

COMMISSION
OF THE EUROPEAN COMMUNITIES

Directorate-General
For Economic and Financial Affairs



**ECU
MARKETS
REVIEW**

PART 1
The ecu markets

PART 2
Statistical review and assessment

II / 85 / 94 EN , n° 5

CEE-DGII-D2-ECU

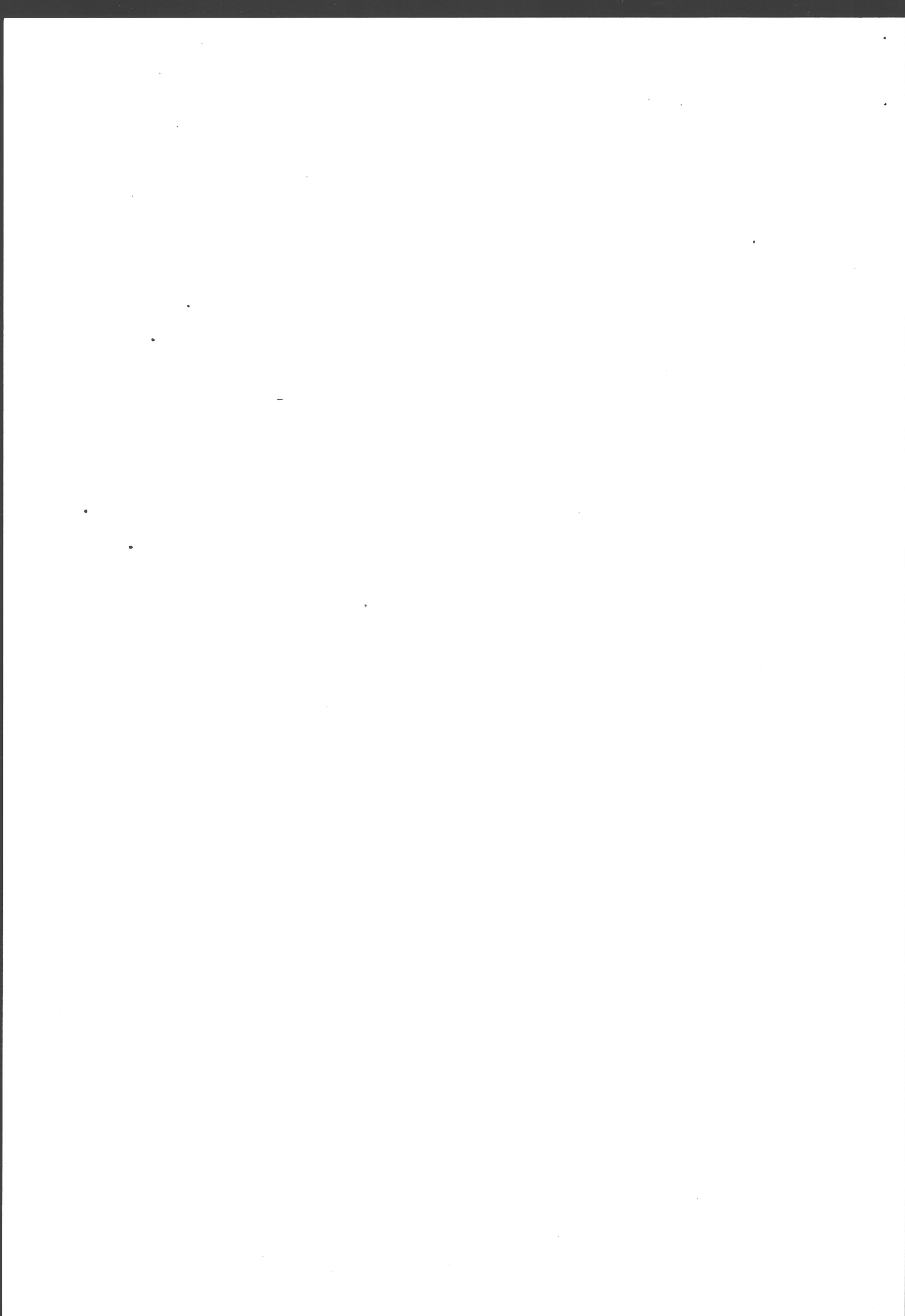
PERFORMANCE OF THE ECU MARKETS

DURING THE FOURTH QUARTER OF 1993

- *Ratification of the Maastricht Treaty on November 1 reaffirmed the commitment of Member States to the EMU process, and re-emphasised the dual role of the ecu as the future single currency and as a basket currency with inherently good characteristics as a borrowing and investment vehicle.*
- *A return to stability within the ERM, and a consequent reduction in risk premia, facilitated series of interest rate reductions in Member States, in line with fundamentals, and a narrowing of ecu exchange and interest rate spreads, to a "normal magnitude".*
- *The Ecu cash markets performed well. Issuing activity (sovereign and private borrowers) achieved a good level (9 new issues, ecu 5.1bn). Secondary market turnover was generally firm, and, indeed, achieved a record high on October 22.*
- *Swap market activity improved markedly. Indeed, by and large, swap opportunities determined the pace and extent of primary market activity during the quarter as a whole.*

