

AGREEMENT

BETWEEN THE CENTRAL BANKS OF THE MEMBER STATES OF THE EUROPEAN ECONOMIC COMMUNITY
LAYING DOWN THE OPERATING PROCEDURES FOR THE EUROPEAN MONETARY SYSTEM

THE CENTRAL BANKS OF THE MEMBER STATES OF THE EUROPEAN
ECONOMIC COMMUNITY,

HAVING REGARD to the Resolution of the European Council of
5th December 1978 on the establishment of the European Monetary System
(EMS) and related matters;

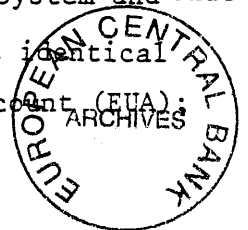
HAVING REGARD to Regulation (EEC) No. 907/73 of the Council
of the European Communities of 3rd April 1973 establishing a European
Monetary Co-operation Fund;

HAVING REGARD to Regulation (EEC) No. 3180/78 of the Council of
the European Communities of 18th December 1978 changing the value of the
unit of account used by the European Monetary Co-operation Fund;

HAVING REGARD to Regulation (EEC) No. 3181/78 of the Council of
the European Communities of 18th December 1978 concerning the European
Monetary System;

WHEREAS the European Council has agreed to set up a scheme
for the creation of closer monetary co-operation leading to a zone of
monetary stability in Europe;

WHEREAS the said Resolution provides that a European currency unit,
the ECU, shall be at the centre of the European Monetary System and that
the value and composition of the ECU shall, initially, be identical
with the value and composition of the European unit of account (EUA);



WHEREAS under the terms of the said Resolution

- each currency will have an ECU-related central rate and the central rates will be used to establish a grid of bilateral parities or central rates,
- fluctuation margins of 2.25 per cent. will be fixed around these bilateral central rates, although Member States not at present participating in the narrower margins mechanism may in the initial stage of the European Monetary System opt for wider margins of up to 6 per cent., which must be progressively reduced as soon as economic conditions permit;

WHEREAS the said Resolution further provides that a formula for an ECU-based basket shall be used as an indicator to detect divergences between Community currencies, and sets out the principles governing the operation of this indicator, which will be re-examined at the end of a period of six months;

WHEREAS this re-examination will also cover questions regarding imbalances accumulated by divergent creditor or debtor countries;

WHEREAS a Member State that does not initially participate in the exchange rate mechanism can do so at a later date and whereas it is therefore advisable to ensure co-operation between the central bank of such a State and the central banks of the participating States;

WHEREAS very short-term credit facilities of unlimited amount will be created;

WHEREAS the European Council has asked the central banks of the Member States of the Community to amend their Agreement of 10th April 1972 on the narrowing of the margins of fluctuation between the currencies of the Member States so as to embody the rules set forth in the said Resolution;

WHEREAS in order to make provision for means of settlement the central banks have been asked initially to transfer to the European Monetary Co-operation Fund, in the form of revolving swaps against ECUs, 20 per cent.



of their gold holdings and 20 per cent. of their US dollar reserves, and thereafter to keep at least 20 per cent. of the said reserves on deposit with the European Monetary Co-operation Fund;

HAVE AGREED AS FOLLOWS:

I. EXCHANGE RATE MECHANISM

Article 1 - Central rates in terms of the ECU

Each participating central bank shall notify the Secretariat of the Committee of Governors of the Central Banks of the Member States of the European Economic Community of a central rate in terms of the ECU for its currency. The Secretariat shall pass on this information to the other central banks and the Commission of the European Communities.

Article 2 - Intervention rules

2.1. Each participating central bank shall notify the Secretariat of the Committee of Governors of the rates for compulsory intervention expressed in its currency, and the Secretariat shall pass on this information to the other central banks. These rates shall be fixed in relation to the bilateral central rates derived from the central rates in terms of the ECU referred to in Article 1 of the present Agreement. The market shall be notified of them.

2.2. Interventions shall in principle be effected in currencies of the participating central banks. These interventions shall be unlimited at the compulsory intervention rates. Other interventions in the foreign exchange market shall be conducted in accordance with the relevant guidelines that were adopted by the Committee of Governors in its Report of 9th December 1975 or that may be adopted in the future, or shall be subject to concertation among all the participating central banks.

