

9th December 1975

REVIEW OF THE INTERVENTION POLICIES
APPLIED BY EUROPEAN CENTRAL BANKS
SINCE THE ARRANGEMENT OF 12th MARCH 1975

The Committee of Governors of the central banks of the EEC member states undertook, in its report of 8th June 1975, "to review in six months' time the question of the adaptation of the rules of intervention in the light of experience during the meantime, taking account of the French proposals". This undertaking was confirmed by the EEC Finance Ministers at their meeting on 16th June 1975.

The Governors' review covers the period beginning on 12th March 1975, when the arrangement on a dollar intervention policy entered into operation, and embraces all the central banks of the EEC countries and those associated with the Community exchange system.

The result of this review can be summarised as follows:-

1. Generally speaking, the Committee considers that the intervention policies conducted since 12th March 1975, supported by more effective concertation, have had positive results. In fact, some control of the exchange markets has been regained, without running against fundamental trends. Moreover, there has been greater cohesion within the "snake" and a better distribution of the impact of interventions on official reserves, along the lines of the French proposals.

It is nevertheless necessary to recognise that during the period under review there has from time to time been a certain lack of consistency in interventions, though the repercussions of this do not seem to have presented member countries with any serious problems.

The Committee does not consider it necessary at present to lay down new intervention rules and still believes that the best way of proceeding in the field of intervention policy is to adhere to a pragmatic and flexible approach.

2. In order to improve its control over certain situations in which conflicts of interests might still arise, the Committee has adopted some modifications to the working of the existing system.

- (a) The "snake" central banks will be justified in refraining from making dollar interventions which should be carried out under the arrangement of 12th March 1975 when such interventions would either obstruct greater cohesion within the "snake" or might give rise to mandatory interventions in European currencies.
- (b) Even if they were to make for greater cohesion within the "snake", interventions in dollars that would accentuate that currency's trend instead of merely limiting its fluctuations shall in principle be subject to prior concertation.
- (c) Certain difficulties might be partially resolved by resorting to interventions in "snake" currencies within the margins.
- (d) Central banks with floating currencies will, if need be, have the possibility of defending their currencies by intervening also in strong "snake" currencies, particularly when the dollar is falling. Such action shall be the subject of ad hoc arrangements.
- (e) To improve co-ordination of the action envisaged, particularly in the event of pronounced movements on the exchange markets, more frequent ad hoc concertation will be arranged.

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As has been indicated, this report fulfils the undertaking made by the Committee of Governors in June to re-examine the current intervention arrangement within six months. But the period covered - from March to November 1975 - is a short one and has been characterised by a number of special features which may not persist. Moreover, there has recently been an indication from the US monetary authorities that they may play henceforth a more active rôle in the exchange markets.

In the light of these two considerations and taking into account the French proposals of last May, the Committee of Governors intends over the next few months to follow with special interest developments on the exchange markets and the operation of the central banks' intervention policies,

and in particular to examine whether any shifts of emphasis become appropriate in the arrangement on a dollar intervention policy and in regard to the use of Community currencies within the "snake".