mr. Reynolds; the Governor of the Banca d'Italia, Mr. Ciampi, accompanied by Mr. Dini and Mr. Santini; the President of De Nederlandsche Bank, Mr. Duisenberg, accompanied by Mr. Szász and Mr. Boot; the Governor of the Banco de Portugal, Mr. Tavares Moreira, accompanied by Mr. Pêgo Marques and Mr. Amorim; the Governor of the Bank of England, Mr. Leigh-Pemberton, accompanied by Mr. Loehnis and Mr. Price; the President of the Commission of the European Communities, Mr. Delors, accompanied by Mr. Costa, Mr. Mingasson and Mr. Dixon; the Director General of the Luxembourg Monetary Institute, Mr. Jaans; the Secretary of the Monetary Committee, Mr. Kees. Also present at the meeting was Mr. Dalgaard, Chairman of the Group of Experts. The Secretary General of the Committee, Mr. Morelli, his Deputy, Mr. Bascoul, Mr. Scheller and Mr. Giles, and Mr. Bockelmann and Mr. Dagassan also attended.

* Final text, identical to the draft, approved at the meeting on 14th February 1989.

I. Approval of the minutes of the 230th meeting.

In view of the late distribution of the draft the Chairman proposed that approval of the minutes be held over until the next meeting in February. In the meanwhile the suggested amendments could be passed on to the Secretariat.

II. Monitoring of economic and monetary developments and policies in the EEC based on:

- Preparation by the "Dalgaard Group" and discussion by the Committee of Alternates;
- Statistical charts and tables.

A. Statement by Mr. Dalgaard

The most notable development on the exchange markets since the December meeting had been the renewed firmness of the dollar following its decline in October and November. The dollar's appreciation had been particularly marked in early January; on 9th January it had shown a rise of 5% over the end of November, to a level about the same as that observed during most of 1987 but lower than that of summer 1988. Continuing growth in the United States and consequent expectations of further increases in US interest rates appeared to be the main reasons for the dollar's recovery. The US authorities seemed fairly content with their currency's present level, although the strong appreciation in early January had prompted the Fed to undertake some intervention. Within the EEC, the Deutsche Bundesbank was not very pleased with this development; it believed that, with a widening German current-account surplus, the depreciation of the Deutsche Mark was the contrary of an appropriate adjustment, and it had responded by selling over \$2.5 billion since the beginning of December. The greater part of these sales did not represent traditional intervention but a more discreet rechanneling of dollar receipts. The increase in German interest rates had also been a response to the development of the Deutsche Mark.

The other EEC central banks seemed more concerned about the dollar's fluctuation than about its present level. The sharp appreciation on 9th January had, however, led to substantial concerted intervention in dollars.

The future performance of the US currency remained very difficult to predict; it would depend to a large extent on the rate of growth, interest rates and the trade balance in the United States and on the new Administration's economic policy, particularly on the fiscal front. If US growth was sustained

interest rates could rise further, pushing up rates in Europe as well; if growth slowed US interest rates could fall and this could lead to a weakening of the dollar.

The yen had attracted much less attention on the exchange markets recently; it had moved less than the Deutsche Mark vis-à-vis the dollar and was now close to its end-1987 level. It had, however, appreciated by some 10% vis-à-vis the Deutsche Mark in 1988 and in early January stood at a record level against that currency.

The situation within the EMS had been generally calm; two years after the last realignment there seemed to be less expectation of a parity adjustment today than for a long time. The main event in December had been the increase in German interest rates and its repercussions on other currencies. As could be seen from the graphs drawn up by the Secretariat, short-term DM interest rates had risen by about 1/2 percentage point and long-term rates a little less. The direct effect had been to reduce the interest rate differential in favour of other EEC currencies; a number of these had come under pressure, some intervention had been necessary and their exchange rates had weakened slightly. The French franc, the Belgian franc and the Dutch guilder had been particularly affected and the response in the three countries concerned had been the same: seeing, after one, two or three days, that the intervention alone was not able to remedy the problem, they had raised interest rates in order to restore differentials vis-à-vis the Deutsche Mark, and this had sufficed to relieve the tensions. Ultimately, the increase in German interest rates had been transmitted in full to interest rates in the countries in question. However, the main impact had been on short-term rates, and long-term rates had, for example, continued to decline in France.

In the other countries participating in the exchange rate mechanism the repercussions of the German measures had been less marked. In Denmark the krone had weakened slightly but interest rates had remained unchanged and no intervention had been necessary. In Italy interest rates had not risen, so that the differential vis-à-vis the Deutsche Mark had narrowed. The lira had nonetheless firmed and moved back into the narrow band. This positive performance was due to the continuing high level of interest rates maintained for domestic reasons and to increased capital inflows as a result of the liberalisation measures taken in the autumn. The effect of these measures had been to raise confidence in the Italian economy and the central bank had been able to demonstrate to the market that a two-way risk attached to the lira.

Overall, there was at present great confidence in the stability of exchange rate relationships within the mechanism and interest rate movements therefore assumed great importance. The increase in DM interest rates had, for example, been enough to create problems for several currencies, though these problems had quickly been resolved with the restoration of interest rate differentials.

Outside the EMS exchange rate mechanism two currencies, sterling and the peseta, presented a number of similarities. In both of the countries concerned the economy was overheating, fiscal policy had not been able to calm economic conditions and a restrictive monetary policy was bearing the burden. Interest rates had therefore risen, attracting inflows of capital which pushed up the currency. The peseta had appreciated by 3 to 4% since the beginning of December and in 1988 as a whole the Deutsche Mark had depreciated in real terms by about 10% against the peseta and sterling.

Table 3 of the monthly series of "concertation" statistics showed the central banks' activity in the private ECU market. The growth in investment in private ECUs described in Report No. 64 had continued; in December 1988 alone the central banks' holdings of private ECUs had increased by some 2 billion; half of this amount had been accounted for by the Banca d'Italia, and the Bank of England had also added to its holdings with the sale of ECU Treasury bills. The central banks of Spain, Portugal and Norway had also purchased private ECUs against other currencies, probably in order to diversify their reserves. In 1988 as a whole the central banks' holdings of private ECUs had risen by 7 billion, from 4 to 11 billion.

B. Statement by Mr. Papademos

Following Mr. Dalgaard's summary of the discussion which took place earlier at the EEC Monitoring meeting, the Committee of Alternates focused their attention principally on three topics:

- the recovery of the US dollar and its implications for the adjustment process;
- recent developments within the EMS;
- the Spanish peseta and economic policies.

