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To: Members of the Executive Board

From: The Secretary

Subject: Spain - Exchange Arrangement

There is attached for the information of the Executive Directors a note on the entry of the Spanish peseta into the exchange rate mechanism of the European Monetary System (EMS). This paper contains background information for the Executive Board discussion scheduled for Monday, July 17, 1989 of the Article IV consultation with Spain.

Mr. Spitller (ext. 4546) is available to answer technical or factual questions relating to this paper.

Att: (1)

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Department Heads



INTERNATIONAL MONETARY FUND

Spain - Exchange Arrangement

Prepared by the European Department

(In consultation with the Exchange and Trade Relations  
and Legal Departments)

Approved by Manuel Guitián

July 3, 1989

In their notification of June 16, 1989 (EBD/89/188), the Spanish authorities informed the Fund that Spain would join the exchange rate mechanism of the European Monetary System (EMS). As of June 19, 1989, in accordance with the transitional provisions of the EMS agreement, Spain will maintain the spot exchange rates between the Spanish peseta and the currencies of the other participants 1/ within margins of 6 percent above or below the cross rates based on the central rates expressed in terms of the ECU (European Currency Unit). 2/ The Bank of Spain stands ready to buy or sell the currencies of the other participating states in unlimited amounts at the specified intervention rates; the same obligation applies to the other participants in the exchange rate mechanism with respect to the peseta (Table 1).

Prior to the change effected on June 19, 1989, the Spanish peseta was an independently floating currency. The economic situation and policies of Spain, including the exchange rate policy, are described in the Staff Report for the 1989 Article IV Consultation (SM/89/119, 6/19/89) scheduled for discussion by the Executive Board on July 17, 1989. After the completion of the staff report, the authorities decided to join the exchange rate mechanism of the EMS earlier than had been envisaged at the time of the consultation discussions in Madrid.

In a decision by the EC Council of Ministers (also dated June 19, 1989) it was determined that the Spanish peseta and the Portuguese escudo would be included in the ECU currency basket as from September 21, 1989. This measure is described separately in "Prospective Change in the Currency Composition of the ECU (European Currency Unit)" (SM/89/136, 7/5/89).

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1/ Belgium, Denmark, France, Germany, Ireland, Italy, Luxembourg, and the Netherlands.

2/ The central rate of the Spanish peseta in terms of the ECU was set at Ptas 133.804 = ECU 1.

Table 1. EMS: Bilateral Central Rates and Intervention Limits

(Effective June 19, 1989)

		100 Belgian/ Luxembourg francs	100 Danish kroner	100 deutsche marks	100 Spanish pesetas	100 French francs	1000 Italian lire	1 Irish pound	100 Nether- lands guilders
Belgian/ Luxembourg franc	L	...	553.0	2109.50	33.6930	628.97	30.387	56.5115	1872.15
	C	...	540.723	2062.55	31.7316	614.977	28.6187	55.2545	1830.54
	U	...	528.70	2016.55	29.8850	601.295	26.953	54.0250	1789.85
Danish krone	L	18.9143	...	390.16	6.23100	116.32	5.620	10.4511	346.24
	C	18.4938	...	381.443	5.86837	113.732	5.29268	10.2186	338.537
	U	18.0831	...	373.00	5.52600	111.20	4.985	9.9913	331.02
Deutsche mark	L	4.959	26.810	...	1.63300	30.495	1.4735	2.740	90.770
	C	4.84837	26.2162	...	1.53847	29.8164	1.38754	2.67894	88.7526
	U	4.740	25.630	...	1.44900	29.150	1.3065	2.619	86.780
Spanish peseta	L	334.619	1809.4	6901.7	...	2057.8	95.76	184.892	6125.3
	C	315.143	1704.05	6500.0	...	1938.06	90.1899	174.131	5768.83
	U	296.802	1604.9	6121.7	...	1825.3	84.94	163.997	5433.1
French franc	L	16.6310	89.925	343.05	5.47850	...	4.9410	9.1890	304.44
	C	16.2608	87.9257	335.386	5.15981	...	4.65362	8.98480	297.661
	U	15.8990	85.97	327.92	4.85950	...	4.3830	8.7850	291.04
Italian lira	L	3710.2	20062.0	76540.0	1177.30	22817.0	...	2050.03	67912.0
	C	3494.21	18894.0	72069.9	1108.77	21488.6	...	1930.71	63963.1
	U	3290.9	17794.0	67865.0	1044.20	20238.0	...	1818.34	60241.0
Irish pound	L	1.8510	10.0087	38.1825	0.609772	11.3830	0.549952	...	33.8868
	C	1.80981	9.78604	37.3281	0.574281	11.1299	0.517943	...	33.1293
	U	1.7695	9.56830	36.4964	0.540858	10.8825	0.487799	...	32.3939
Netherlands guilders	L	5.5870	30.21	115.235	1.84050	34.36	1.660	3.0870	...
	C	5.46286	29.5389	112.673	1.73345	33.5953	1.56340	3.01848	...
	U	5.3415	28.8825	110.1675	1.63250	32.8475	1.4725	2.9510	...

Source: EC Commission.

Legend: L = Lower intervention limit; C = Bilateral central rate; and U = Upper intervention limit.