第4回　国際通貨論　I

International Monetary Study I

The Way to the Euro (3)

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Autumn 2004

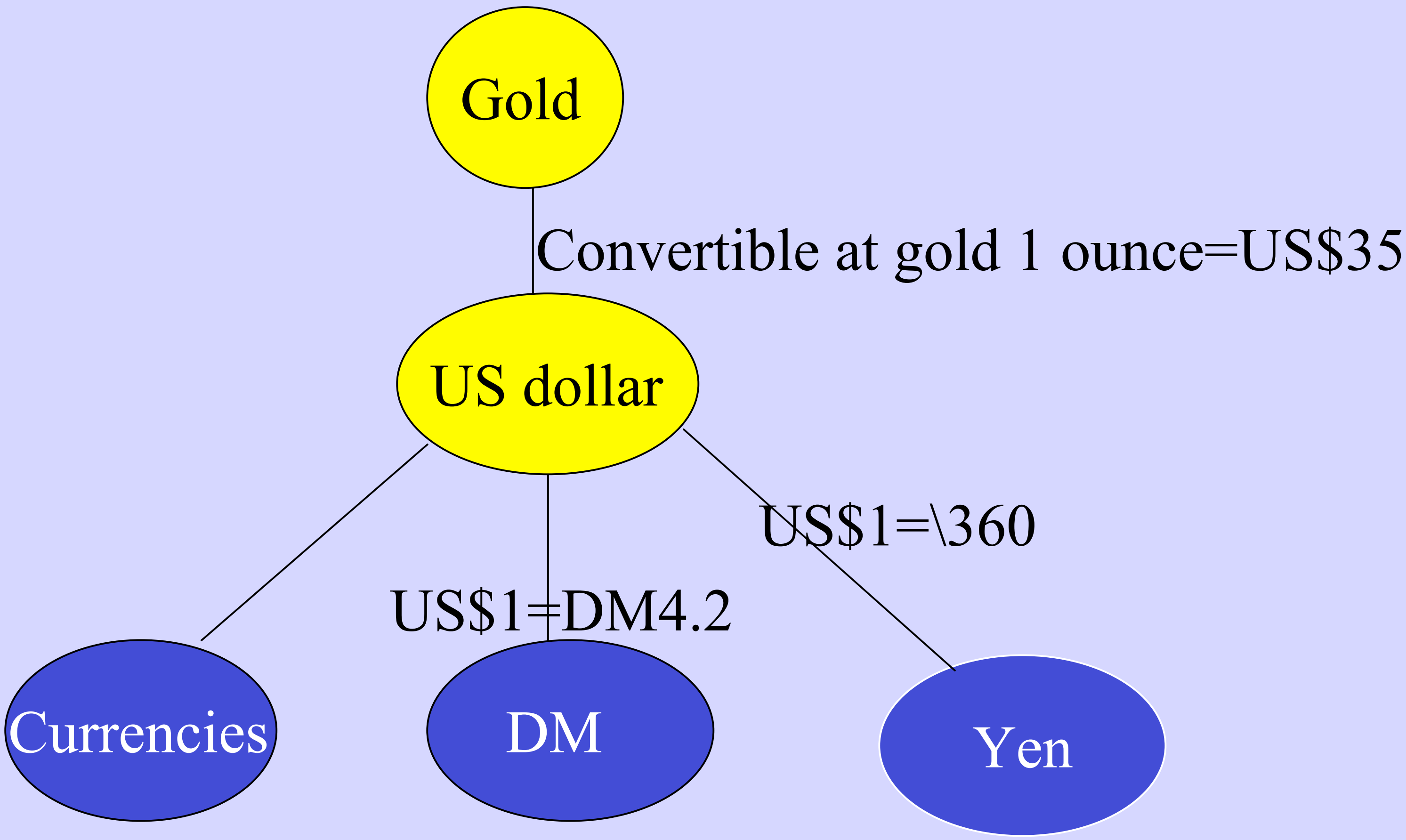
30 Years of Monetary Integration (Part 1)

1. The international monetary system as a background

	International monetary system	International key currency	Other major currencies or asset	Note
Before WWII	Gold standard	Gold	Stg. Pound US dollar	Fixed rate system
After WWII	1945-73 Bretton Woods System	US dollar	Gold	Fixed rate system
Today	Floating rate system	US dollar	Euro (DM), Yen etc.	1999 euro was born.
Future	?	US dollar, Euro?	?	Bipolar system?

(筆者作成)

(1) The Bretton Woods System (dollar-gold standard 金ドル本位制): fixed but adjustable exchange rate system



(2) The Collapse of the Bretton Woods System

1971 May: Heavy selling pressure of the US dollar, Swiss franc is revalued, DM and Dutch guilder float.

1971 August: United States suspends gold convertibility of US dollar (the Nixon shock). Major currencies including yen are forced to float temporarily.

1971 December:Smithsonian Agreement: US dollar is devalued against gold from \$35 to \$38 per ounce. Major currencies are revalued (yen from \360 to \308).