1. The US dollar

With regard to the recent strengthening of the US dollar, some Alternates stated that the value of the dollar was still at a reasonable

level, while others thought it was relatively high. It was not easy to assess whether the recent recovery was a temporary phenomenon or a precursor to a longer-term appreciation of the currency. US fundamentals have not changed and it was thought that much would depend on the policies to be pursued by the new American administration.

Scepticism was expressed, however, as to whether market participants had taken full cognizance of the long-term effects of the fundamental structural imbalances between the world's major trading nations. The situation could not be sustained indefinitely.

The view was expressed that the present dollar/DM rate would appear to be acceptable to the American authorities. A depreciation of the dollar below this rate would intensify inflationary pressures since productive capacity in the United States was almost fully utilised. On the other hand, an appreciation of the dollar above this rate would have adverse effects on the current account.

The appreciation of the dollar has not facilitated the bilateral adjustment process, which had now slowed down appreciably and was therefore cause for concern, especially for the German authorities.

It was also noted that the exchange rate was an appropriate instrument or adjustment only to the extent that imbalances were of a fundamental and not of a cyclical nature. Thus a devaluation would not help improve the balance of payments in the United States and the disequilibrium has to be corrected by measures of domestic policy.

2. The EMS

Increases in the short-term interest rates in the United States had led the German authorities to raise the Lombard rate by half of one percentage point. The rise in German interest rates had provoked what appeared to be a competitive upward trend in a number of European countries aiming at preserving interest rate differentials. The fact that some countries followed suit in order to stem the flight of short-term capital demonstrated the sensitivity of capital flows to changes in interest rate differentials.

The German Alternate pointed out that the Deutsche Mark had depreciated in 1988 by 4.5% in real terms on a trade-weighted basis. It had depreciated in the region of 10% against the pound sterling and the Spanish peseta. As a result, exports had risen faster than imports and the German authorities had to use interest rates as a means of preventing a further depreciation of the Deutsche Mark. He also stated that under present

conditions, the Bundesbank would not wish to see a further rise in rates. The return to a fixed rate tender, instead of the American auction system, had been used to provide the market with an unambiguous signal of its intentions. However, the possibility of an increase in the near future was not excluded, in particular if the Deutsche Mark continued to depreciate against the dollar.

According to some Alternates, the role of the exchange rate in the adjustment process has probably been over stated. Domestic demand in Europe had grown, but not necessarily at a uniform rate and it was noted that had the United Kingdom and Spain been members of the EMS, then their currencies would not have been allowed to appreciate to such an extent.

Furthermore, it was generally felt that there should be some kind of concerted action within Europe vis-à-vis the dollar and that such action might, as in the past, have a favourable impact on the markets which are at present unsure of the intentions of central banks.

3. The Spanish peseta and economic policies

The Spanish Alternate reviewed certain recent developments in the Spanish economy. The Spanish peseta strengthened markedly as a result of rising interest rates against a background of strong growth. The high growth rate in 1988 was accompanied by a building up of inflationary pressures. The appreciation of the peseta is seen as a powerful instrument to combat inflation, despite the negative effect on the increasing current account deficit. It remains debatable how long the present policy could be maintained, but it was considered sustainable for the forthcoming year. Fiscal policy has been contributing to the adjustment process, although perhaps not sufficiently. The recent relaxation of exchange controls was applauded by the Alternates, and it was mentioned that, owing to the high interest rates, it would probably stimulate capital inflows rather than induce capital outflows.

4. Interventions in EMS currencies

In addition, the German Alternate reminded his colleagues of the written agreement existing among the EEC central banks regarding intervention. It was pointed out that, prior to an intervention, the intervening central bank should first discuss the matter with the central bank whose currency is to be used in the transaction. Such conduct is essential to ensure that

the use of that currency in interventions will not jeopardise the cohesion of the EMS.

The Chairman thanked Mr. Dalgaard and Mr. Papademos for their statements and noted that the Governors had no comments.

III. Adoption of the Committee's report to the EEC Ministers of Finance on developments on the foreign exchange markets of the nineteen countries participating in the concertation procedure during December 1988 and the first few days of January 1989.

The Chairman noted that the Committee approved the "concertation report", which would be sent to the EEC Ministers of Finance in the usual way.

IV. Exchange of views on the Committee's work programme for 1989

The Chairman pointed out that an outline work programme for the Committee for 1989 (see annex) had been distributed at the same time as the draft agenda for the meeting. Before asking Mr. Papademos to report on the Alternates' discussion, he noted that the programme was based on decisions or commitments already undertaken by the Committee and also contained a number of items that were still open. It was not, of course, definitive, as it was impossible at this stage to predict all the questions which might arise and which the Chairman or the Governors would wish to examine or the subjects on which the Committee might be asked to give an opinion.

A. Statement by Mr. Papademos

The Alternates reviewed the Work Programme of the Committee for 1989. There was general agreement on the proposed outline.

The Alternates discussed certain procedural issues relating to the forthcoming re-examination of the ECU basket (items 3 and 8 of the outline). In this context, it may be useful to recall that the revision of the composition of the ECU should be determined by the Council by September, acting on a proposal from the Commission after consulting the Board of Governors of the EMCF and the Monetary Committee. However, it is not yet clear when the Board of Governors will have to submit its opinion on this

matter. Indeed, the date will depend on the calendar for the review of the composition of the ECU basket. As already pointed out in Report No. 64 of the Dalgaard group, there is the idea of proceeding in two stages, i.e. the Council would announce the new weights some months before the basket is effectively changed. In this case, the Board of Governors might have to deal with the matter before September.

There will be greater clarity with respect to the calendar after the Governors have discussed the Dalgaard group's new report on the expected impact of the revision of the ECU on the markets. The Commission representative pointed out that an opinion from the Governors on the procedure to be followed and the calendar would be much appreciated.

Finally, it was noted that the Work Programme, on subjects related to the strengthening of the EMS and monetary integration, would have to be finalised after the completion of the Report of the Delors Committee and the meeting of the European Council in June. Furthermore, it was mentioned that, apart from the follow-up of the Delors Committee Report, the Committee of Governors could assess the functioning of monitoring and co-ordination of monetary policies following the implementation of the Basle/Nyborg agreement.