OUTLOOK

- *Attention in the ecu sector will focus on the volume of funds to be released by maturing paper during 1994; ecu 5bn in the first quarter alone, and more than ecu 20bn during the year. While the ecu sector may be influenced adversely by issuing activity in some component sectors, well-targeted new issues will be capable of absorbing maturing, as well as additional, funds. Indeed, the volume of successful issues during January 1994, as well as the diversity of borrower and instrument, can be interpreted as indicators of a sound level of activity on the cash markets.*
- *Measures to improve market liquidity, for example as recently outlined by the French and Italian will underline the attractiveness of the ecu sector during the year.*
- *Ecu interest rates and bond yields will show renewed falls during the first quarter (after some increases during January), on the back of expected inflation developments in component sectors. Furthermore, convergence towards comparable bund yields will be underlined by likely relative issuing activity in the two sectors, and perhaps also by an improvement in market sentiment vis-à-vis EMU. Consequently, while the prospect of lower funding costs will encourage borrowers to the market, investors will be attracted by continued bond market rallies. Furthermore, investors can be expected to extend along the curve in an effort to pick up yield.*



PART 1

THE ECU MARKETS

DG II D 2-ECU / M.S., C.C., A.R.

- I. Consequences for the ecu markets of the Ratification of the Maastricht Treaty**

- II. Remaining gaps and imperfections in the markets**

- III. Prospects for continued stability**
 - A. Aftermath of the temporary widening of ERM bands*
 - B. General reduction in interest rates from the middle of October*
 - C. Market operators exhibit renewed interest in the ecu markets*



I. Ratification of the Maastricht Treaty

On November 1, 1993, the Treaty of Maastricht was ratified by the Member States. By so doing, they reaffirmed their commitment to the process of European Monetary Union (EMU). This has important implications for three specific elements of the EMU process in particular: the ecu; Stage II; and the convergence criteria.

Significance for the ecu *

As a consequence of the entry into force of the Treaty of Maastricht, the monetary amounts, rather than the component weights, within the ecu basket were irrevocably frozen until the beginning of Stage III. The following extract (see box 1) from a press release issued by Commissioner Christophersen on November 8, 1993, summarizes the advantages which result from the freezing of the ecu basket.

It is important to be clear, though, that the freezing of the ecu basket does not mean that the component weights will be fixed until the beginning of Stage III. Rather, they will continue to change as a result of changes in the market value of any one of the component currencies within the ecu basket. Nothing has altered in this respect. Table 1 summarizes the evolution of component weights since the introduction of the ecu in 1979.

As the above extract indicates, separately to its present role as a basket currency, the Treaty also designates the ecu as the future single currency of EMU. It will assume this role from the beginning of Stage III. Consequently, from this date the ecu's value will be frozen in terms of these currencies entering in EMU. Furthermore, to ensure continuity with the present all assets and liabilities denominated in participating Member State currencies outstanding at this date will be converted into ecu at the market exchange rate prevailing on the date when Stage III begins. In addition, of course, given the slight change which will occur in the definition of the ecu at this time (from a basket currency to a currency in its own right), basket ecu-denominated assets and liabilities outstanding at the beginning of Stage III will be converted into 'single currency ecu' on this date at a rate of one for one.

* The ecu is a currency basket composed of fixed amounts of each of the currencies of the EC member States. Its value can be calculated in terms of any of the component currencies, and this value can in turn be used to derive the weight of each currency within the basket. By excluding the possibility of further basket recompositions, the monetary amounts of each currency composing the ecu basket, as defined at 21.09.89, will henceforth be irrevocably fixed until the beginning of Stage III, at which time the ecu will become a currency in its own right.

Box 1**The Freezing of the Ecu Basket**

The freezing of the monetary amounts (composition) of the ecu basket has several advantages, the Commissioner says:

1. As the ecu will be adopted as the single european currency within Stage III of European Monetary Union, it is essential that it continues to evolve as a strong and stable currency in the meantime. With no possibility of further basket recompositions, this objective will be achieved as economic convergence between Member States continues.
2. By freezing the monetary amounts of component currencies within the ecu basket as opposed to irrevocably fixing the weight attached to each currency in the basket a reduction in uncertainty associated with the use of the ecu in financial and commercial transactions will be achieved concurrent with a further hardening in the value of the ecu.
3. Removing the risks associated with a modification of the monetary amounts of component currencies within the ecu basket will encourage further increases in the depth and liquidity of ecu financial markets and will better facilitate their smooth function :
 - for those participants who stabilize the ecu exchange rate by taking positions in the ecu against the basket;
 - for all operators in the ecu clearing system, where interest rates are computed on the basis of the basket composition.