1973 February: Breakdown of the Bretton Woods System. Major currencies abandon parities and start floating.

→Floating rate system or "a system without a system"

(3) Development of monetary arrangements in Europe

1970: The Werner Report—the prototype of today’s EMU (Economic and Monetary Union)

1972: The “Snake”—joint float of EC currencies

1979: Start of the EMS (European Monetary System)

1989: The Delors Report—the blueprint of today’s EMU

1992: The Maastricht Treaty was signed—the legal basis of today’s EMU

1992/3: The European currency crisis

1999: With the start of EMU, the euro was born.

2002: Euro banknotes and coins started circulating.

2. The Werner Report

(1) 1970 Pierre Werner, Prime Minister of Luxembourg, reported "on the realization by stages of Economic and Monetary Union in the Community."

>The plan aimed at an irreversible fixed exchange rate system (or a single currency) in 10 years, but it was given up after the 1st stage [see Textbook page 12-13].

>Drastic change of world economic environments in the 1970s →collapse of Bretton Woods System and the 1st oil shock in 1973

>Divergence of EC states' national economies [see Table 1.2]

(2) The “Snake”—joint float of EC currencies

スネーク(欧州共同フロート）

>The 1st stage of the Werner plan was realized partially in the form of the Snake.

>1972 the fluctuation margins of 9 currencies were narrowed to 2.25% of central rates (EC currencies maintained semi-fixed rates among themselves, but floated jointly against US dollar and other currencies).

>Credit facilities were created for market intervention. EMCF (European Monetary Cooperation Fund) was established for settlement. 信用枠と欧州通貨協力基金

>1976 after France left the system, the Snake became a Mini-snake of DM bloc (W. Germany, Benelux and Denmark with Sweden and Norway as associate members, and Austria voluntarily).

3. EMS (1979-98): predecessor of EMU

Regional semi-fixed exchange rate system started in March 1979 with 9 EC countries (Britain only nominally) to maintain fluctuation margins of ±2.25% in principle.

(1) The background

>Volatile US dollar movement (depreciation against DM 28%, against yen 39% between Jan 1976 and Jan 78)

>Importance of currency stability for EC countries due to close trade relations and CAP (Common Agricultural Policy)

>Stagnant economy and standstill of European integration

(2) The basic structure:

(i) ECU (European Currency Unit)

>The standard to establish ERM central rates [see Table 1.3]

>Unit of account to calculate debts and credits between central banks

>Reserve assets and means of payment

(ii) ERM (Exchange Rate Mechanism) [see Table 1.4]

>Intervention mechanism to maintain the bilateral parity grid

(iii) Credit facilities

>Very Short-term Financing (VSTF)

>Short-term Monetary Support (STMS)

>Medium-term Financial Assistance (MTFA)

The structure and value of ECU basket (as of 31 December 1998, which is equal to the value of euro)

	Currency amount in ECU basket (A)	Exchange rate against US dollar (B)	Equivalent for US dollar (C=A x 1/B)	ECU cross rate (E = B x D)
DM	DM0.6242	DM1.6763	$0.37237	DM1.95583
FFr	FFr1.332	FFr5.662	$0.23682	FFr6.55957
Spain Peseta	Ptas6.885	Ptas142.61	$0.04828	Ptas166.386
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All together 12 currencies	--	--	--	--
ECU			$1.16675(D)	

(source : Financial Times, etc.)

ERM parity grid (as of 16 March 1998, partial and simplified)

Marginal rates, at which countries in the left column sell/buy currencies in the top row

		100 BFr	100 DKr	100 FFr	100 DM	ECU
Belgium	S	-	627	714	2395	
	C	-	540	614	2062	40.7844
	B	-	465	529	1776	
Denmark	S	21	-	132	442	
	C	18	-	113	381	7.54257
	B	15	-	97	328	
France	S	18	102	-	389	
	C	16	87	-	335	6.63186
	B	14	75	-	288	
Germany	S	5.6	30	34	-	
	C	4.8	26	29	-	1.97738
	B	4.1	22	25	-	

(出所: 東京三菱銀行 「各通貨の為替相場一覧表」 1998年)

(3) Three periods of the EMS

1979-86: unstable period

>parity realignment 10 times

>reasons (i) the 2nd oil shock and up and down of US dollar
(ii) different ideology in economic policy →France's expansionary policy at the cost of inflation vs. Germany's stability oriented policy