B. Discussion by the Committee

Mr. de Larosière thought that, given the importance that the markets were increasingly attaching to the definition and composition of the ECU, an examination of this question only at the Governors' meeting on 12th September 1989 appeared too late. It would be better to take up the question of a re-examination of the ECU basket earlier, for example in June or July. It was a matter of great importance for the markets, for the functioning of the financial system in Europe and for the activities of the financial centres. It would therefore be preferable to take the decisions fairly quickly so as not to leave too much uncertainty in this respect.

Mr. Godeaux wondered whether the Governors needed further time beyond the study which the "Dalgaard Group" was to present in February. On the basis of that study, i.e. Report No. 65, the Committee could discuss the question of a re-examination of the ECU basket in depth.

The Chairman pointed out that, concerning the re-examination of the weights of the currencies making up the ECU, which appeared as item 8 in the outline work programme, it was suggested in a footnote that it might take place earlier, in May, June or July, depending on the procedure and

calendar adopted by all the parties concerned. Mr. de Larosière's proposal was therefore quite acceptable and apposite. With reference to Mr. Godeaux's comment, the Chairman said that the Committee would indeed be discussing the question of a re-examination of the ECU basket on the basis of Report No. 65 of the "Dalgaard Group" in February; the Governors could then decide whether it was necessary to come back to this question again at a later meeting.

V. Other matters falling within the competence of the Committee.

There was no other business.

VI. Date and place of the next meeting.

The next meeting would be held in Basle on Tuesday, 14th February 1989; it would begin at 10 a.m., or at 9.30 a.m. if the work of the "Delors Committee" made it necessary to bring it forward.

OUTLINE WORK PROGRAMME FOR THE COMMITTEE OF GOVERNORS FOR 1989

Topics to be considered	Date for examination by the Committee	Preparatory work to be done by:
1. Work programme for 1989	January	Committee of Alternates
2. Monitoring of economic and monetary developments within the EMS	Each monthly meeting	Committee of Alternates "Dalgaard Group"
3. Impact of the forthcoming re-examination of the ECU basket(1)	February	"Dalgaard Group"
4. Sterilised and unsterilised interventions	February	"Raymond Group" (Methodological note)(2)
5. Developments and co-ordination of monetary policies in EEC countries	March, July and November	"Raymond Group"
6. Longer-term perspective of changes in the exchange rate structure	April	Committee of Alternates Dr. Bockelmann
7. Developments in public finance and implications for economic policy	May	"Raymond Group" (short paper + updated data)
8. Re-examination of the weights of currencies in the ECU	September(3)	Committee of Alternates
9. Strengthening of the EMS and monetary integration(4)	Autumn	Committee of Alternates Group of experts
10. Annual review of the development of the private ECU	December	"Dalgaard Group"
11. Other matters: Preparation for: - the Interim Committee meeting - the informal ECOFIN meeting - the IMF annual meeting	March May September	Committee of Alternates Committee of Alternates Committee of Alternates

- (1) Following the discussion of Report No. 64, the Committee of Governors invited the "Dalgaard Group" to examine further the likely impact of the forthcoming re-examination of the ECU basket.
- (2) A note dated 24th October 1988 was circulated with Report No. 33 on monetary policies but it has not yet been examined by the Alternates and Governors.
- (3) The review must be completed by September. An earlier date, May, June or July, might be arranged but this will depend on the procedure and calendar adopted for the re-examination of the ECU basket. According to article 2 of Council Regulation (EEC) No. 3180/78 of 18th December 1978, decision on a revision of the ECU is taken by the Council acting on a proposal from the Commission after consulting the Monetary Committee and the Board of Governors of the EMCF.
- (4) These topics are presently being studied by the "Delors Committee"; their examination by the Committee of Governors will depend on the developments which may emerge, in particular, at the European Council in June 1989.

BRIEF REPORT ON
DEVELOPMENTS ON THE FOREIGN EXCHANGE MARKETS OF THE COUNTRIES
WHOSE CENTRAL BANKS PARTICIPATE IN THE CONCERTATION PROCEDURE

DECEMBER 1988

This report summarises developments on the exchange markets of the countries whose central banks participate in the concertation procedure¹ and briefly describes their interventions during December 1988 and the first few days of January 1989.

I. EXCHANGE RATE DEVELOPMENTS

The main features of the foreign exchange markets in December 1988 were:

- a recovery of the US dollar, which regained its early November level;
- a continued high degree of overall stability in the EMS, with on balance only slight variations in positions in the EMS band;
- a further marked strengthening of the Spanish peseta.

The US dollar gradually firmed against all major currencies during the month. Throughout much of the month, the dollar benefited from statistics which provided evidence that US economic growth was continuing. The dollar was also supported by rising short-term US interest rates and year-end corporate demand for dollars in increasingly thin holiday markets. The dollar closed the month about 2% higher against the Japanese yen, the Deutsche Mark and sterling.

1 The central banks of the EEC, Norway, Sweden, Finland, Switzerland, Austria, Japan, Canada and the United States.

In the EMS the French and Belgian francs came under some pressure in the middle of the month as German interest rates rose; the respective central banks countered this by increasing interest rates to restore the differential vis-à-vis the Deutsche Mark, and the situation subsequently stabilised again. The Italian lira continued to be fairly firm, while the Danish krone weakened slightly.

The Deutsche Mark depreciated by 1.9% against the US dollar despite some rise in market rates. On 15th December the lombard rate was increased by 0.5 percentage point to 5.5%. The Deutsche Mark was broadly unchanged against other currencies overall, so that its weighted index (1972 = 100) declined only to 169.9% from 170.4% at the end of November.

The French franc, which had been affected by the unwinding of positions at the beginning of the period owing to the narrowing of the interest rate differential vis-à-vis the Deutsche Mark, recovered appreciably thereafter. The raising of the key rates by the Banque de France on 14th December and the encouraging economic forecasts for 1989 were the main factors behind this improvement.

Although the Belgian franc had performed well at the beginning of the period, enabling the Banque Nationale to acquire foreign exchange on the markets, around mid-December onwards it was temporarily affected by pressure, mainly on account of the narrowing of the interest rate differential vis-à-vis the Deutsche Mark. The Banque Nationale thus intervened with the sale of foreign exchange and given the general upward movement in interest rates, it also decided to raise its official rates in two stages. The discount and lombard rates were thus increased to 7.75% and 8% respectively. In the last two weeks the Belgian franc staged a recovery, enabling the central bank to resume its purchases of substantial amounts of foreign currency and even to lower the Treasury bill rates for several maturities.

