Notes to tables

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South African Reserve Bank

Note on the introduction of the euro and the revised weighting structure of the nominal effective exchange rate of the rand

by S.S. Walters

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Note on the introduction of the euro and the revised weighting structure of the nominal effective exchange rate of the rand

by S.S. Walters

From 1 January 1999 a single currency, the euro, was introduced for a subset of member countries of the European Union. Countries wishing to qualify for monetary union had to meet a number of "convergence" criteria to become eligible for participation in the new monetary arrangements. The criteria to be met by each country were that

- the annual inflation rate should not exceed the average level of inflation in the three best performing member states by more than 1½ percentage points;
- the annual level of long-term interest rates should not exceed the average level of interest rates of the three best performing members by more than 2 percentage points;
- the fiscal deficit should not exceed 3 per cent of gross domestic product;
- gross government debt should not exceed 60 per cent of gross domestic product, or should at least show a satisfactory fall towards this figure; and
- the exchange rate of a member country had to have ranged for at least two years within the normal margins of the European Monetary System (EMS) without major tensions or devaluations on the member country's own initiative.

The complete transition to the single currency has been scheduled to take place in three phases:

Phase A (May 1998 to 31 December 1998): The European Council decided at the beginning of May 1998 that eleven European Union member countries which wanted to adopt the euro, complied with the stated convergence criteria. These countries, namely Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain, could accordingly adopt the euro as a common currency on 1 January 1999. Three European countries, namely Britain, Denmark and Sweden, opted not to join the euro at the inception stage and Greece could not yet comply with the convergence criteria. The European Central Bank was established in June 1998 and the conditions for conducting a single monetary and exchange rate policy were finalised.

Phase B (1 January 1999 to 31 December 2001): On 1 January 1999 the rates of conversion between the euro and the participating national currencies were irrevocably fixed at the levels shown in the accompanying table, and the euro became a currency in its own right. Simultaneously, the official European Currency Unit (ECU) was replaced by the euro at a one-to-one conversion rate.

Phase C (1 January 2002 to 30 June 2002): Euro notes and coin will gradually be put into circulation and the national banknotes and coin of participating countries will gradually be withdrawn. This process should be finalised by 1 July 2002.

Table 1. Conversion rates

National currency unit per euro	
Austrian schilling	13,7603
Belgian franc	40,3399
Dutch guilder	2,20371
Finnish markka	5,94573
French franc	6,55957
German mark	1,95583
Irish punt	0,78756
Italian lira	1936,27
Luxembourg franc	40,3399
Portuguese escudo	200,482
Spanish peseta	166,386
US dollar*	1,17
Japanese yen*	133
British pound*	0,70

* Market rate on 31 December 1998
Source: European Commission

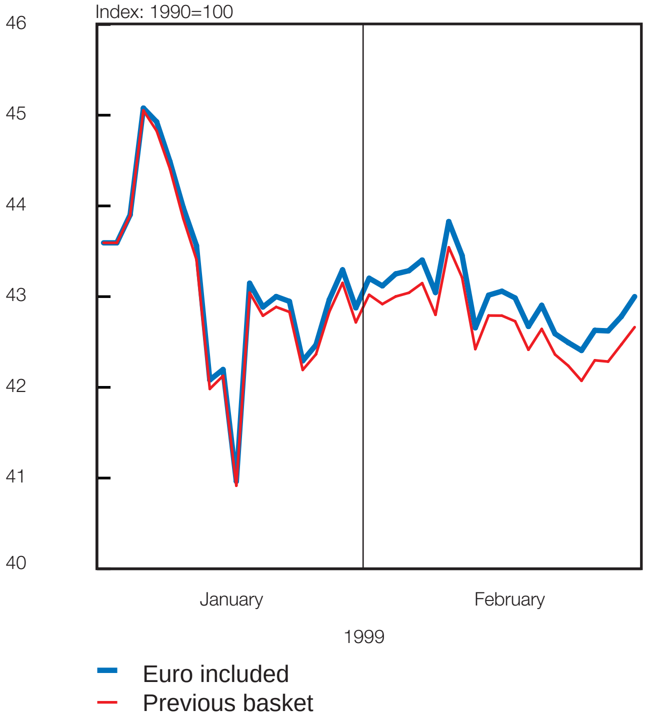
Owing to the important role that the euro is expected to play in international financial markets and international trade in goods and services, the Reserve Bank decided to substitute the euro for the German mark in the trade-weighted index of the nominal effective exchange rate of the rand, with effect from the beginning of January 1999. The increased weight of the euro in the new basket of currencies resulted in a downward adjustment of the weights assigned to all the other currencies in the index.

Table 2. Weights of the various currencies in the basket[1)]
Percentage

	Up to 31 Dec 1998	From 1 Jan 1999
US dollar	51,7	42,8
British pound	20,2	16,7
German mark/euro	17,2	31,6
Japanese yen	10,9	8,9
Total	**100,0**	**100,0**

1) Weights are based on total trade in merchandise and services and by taking into account the currency denomination of commodities traded on international markets.

Nominal effective exchange rate of the rand



The increased weighting of the euro in relation to the weight previously assigned to the German mark, together with the general weakening of the euro against the dollar, resulted in slightly higher index values for the nominal effective exchange rate of the rand than would have been the case had the German mark on its own still formed part of the currency basket (see accompanying graph).

The calculated index values of the nominal effective exchange rate of the rand, based on the amended weighting scheme introduced at the beginning of January 1999, are indicated on page S-105 of this edition of the *Quarterly Bulletin*.