Table 1 :

THE FREEZING OF THE BASKET (Art 109.G)			
	Frozen Monetary Amounts	Weights	
		21.09.89	17.11.93
DM	0.6242	30.10 %	32.428 %
FF	1.332	19.00 %	20.014 %
HFL	0.2198	9.40 %	10.180 %
BLF	3.431	7.90 %	8.427 %
DKR	0.1976	2.45 %	2.591 %
IRL	0.008552	1.10 %	1.062 %
	Sub-Tot. (1) :	69.95 %	74.702 %
LIT	151.8	10.15 %	8.082 %
UKL	0.08784	13.00 %	11.542 %
DRA	1.44	0.80 %	0.524 %
PTA	6.885	5.30 %	4.439 %
ESC	1.393	0.80 %	0.712 %
	Sub-Tot. (2) :	30.05 %	25.299 %
	TOTAL (1) + (2) :	100 %	100 %

II. Remaining Gaps and Imperfections in the Ecu Financial Markets

Positive changes in the ecu financial markets

The depth and institutional sophistication of the ecu financial markets continued to evolve during 1993. To this end, a number of structural changes, including the introduction of a formal market-maker scheme on LIFFE, of ESO by the UK authorities, and a similar scheme by the French government, are noteworthy. These, as well as other improvements announced at the beginning of 1994 by the authorities in France and Italy, are designed to improve further the liquidity of the ecu cash and derivative markets, and thereby assist the development of this sector in ways most beneficial to ecu users.

Nonetheless, bearing in mind the future role of the ecu as the single European currency, and therefore the need to continue the process of "ecu familiarization" ahead of the beginning of Stage III, there remain a number of areas in which market development has so far been less than fully satisfactory. Given the predominant role of Member State governments, as well as EU institutions, within the ecu sector, there would seem to be a valid opportunity for these to introduce further measures to facilitate market development, alongside endogenous market innovation.

In the cash markets

In terms of the cash markets, one can highlight two problems in particular which could constrain future development.

Firstly, a lack of regular, on-going borrowing programmes. These are essential to the development of any financial market. Without such, the absence of regular benchmark issues, as well as new paper more generally, will deter institutional funds from entering the secondary market in sufficient volume as to foster a sustained, and substantial, increase in turnover compared to present levels. Of course, institutional investors are interested primarily in specific, rather than market-wide, liquidity; in this regard, a number of ecu benchmarks, most notably OAT's and UK Treasury notes, do enjoy liquidity comparable to the most liquid Eurobond issues. However, the liquidity of many other ecu benchmarks falls well short of this mark, while intermediate maturities tend to be illiquid. From the perspective of overall market maturity ahead of Stage III, it is important that liquidity is adequate right the way along the yield curve.

Second, there is a lack of debt outstanding in the ecu sector, which, again, hampers secondary activity. This is primarily a reflection of the low number of issuers at any one maturity across the yield curve. Without other, additional borrowers responsibility

for the development of a particular maturity range represents a heavy burden for sovereign and supranational borrowers to shoulder, given also obligations in domestic debt markets. From this perspective, the recent increase in the number of private borrowers active in the primary market was an encouraging development, although private ecu issues tend to be bought by retail investors who, as implied above, tend not to trade portfolios actively.

The volume of funds to be released by maturing paper during 1994, approximately ecu 20 bn, offers a significant opportunity to potential borrowers in ecu. However, it is also clear, given current market preferences, that borrowers will be obliged to target issues very specifically in order to ensure that available funds are indeed re-absorbed by the market. This, again, highlights the need for other borrowers to complement sovereigns and supranationals; retail investors tend to be attracted by current-coupon Eurobond issues.

In the derivatives markets

Ecu derivatives (futures, swaps and options) products markets also remain somewhat underdeveloped.

To an extent, of course, the ecu hampers its own development in this regard, since its inherent stability makes it less attractive than most other currencies for trading.

Furthermore, this problem is reinforced by the relatively low level at present of outstanding large ecu exposures.

In addition, however, further, marked increases in the liquidity of derivatives contracts will require an increase in the usage of the ecu for commercial purposes, and, in turn therefore, a reduction in discriminatory national legal and non-legal obstacles which inhibit an increase in the number of natural ecu users.