On the whole, the position of the Dutch guilder in the upper part of the EMS band underwent little change. There was a slight weakening vis-à-vis the Deutsche Mark due to a further narrowing of the short-term interest rate differential in the first part of the month. Coinciding with similar moves elsewhere, the Nederlandsche Bank raised its discount and lombard rates with effect from 16th December by 0.5 percentage point to 4.5 and 5.25% respectively.

The Danish krone weakened slightly and ended the month well below the middle of the EMS band. Money market interest rates were relatively

stable, leading to a decline in interest rate differentials vis-à-vis other EMS currencies.

The Irish pound remained relatively stable in the upper half of the EMS band. Net inflows of foreign currency over the month resulted in net purchases of foreign currency by the Central Bank of Ireland.

Following persistent capital inflows, the Italian lira continued to appreciate; from the middle of the month onwards it fluctuated around the lower margin of the narrow band. To contain the expansion of the monetary base the Banca d'Italia did not counteract this upward trend and made only limited interventions in EMS currencies in order to smooth the movements of the lira.

Sterling was in strong demand at the beginning of December in the wake of November's 1% rise in UK base rates, but, by mid-month, it had surrendered its gains amid expectations of European interest rate rises. In the quiet markets which prevailed over the Christmas period, sterling lost ground to the dollar, but strengthened against most other currencies. Sterling's trade-weighted index fell by 0.8% to 77.7 (1975 = 100) and 97.4 on the new basis (1985 = 100).

The Greek drachma depreciated by 1.9% against the US dollar but remained unchanged vis-à-vis the ECU. In effective terms the drachma depreciated by 0.4%.

The Spanish peseta continued its appreciation during the period, ending 2% higher with respect to the ECU and virtually unchanged with respect to the dollar. The strength of the peseta was caused by both long-term and short-term capital inflows, fostered by a further rise in interest rates intended to moderate the expansion of domestic demand. On 13th December the Banco de España raised its intervention rate for overnight funds by 1 percentage point to 12.4%; it also raised the three-month repurchase agreement rate from 11.75% to 12% on 7th December and to 12.5% on 13th December.

In effective terms the depreciation of the Portuguese escudo amounted to 0.2% in December and 3.5% for the whole of 1988, in line with the foreign exchange policy defined by the authorities. Against the US dollar the escudo weakened by 1.7%.

After firming temporarily in October and November, the Swiss franc weakened again in December. It depreciated by 3.3% against the US dollar and by 1.5% vis-à-vis the major European currencies. On an export-weighted basis the decline amounted to 1.7%. Euro-Swiss franc rates stabilised at a

higher level between 4.5% and 5%. In mid-December the money supply target for 1989 was fixed at 2%. At the same time the discount and lombard rates were raised by 0.5 percentage point each to 3.5% and 5.5% respectively.

The Austrian schilling weakened by 1.9% vis-à-vis the US dollar, with a monthly spread of 3.9%. Against the Deutsche Mark it fluctuated by only 0.1%. On 16th December the lombard rate was increased by 0.5 percentage point to 5.5%. The sharp decline in the foreign exchange position of the Oesterreichische Nationalbank is attributable to the purchase of Münze Österreich AG for Sch. 8 billion. In order to avoid a temporary surplus of liquidity on the domestic money market, this amount is being invested in foreign currency in the interim and will be used in the course of the year to service the country's foreign debt.

The Norwegian krone showed a tendency to appreciate during the course of the month. Norges Bank's overnight lending rate was reduced by a further 0.4 percentage point to 12% with effect from 5th December, a move which was widely anticipated in the market. The demand for kroner also gave room for further intervention purchases, enabling over half of the sudden reserve reduction in mid-November to be recovered.

The Swedish krona was stable on the strong side of the index band. In the middle of the month some capital inflows occurred as a result of non-residents' operations.

The Finnish markka fluctuated, in effective terms, within a narrow band. Towards the end of the month it firmed slightly in the thin pre-year-end market as short-term money market rates rose marginally.

The Japanese yen depreciated by 2.2% against the US dollar to close at Yen 124.90 per US dollar. This movement was in line with a slightly less bearish sentiment towards the US dollar, reflecting the higher oil prices, wider interest rate differentials between Japan and the United States, and year-end dollar remittances by subsidiaries of US multinational corporations. At the same time the yen also weakened slightly against the ECU.

The Canadian dollar fluctuated over a wide range, ending the month at US\$ 0.8386, down 0.4% over the period. After touching a seven-year high of US\$ 0.8444 early in the period against the background of strong positive sentiment in favour of the Canadian dollar following the federal election on 21st November, the currency weakened by mid-month to a low of

US\$ 0.8278 in response to commercial year-end demand for US dollars and profit-taking on the speculative investment inflows which had underpinned the Canadian dollar's recent strength. Subsequently, the Canadian dollar firmed in seasonally thin trading, reflecting the completion of corporate year-end requirements for foreign currency and renewed investment inflows from abroad.

II. INTERVENTIONS

A. Interventions in US dollars

Central bank interventions in December were sharply lower than in the preceding month. Net purchases amounted to US\$ 0.6 billion, compared with US\$ 7.9 billion in November. The largest interventions were those by the Bank of Canada, which carried out both sales and purchases, giving net sales of approximately US\$ 0.2 billion. The Banque de France was also a relatively major seller.