1987-92: stable period

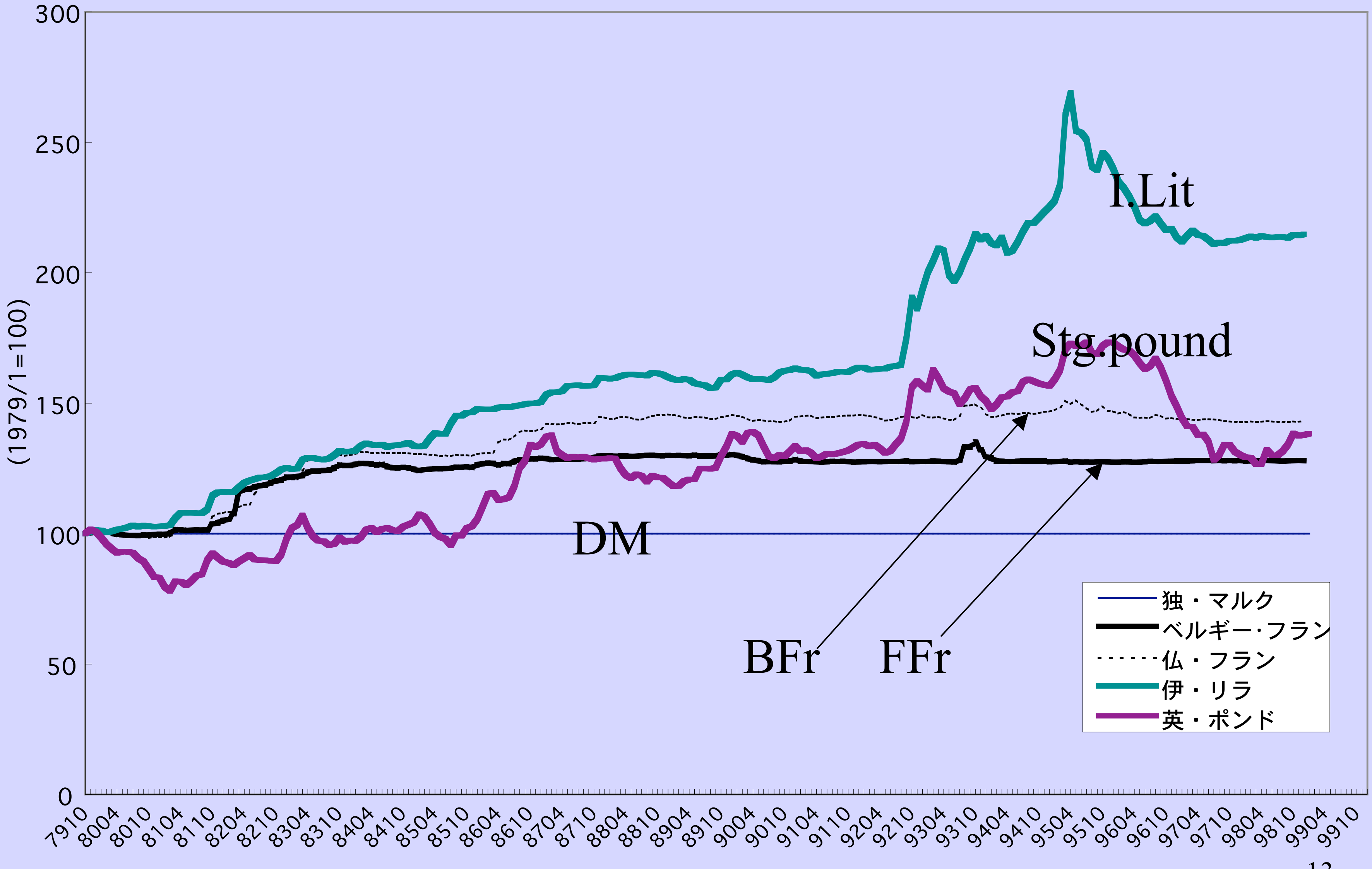
>France abandons expansionary policy and imports stability by following the monetary policy of Bundesbank.

>Stg. Pound joins EMS in 1990 and leaves in 1992.

1992-98: preparation for EMU

>European currency crisis in 1992/3

Exchange rates of EMS currencies against DM



（出所）IMF/II

(4) European currency crisis of 1992/3

The Stg. pound and Italian lira were heavily sold and forced to leave the ERM in Sep 1992, and all currencies were realigned (devaluation of peseta, escudo and punt, revaluation of other currencies). In Aug 1993, FFr was attacked and the fluctuation band was widened from 2.25% to 15%.

>Causes of the crisis:

(i) accumulated inflation differential during the stable period (1987-92)

(ii) appreciation of DM against US dollar (Mar 1992 \$1=DM1.62→Sep 1992 DM1.45)

(iii) opposite movements of business cycles and interest rates between Britain and Germany [see the next table]

Economic figures of UK and Germany

	Real GDP		Inflation rate (CPI)		Discount rate	
	UK	Germany	UK	Germany	UK	Germany
1990	0.6	3.2	9.5	2.7	14.00	6.00
1991	-2.1	2.4	5.9	3.6	10.50	8.00
1992	-0.5	2.2	3.7	5.1	7.00	8.25

While UK's economy was in a recession, German economy was overheated due to increased investment demands after the German reunification in October 1990.

(筆者作成)

(5) Evaluation of the EMS

(i) In contrast to the Snake, all EMS members except Britain had a strong political will to maintain the EMS.

(ii) The role of DM as an anchor currency contributed to the reduction and convergence of inflation, and paved the way to the euro.

(iii) Lesson: When inflation rates and business cycles differ among members, a fixed rate is difficult to maintain, and becomes an easy target of currency speculations.