The European Monetary System

WARM UP

1 **Do you know what the abbreviations EMU, EMS, ECU and ERM stand for? Quickly read the first text to find out.**

Economic and Monetary Union (EMU) had been an objective of the European Community since 1969. The European Monetary System (EMS) was one of the systems introduced and it can be seen as the precursor to the creation of the single European currency.
The EMS, based on a proposal made by the president of the European Commission, Roy Jenkins, was launched in March 1979. It included all the Member States' currencies, except for the British pound. The system was designed to make all the currencies stable against each other, allowing only limited fluctuations against a central rate. This central rate was the European Currency Unit (ECU), an artificial currency based on a basket of member currencies. The fluctuations, which were controlled through the Exchange Rate Mechanism (ERM), had to be kept within +/- 2.25% of the central rate. The Italian lira, Spanish peseta, Portuguese escudo, and the British pound, which joined the system in 1990, were allowed to fluctuate by 6%. If the exchange rate of a currency reached 75% of this authorised margin, the country's government had to adjust their interest rates and fiscal policy in order to keep the currency in line. If the maximum margin was reached, the country's central bank had to intervene by buying or selling the currency in order to avoid exceeding the margin. In 1992, turmoil hit the EMS and the British pound and Italian lira had to withdraw from the ERM – Italy rejoined later but the UK did not – and the following year the fluctuation margins were increased to 15% because of speculation.

The 1992 withdrawal of the UK from the European Exchange Rate Mechanism, designed as a forerunner to a European political and currency union, sent shockwaves around the continent.
On 16th September 1992 – Black Wednesday – the UK government attempted unsuccessfully to prevent a devaluation of the pound. Conservative Prime Minister John Major and Chancellor Norman Lamont raised interest rates during the day from 10% to 12% and then to 15% and they authorised the spending of billions of pounds in a desperate effort to keep the pound within the range allowed by the ERM.
The UK had joined the system as it had hoped to get a German-style economy, with stability and low inflation. Although the move did give the UK low inflation, it did not provide a stable economy. On Black Wednesday, after two years' membership, the UK crashed out of the ERM and never rejoined the system.
George Soros, the Hungarian-born global financier, is said to have made a huge profit out of this situation. Confident that the pound would have to be devalued, he borrowed heavily – a reported £6.5 billion – to bet on this devaluation. After Black Wednesday and paying back his original loans, he is said to have made around £1 billion profit, giving him the name 'the man who broke the Bank of England'.

Source – BBC News – © 2005

ACTIVITIES

READING COMPREHENSION

2 **What do these figures and dates in the first text refer to?**

1 March 1979 __________
2 2.25% __________
3 1990 __________
4 6% __________
5 1992 __________
6 15% __________

3 **Now read the article and answer these questions.**

1 What happened on 16th September 1992?
2 What did the UK government do to try to keep the pound within the ERM?
3 Why did the UK join the ERM?
4 How long was the country a member of the system?
5 How much money did George Soros reportedly make?
6 How did he do this?

INTERNET RESEARCH

4 **Find out about one of the following topics. Prepare an oral presentation to give to the rest of the class.**

- The monetary systems in place in Europe between 1969 and 1979.
- The progression from the EMS to the single currency.
- Italy's withdrawal from the ERM.
- George Soros.