B. Interventions in Community currencies and in private ECUs

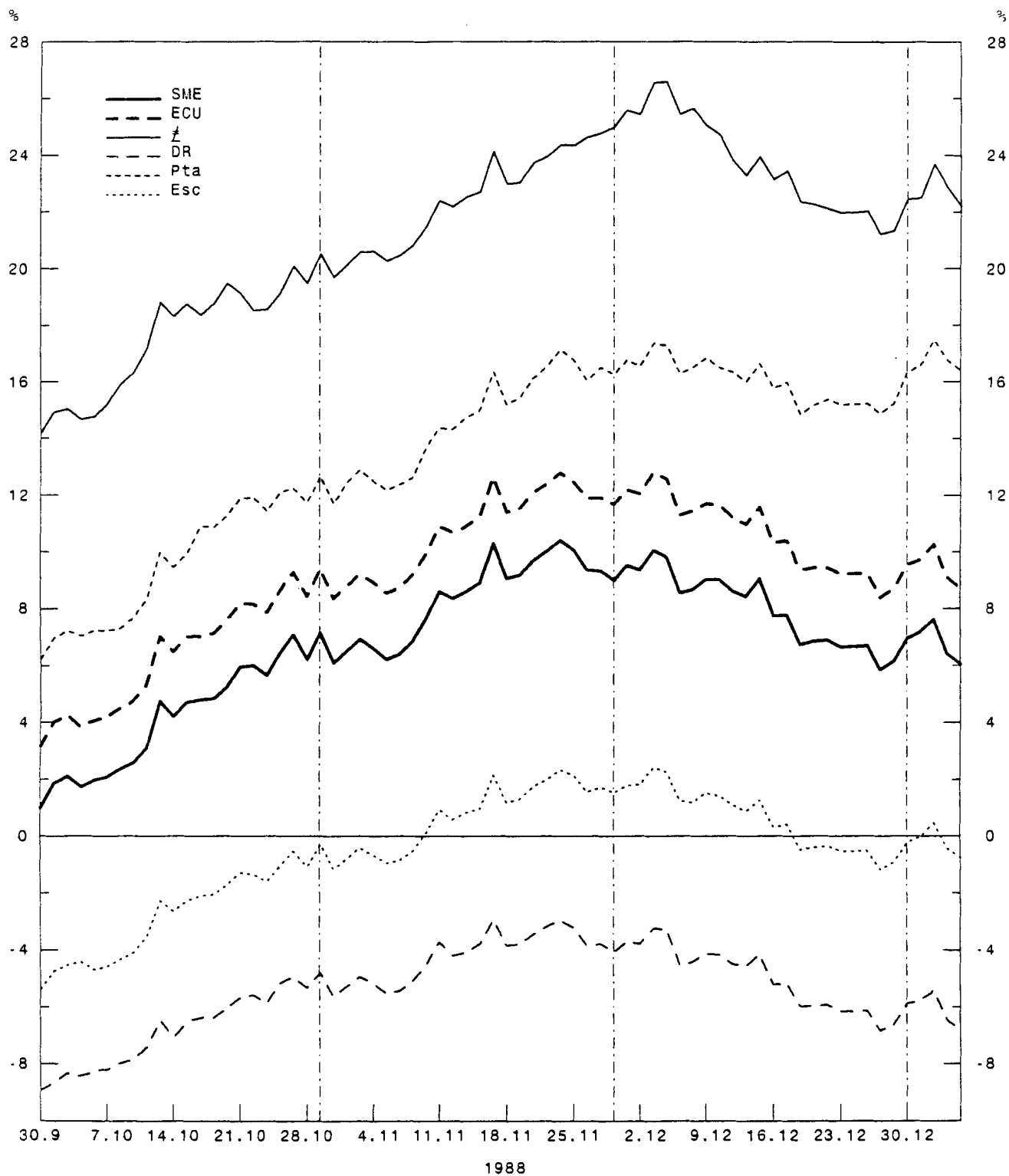
Interventions in EMS currencies by Community central banks, at the equivalent of US\$ 1.4 billion, were virtually the same as in November (US\$ 1.3 billion).

The interventions were almost exclusively in Deutsche Mark. On a net basis the largest purchases were reported by the Banque Nationale de Belgique, while the largest sales were made by the Banque de France.

III. DEVELOPMENTS IN THE CURRENT MONTH, UP TO 6th JANUARY

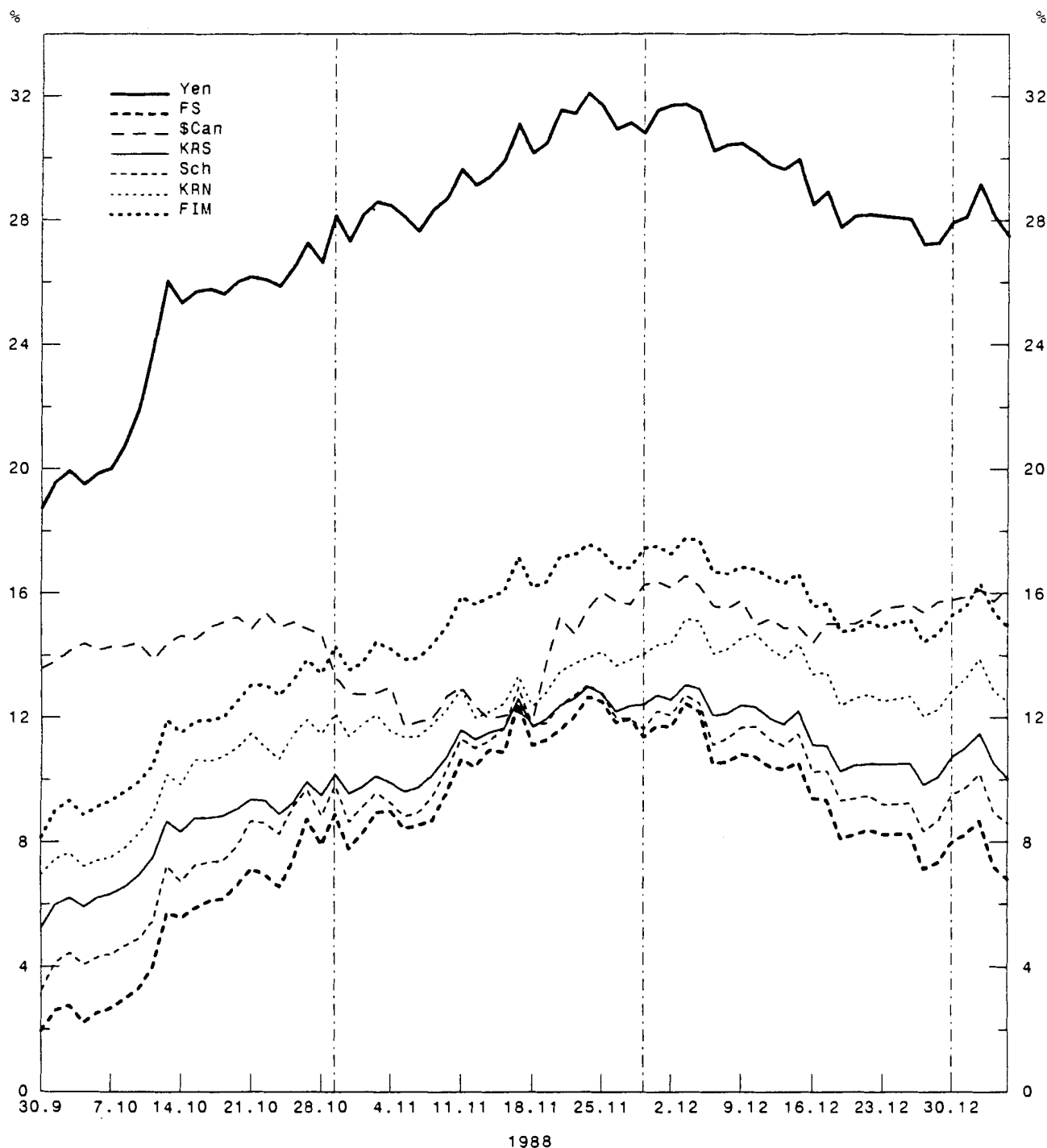
In the first few days of January the dollar initially weakened, but thereafter appreciated beyond its end-1988 level on further evidence of continued strength in the US economy. The situation remained stable in the EMS.