Article 3 - Operation of the indicator of divergence

3.1. On either side of the central rate for its currency in terms of the ECU each participating central bank shall establish its currency in terms of the ECU that will constitute "thresholds of



divergence". These thresholds of divergence shall be calculated in such a way as to neutralise the influence of the differences in weights on the probability of their being reached; they shall be set at 75 per cent. of the maximum divergence spread, this being measured by the percentage difference between the daily rate and the central rate of a currency against the ECU when that currency is standing at the opposite pole from all the other currencies at the compulsory intervention rates referred to in Article 2.1 of the present Agreement. The necessary steps shall be taken to take account of the effects of the adoption of different maximum margins of fluctuation for the participating currencies and of the possible non-participation of a currency in the exchange rate mechanism.

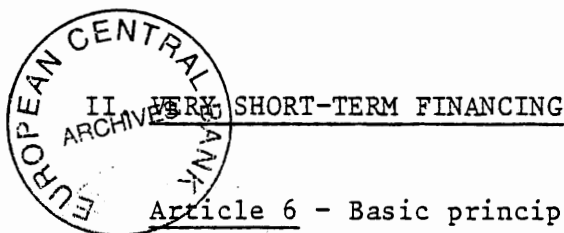
3.2. If a currency crosses a divergence threshold, this shall entail the consequences set out in paragraph 3.6 of the Resolution of the European Council of 5th December 1978.

Article 4 - Method of calculating the values of the ECU in each currency

For the purposes of the operation of the indicator of divergence provided for under Article 3 of the present Agreement, the market value of the ECU in each currency shall be calculated by a uniform method as frequently as necessary and at least on the occasion of each daily concertation session among central banks.

Article 5 - Non-participation

Any central bank that is not participating in the exchange rate mechanism shall co-operate with the other central banks in the concertation and the other exchanges of information necessary for the proper functioning of the exchange rate mechanism.



Article 6 - Basic principles

6.1. To enable interventions to be made in Community currencies, the participating central banks shall open for each other very short-term

credit facilities, unlimited in amount, in accordance with the conditions set out in Articles 7 to 16 of the present Agreement.

6.2. The financing operations concluded in this connection shall take the form of spot sales and purchases of Community currencies against the crediting or debiting of accounts denominated in ECUs with the European Monetary Co-operation Fund (hereinafter referred to as "EMCF").

Article 7 - Accounting procedures

7.1. The accounts opened for the central banks in the books of the EMCF shall be denominated in ECUs. The conversion of currencies into ECUs shall be effected at the daily rates for the ECU as established by the Commission's staff on the basis of the method adopted. The relevant rates shall be those ruling on the day on which the interventions were made.

7.2. The value date of the financing operations shall be identical with the value date of the interventions in the market.

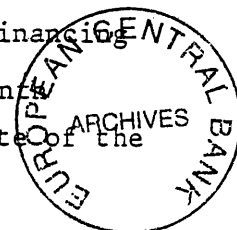
Article 8 - Remuneration

8.1. The debtor and creditor interest rates applying to very short-term financing operations shall be the average of the official discount rates of all EEC central banks, weighted in accordance with their respective currencies' weights as derived from the ruling ECU central rates. This average shall be calculated once a month on the basis of the discount rates ruling on the last working day of the month and shall apply during the following month to all outstanding amounts in respect of very short-term financing operations.

8.2. Accrued interest shall be paid in ECUs at each monthly settlement date or, between settlement dates, at the same time as advance liquidation of a debtor balance is effected.

Article 9 - Initial settlement date

The initial settlement date for a very short-term financing operation shall be the last working day preceding the sixteenth day of the second month following that in which the value date of the intervention fell.



Article 10 - Automatic renewal

At the request of the debtor central bank, the initial settlement date for a financing operation may be extended for a period of three months.

However:

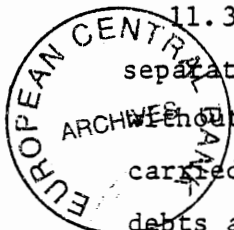
- (a) any initial settlement date may only be automatically extended once for a maximum of three months;
- (b) recourse may only be had to the renewal facility referred to above if the relevant debt does not thereby remain continuously outstanding for more than six consecutive months;
- (c) the total amount of indebtedness resulting from application of the present Article may at no time exceed a ceiling equal to the debtor quota of the central bank concerned under the short-term monetary support arrangement;
- (d) if a central bank has recourse to the additional automatic borrowing facility for six consecutive months, the Committee of Governors shall take steps to ascertain whether the payments deficit of the country concerned is such that recourse to other means of financing, in particular short-term monetary support or medium-term financial assistance within the EEC, would be more appropriate.

Article 11 - Renewal by mutual agreement

11.1. Any debt exceeding the ceiling laid down in Article 10(c) of this Agreement may be renewed once for three months subject to the agreement of the creditor or creditors in the EMCF.

