

COMMITTEE OF GOVERNORS OF THE CENTRAL BANKS
OF THE MEMBER STATES
OF THE EUROPEAN ECONOMIC COMMUNITY

EUROPEAN MONETARY CO-OPERATION FUND

18th September 1987

PRESS COMMUNIQUÉ

At their monthly meeting on 8th September 1987, the Governors of the Central Banks of the Member States of the European Economic Community agreed on measures to strengthen the operating mechanisms of the European Monetary System, which are as follows:

1. The duration of the very short-term financing on which central banks can draw through the European Monetary Co-operation Fund (EMCF) to finance interventions in EMS currencies will be extended by one month, taking the maximum duration from two and a half to three and a half months. The ceiling applied to the automatic renewal for three months of these financing operations will be doubled, i.e. it will amount to 200 per cent. of the central bank's debtor quota in the short-term monetary support mechanism instead of 100 per cent. as at present.
2. The Governors point out that very short-term financing through the EMCF of intramarginal interventions in EMS currencies is already possible if the central banks directly involved concur. While there will be no automatic access to such financing, a presumption that intramarginal interventions in EMS currencies agreed to by the central bank issuing the intervention currency will qualify for very short-term financing via the EMCF will be established under certain conditions; the cumulative amount of such financing made available to the debtor central bank shall not exceed 200 per cent. of its debtor quota in the short-term monetary support mechanism, the debtor central bank is also prepared to use its holdings of the currency to be sold in amounts to be agreed and the creditor central bank may request repayment in its own currency taking into account the reserve position of the debtor central bank.

3. The usability of the official ECU will be further enhanced. The central banks will accept settlements in ECUs of outstanding claims in the very short-term financing in excess of their obligation (50 per cent.) and up to 100 per cent. as long as this does not result in an unbalanced composition of reserves and no excessive debtor and creditor positions in ECUs arise. After two years of experience, the formal rules relating to the official ECU will be subject to review.

These measures form part of a comprehensive strategy to foster exchange rate cohesion within the EMS. The Governors are convinced that greater exchange rate stability depends on all Member States achieving, through their economic and monetary policies, sufficient convergence towards internal stability. In the light of this basic understanding they have agreed in particular to exploit the scope for a more active, flexible and concerted use of the instruments available, namely exchange rate movements within the fluctuation band, interest rates and interventions. To promote this more effective use of the instruments, the Committee of Governors will strengthen the procedure for joint monitoring of economic and monetary developments and policies with the aim of arriving at common assessments of both the prevailing conjuncture and appropriate policy responses.

This strategy and these measures were presented by the Governors to the EEC Ministers of Finance at the informal meeting in Nyborg on 12th September 1987. The changes to the operating mechanisms of the EMS will come into effect following the formal amendment of certain provisions of the central bank Agreement of 13th March 1979 which lays down the operating procedures for the EMS and consequential changes to the rules governing the operations of the European Monetary Co-operation Fund which will take place in the coming weeks.