EVOLUTION DE L'ECU, DU COURS MEDIAN DES MONNAIES PARTICIPANT AU
MECANISME DE CHANGE DU SME ET DES MONNAIES DES BANQUES CENTRALES DE
LA CEE NE PARTICIPANT PAS A CE MECANISME, SUR LA BASE DES COURS
RELEVES LE 31 DECEMBRE 1986 VIS-A-VIS DU \$EU*



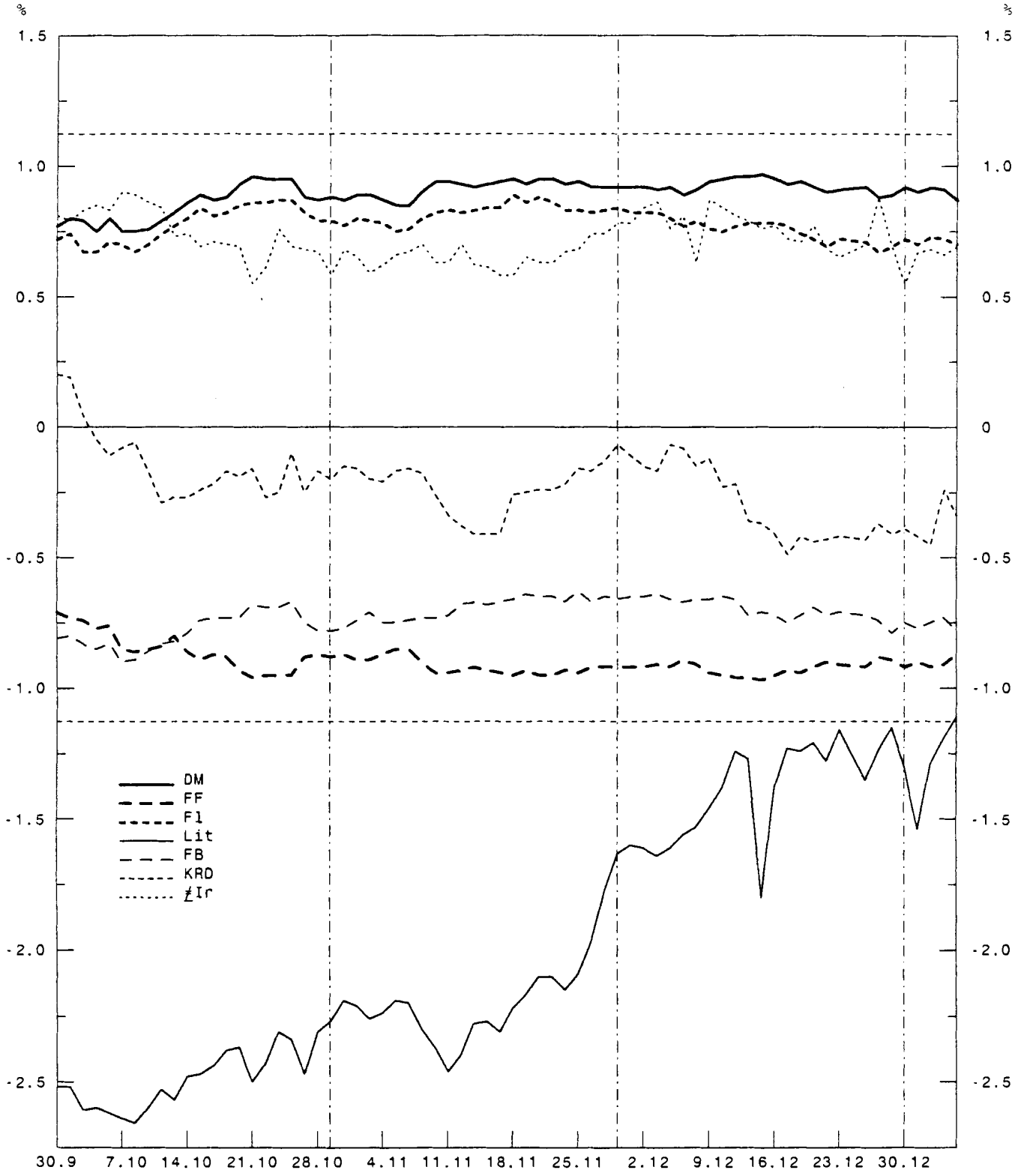
* Voir page suivante.

EVOLUTION DES MONNAIES DES BANQUES CENTRALES HORS CEE PARTICIPANT A LA CONCERTATION, SUR LA BASE DES COURS RELEVES LE 31 DECEMBRE 1986 VIS-A-VIS DU \$EU*



* ECU 0,93425; £ 0,6773; DR 138,7601; PTA 131,8700; ESC 146,0995; FIM 4,7925; \$Can 1,3805; FS 1,6215; Yen 159,7993; KRS 6,7750; KRN 7,3975; Sch 13,6520; cours médian des monnaies participant au SME 0,92913. Le cours médian des monnaies participant au SME représente la moyenne journalière des cours des deux monnaies à marge de fluctuation de 2,25% qui se sont éloignés le plus de leurs cours-pivots bilatéraux actuels.