11.2. Any debt already renewed automatically for three months may be renewed a second time for a further three months subject to the agreement of the creditor or creditors in the EMCF.

11.3. Debts and claims thus extended by mutual agreement shall be settled separately outside the provisions of Articles 12, 13 and 14 of this Agreement without prejudice, however, to the priority accorded to settlements carried out under those Articles. Offsetting or advance settlement of debts and claims of the kind for which provision is made in the present Article shall be subject to the agreement of all creditors and debtors in the EMCF, whatever their status.



Article 12 - Order of repayment of claims

12.1. Claims arising from financing operations carried out in accordance with Articles 9 and 10 above shall be settled in order of seniority; however, if a central bank's claim exceeds the amount of its creditor quota under the short-term monetary support arrangement, that central bank may request that the excess be treated for purposes of the next settlement as equal in seniority to the most senior claims of other creditor central banks.

12.2. All claims arising within the same monthly accounting period shall be regarded as of equal seniority. When a settlement covers a number of claims regarded as of equal seniority, each of the components of the settlement shall be distributed in proportion to the respective amounts of the claims.

12.3. The rules governing the order or distribution of settlements may be departed from subject to the agreement of all the parties to the financing operations carried out in accordance with Articles 9 and 10 of the present Agreement.

Article 13 - Automatic offsetting

13.1. All the debts and claims of a single central bank arising from the operations provided for under Articles 9 and 10 of the present Agreement shall, where appropriate, be automatically offset against each other.

13.2. Any new liability shall be offset against the most senior claim of the same central bank. Any new claim shall be offset against the most senior debt of the same central bank.

Article 14 - Advance repayment

14.1. Any debtor balance recorded in accordance with Articles 9 and 10 of the present Agreement may be settled in advance at the request of the debtor central bank:

- at any time in the currency of a creditor in the EMCF under Articles 9 and 10 of the present Agreement,
- on the monthly settlement date by transfer of the means of settlement provided for in Article 16 of the present Agreement.



14.2. Any advance repayment shall be applied first to the most senior liabilities contracted under Article 10 of the present Agreement.

Article 15 - Working balances

The central banks may hold working balances in Community currencies within the limits laid down by the Committee of Governors. These limits may be exceeded only with the consent of the central bank concerned.

Article 16 - Means of settlement

16.1. When a financing operation falls due, settlement shall be carried out - insofar as it has not been settled in the first instance by means of holdings in the creditor's currency - entirely or in part by transferring ECUs, with the proviso that a creditor central bank shall not be obliged to accept settlement by means of ECUs of an amount more than 50 per cent. of its claim which is being settled. The balance shall be settled by transferring other reserve components in accordance with the composition of the debtor central bank's reserves as at the end of the month preceding the settlement.

These provisions shall be without prejudice to other forms of settlement agreed between creditor and debtor central banks.

Debtor balances in ECUs settled by means of assets denominated in currencies and in SDRs shall be converted into such assets on the basis of the daily rates for the ECU established by the Commission's staff.

16.2. For the purposes of the preceding paragraph the composition of the debtor's reserves shall be determined on the basis of assets denominated in SDRs and in currencies. Nevertheless, gold holdings may also be taken into account if the price proposed by the debtor central bank is accepted by the creditor central bank. As far as assets denominated in SDRs and in currencies are concerned, the debtor central bank may choose which assets it will deliver in settlement.

16.3. If the debtor central bank no longer possesses ECUs and wishes to acquire some, it shall apply in the first instance to central banks that are net accumulators of ECUs or possibly to the EMCF. In the latter case, the ECUs shall be acquired against the contribution of an equal percentage of the gold and dollar assets held by that central bank.



III. CREATION, UTILISATION AND REMUNERATION OF ECUs

Article 17 - Creation of ECUs against contributions of gold and dollars

17.1. Each central bank participating in the exchange rate mechanism outlined in Chapter I of the present Agreement shall contribute to the EMCF 20 per cent. of its gold holdings and 20 per cent. of its gross dollar reserves as at the last working day of the month preceding the month in which the present Agreement takes effect; it shall be credited by the EMCF with an amount of ECUs corresponding to these contributions.

Central banks that are not participating in the exchange rate mechanism referred to above may likewise make contributions in accordance with the terms of the preceding sub-paragraph.

17.2. The contributions referred to in Article 17.1 of the present Agreement shall be made available in the case of the participating central banks at the latest ten working days after the implementation of the present Agreement or in the case of the non-participating central banks at the time of exercising the option referred to above.