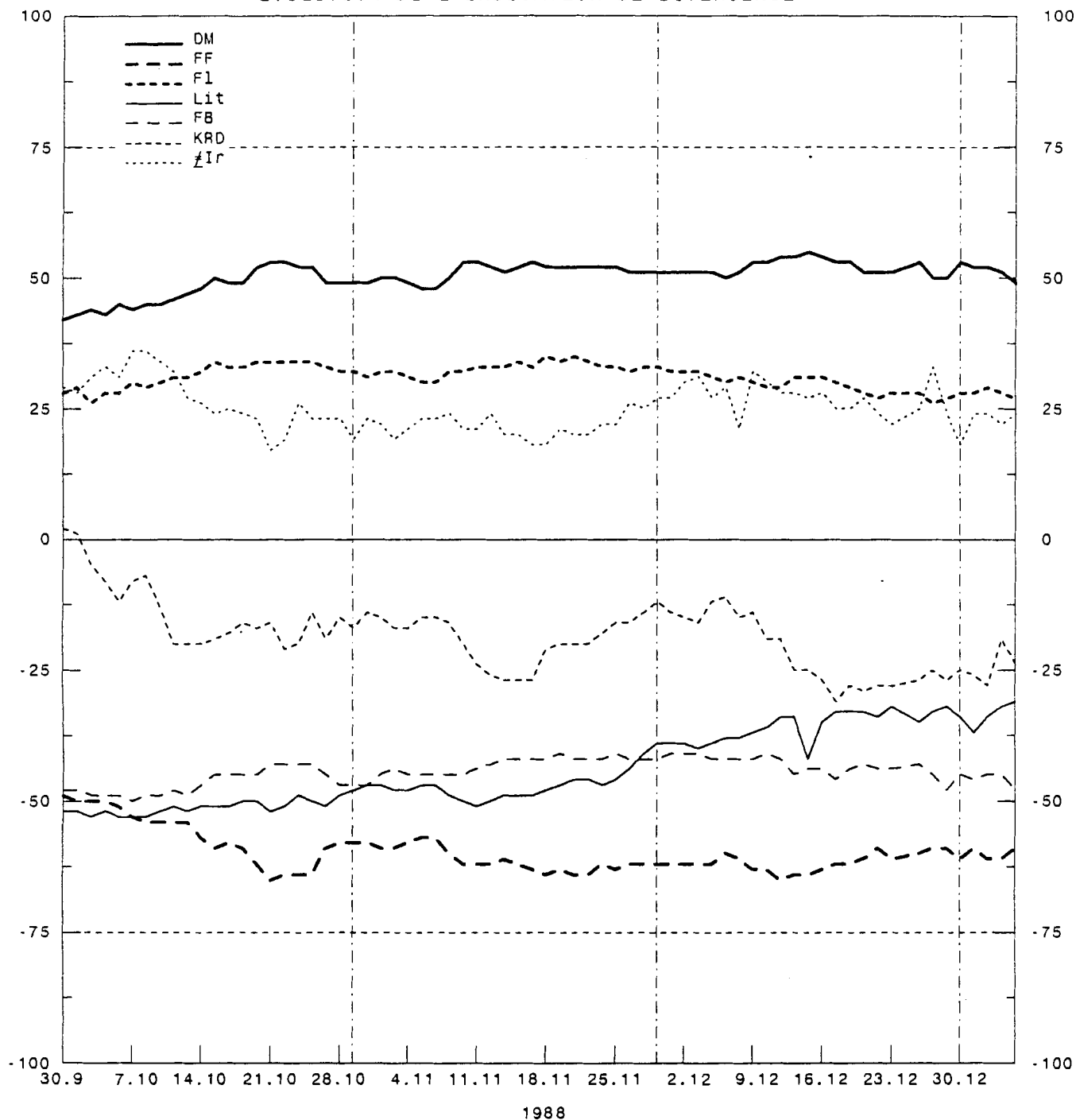
MOUVEMENTS A L'INTERIEUR DE LA GRILLE DE PARITES DU SME CALCULES SUR LA BASE DES COURS DE L'ECU DANS LES DIFFERENTES MONNAIES PARTICIPANTES



1988

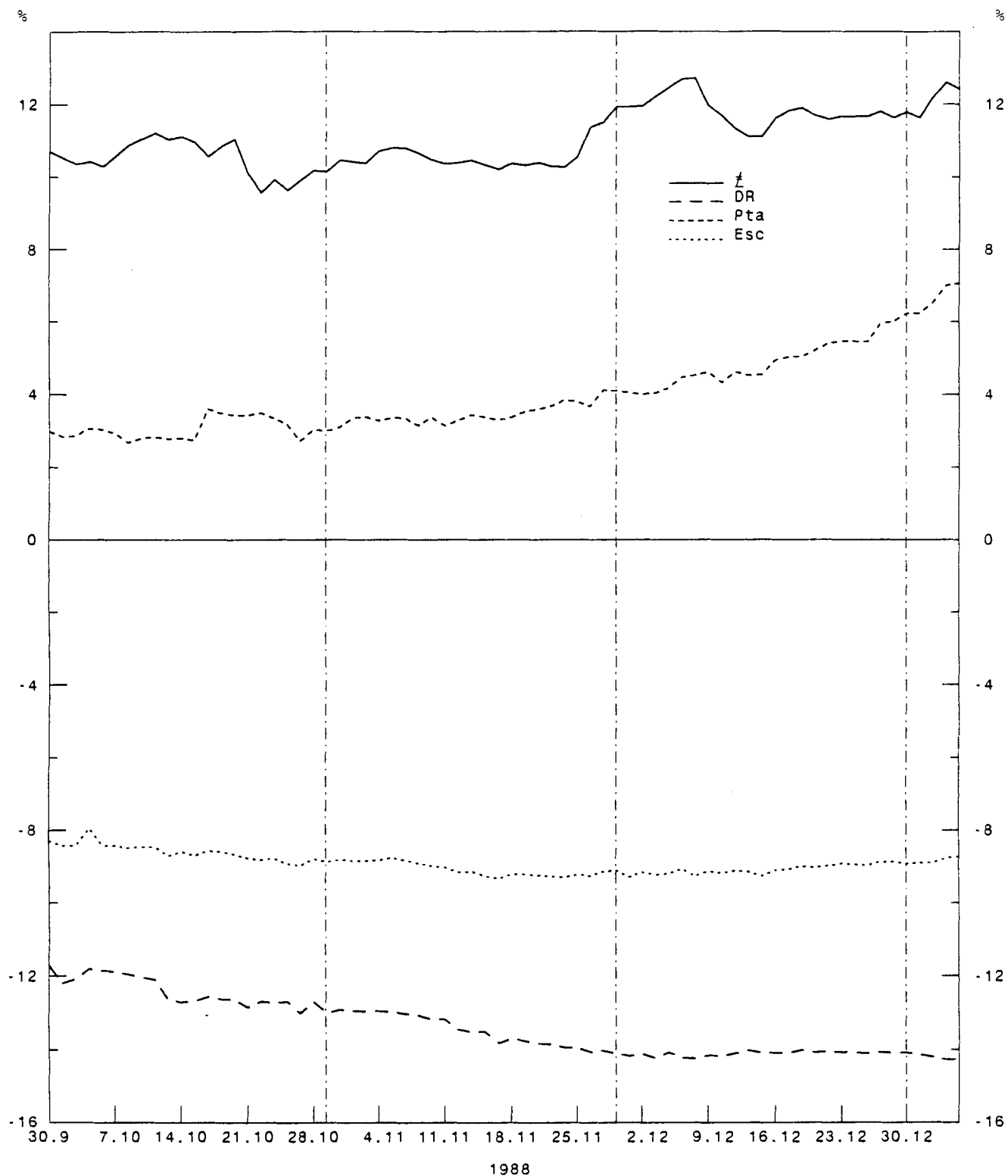
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EVOLUTION DE L'INDICATEUR DE DIVERGENCE*