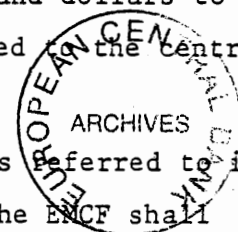
17.3. The contributions of gold and dollars shall take the form of three-month revolving swaps against ECUs which may be unwound at two working days' notice. These operations shall be concluded at flat rates.

17.4. For the purposes of the swap operations referred to in the present Article the value of the reserve components transferred to the EMCF shall be established as follows:

- for the gold portion, the average of the prices, converted into ECUs, recorded daily at the two London fixings during the previous six calendar months, but not exceeding the average price of the two fixings on the penultimate working day of the period;
- for the dollar portion, the market rate two working days prior to the value date.

17.5. Contracts shall be concluded between each central bank and the EMCF detailing the arrangements for the delivery of the gold and dollars to the EMCF and for their management insofar as this is entrusted to the central banks.

17.6. At the beginning of each quarter, when the swaps referred to in the present Article are renewed, the central banks and the EMCF shall



make the necessary adjustments to these swaps, firstly to ensure that each central bank's contribution to the EMCF continues to represent at least 20 per cent. of its gold and dollar reserves on the basis of its gross reserve position recorded on the last working day of the preceding quarter and, secondly, to take account of any price or rate changes that may have occurred since the initial contribution or previous adjustment.

Article 18 - Utilisation of ECUs

18.1. ECU assets shall be used in intra-Community settlements within the limits and on the terms set out in Article 16 of the present Agreement.

18.2. The central banks may transfer ECUs to one another against dollars, EEC currencies, Special Drawing Rights or gold.

18.3. For the purposes of meeting a decline in its dollar reserves a central bank may acquire dollars against ECUs from the EMCF between two periodic adjustments, initially by unwinding a swap transaction.

18.4. The operations referred to in Articles 18.2 and 18.3 of the present Agreement shall not be carried out for the sole purpose of altering the composition of a central bank's reserves.

Article 19 - Remuneration

19.1. Central banks whose ECU assets are less than their forward sales of ECUs shall pay interest to the EMCF on the difference between these two aggregates. The EMCF shall pay central banks whose ECU assets exceed their forward sales interest on the difference between these two aggregates. The amount of interest due shall be calculated in proportion to the average daily balances.

19.2. The rate of interest provided for in Article 19.1 of the present Agreement shall be determined in accordance with the provisions of Article 8 of the present Agreement. Such interest shall be paid monthly.

Article 20 - Liquidation

20.1. Save in the event of a unanimous decision to the contrary, the swaps of gold and dollars against ECUs referred to in Article 17.3 of the present Agreement, shall be unwound at the end of the two-year transitional period.



20.2. For this purpose central banks that are net users of ECU assets shall bring these back up to a level equal to that of their forward sales and central banks that are net accumulators shall transfer to the net users the excess of their ECU assets over their forward sales either directly or through the intermediary of the EMCF.

20.3. The transfers of ECUs provided for in the preceding paragraph shall be effected in exchange for the currency of the central banks that are net accumulators, or in accordance with any other arrangements agreed between the parties, or against the transfer of reserve components in proportion to the composition of the reserves of the central bank repurchasing ECUs, this composition being determined in accordance with the provisions of Article 16.2 of the present Agreement.

Article 21 - Institutional provisions

The Committee of Governors shall periodically review the operation of the present Agreement in the light of experience gained.

Article 22 - Termination of the Agreement of 10th April 1972

22.1 The present Agreement terminates and replaces, with effect from 13th March 1979, ~~the Agreement of 10th April 1972,~~ as amended by the Agreement of 8th July 1975, establishing a system for the narrowing of the margins of fluctuation between the currencies of the European Economic Community.

22.2. The present Agreement shall be drawn up in duly signed versions in English, French and German. A certified copy of the original in each language shall be sent to each central bank by the Secretariat of the Committee of Governors, which is required to retain the originals.

Done at Basle, 13th March 1979.



Banque Nationale de Belgique

Lois Heyndrickx

Danmarks Nationalbank

Børge Hoffmeyer

Deutsche Bundesbank

Adolf Ziemer Karl Otto Pann

Banque de France

J. L. Lappin

Central Bank of Ireland

G. Murray



Banca d'Italia

Salvo Sestini

Nederlandsche Bank

A handwritten signature in black ink, consisting of a large, stylized initial 'C' followed by several vertical strokes and a final flourish.

Bank of England

London Ireland