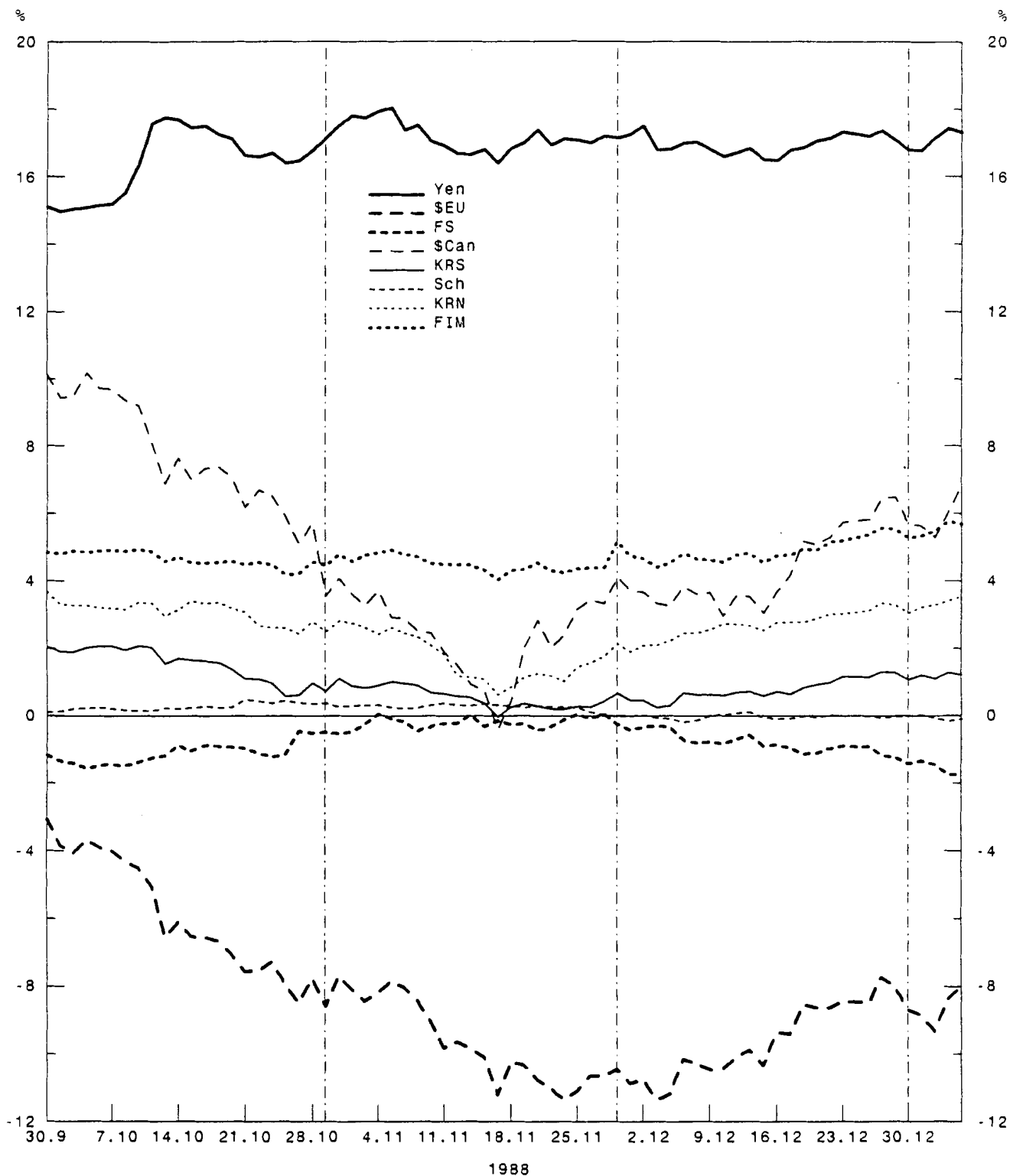
* L'indicateur de divergence a pour but de mesurer, sur une base comparable pour toutes les monnaies participant au mécanisme de change européen, la position d'une monnaie vis-à-vis de son cours-pivot ECU. L'écart maximal de divergence est le pourcentage maximal par lequel le cours de marché de l'ECU dans chaque monnaie peut s'apprécier ou se déprécier par rapport à son cours-pivot ECU; il est exprimé par +/-100, le seuil de divergence étant +/-75. Les données qui ont servi de base à l'établissement de ce graphique sont les cours de l'ECU exprimés en termes de diverses monnaies, cours qui sont toutefois corrigés des effets des fluctuations de la lire italienne, de la livre sterling et de la drachme grecque au-delà de la marge de 2,25% vis-à-vis des autres monnaies participant au SME.

EVOLUTION DE LA LIVRE STERLING, DE LA DRACHME, DE LA PESETA ET DE
L'ESCUDO PAR PAPPORT A L'ECU SUR LA BASE DES COURS DU MARCHÉ RELEVES
LE 31 DECEMBRE 1986*



* £ 0,724942; DR 148,526; PTA 141,151; ESC 156,382.

EVOLUTION DES MONNAIES DES BANQUES HORS CEE PARTICIPANT A LA
CONCERTATION PAR RAPPORT A L'ECU SUR LA BASE DES COURS DU MARCHÉ
RELEVÉS LE 31 DECEMBRE 1986*



* \$EU 1,07038; \$Can 1,47766; FS 1,73562; Yen 171,046; KRS 7,25181; KRN 7,91812; Sch 14,6128; FIM 5,12978.