Derivative illiquidity of course has negative consequences for cash market development. For instance, much of the early development of the ecu primary market was swap-driven. And while swap activity is, of course, also based upon asset-trading, a significant amount is the result of end demand, implying that further growth in this market, and therefore in the primary market as well, will be a function of growth in the volume of ecu end users (of course, there is also a direct link between issuing activity and the commercial usage of the ecu).

III. Prospects for continued stability

Throughout the fourth quarter of 1993, the situation in the ecu cash and derivative markets remained stable; this was due both to the reinforcement of the legal framework concerning the ecu achieved by the ratification and implementation of the Treaty of Maastricht (as discussed above), as well as economic, technical and institutional improvements:

A. Aftermath of the temporary widening of ERM bands

By comparison with the high volatility of bilateral ERM exchange rates during much of the third quarter (that is, preceding the August 2 decision of the Council of Finance Ministers to widen temporarily the bilateral fluctuation margins of all currencies participating in the ERM, from +/-2,25% to +/-15%), participating currencies were very stable during the fourth quarter. There were, nonetheless, a few periods of mild strain within the system, mainly during October and focused in particular upon the BFR and the FFR.

Consequently, the spread between the strongest and weakest currencies (7-9% throughout the third quarter, between the HFL - the strongest currency within the grid during this period - and the DKR) decreased from the middle of September, to reach 6% at end-October (also, the DKR was replaced by the BFR as the weakest currency in the period to the end of October). It narrowed further from the beginning of November, and was 4-5% during December (at which time also the weakest currencies within the system were the DKR and the PTA).

B. The general reduction of interest rates from the middle of October

Lower risk premia facilitated a general reduction in interest rates. However, while the markets had expected the first round of reductions to occur at the end of the third quarter, understandable caution on the part of the Bundesbank in fact delayed any loosening of domestic monetary stance until the fourth quarter. The first cut in German interest rates in the wake of the July ERM crisis took place on October 21 and was quickly followed by rate reductions in other participating Member States.

Subsequently, of course, the weakness of the DM facilitated further cuts in component currency rates in the absence of similar changes in DM rates. Latterly, however, this capacity to effect rate cuts independently of monetary developments in Germany without adverse implications for relevant currencies (given continued commitments to maintain exchange rate stability within the ERM) has dissipated. While, therefore, further reductions in Member State interest rates are expected by the markets during the coming months, the extent and timing of these adjustments will be closely linked to favourable developments in key German economic and monetary variables.

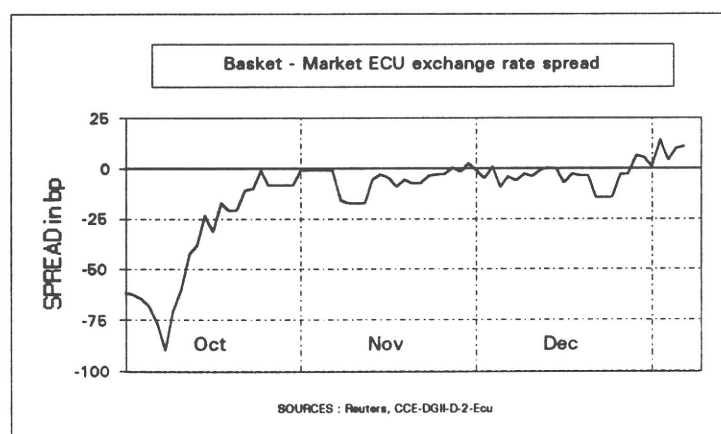
C. Market operators exhibited renewed interest in the ecu sector during the fourth quarter

Several reasons can explain this upswing in interest:

- * confidence in the underlying strength of the ecu markets, encouraged by the satisfactory performance of these markets during the July ERM crisis, the subsequent reduction in risk premia and volatility, and by the continued commitment of supranationals and sovereigns to the ecu markets;
- * clarification, via the Treaty of Maastricht, of the current, and future, legal and definitional status of the ecu, leading to a reduction in uncertainty;
- * retail investors, particularly Swiss and Benelux, "rediscovered" the ecu as an interesting investment vehicle, given its basket characteristics;
- * swap opportunities for professional investors increased markedly, leading, by itself, to an increase in primary issuing activity.

The increase in the attractiveness of the ecu markets is highlighted by table 1, which shows the evolution during the **fourth quarter** of the differential between ecu basket and market exchange rates:

Table 2



During the latter part of the **third quarter**, this spread fluctuated between -159bp (August 2) and -39bp (end-September). The width of the spread was due mainly to some residual uncertainty within the ERM, leading to occasional periods of strain, as well as to external influences, for instance political uncertainty in Russia.

However, immediately after the German constitutional Court decision to ratify the Maastricht Treaty on **October 12**, the spread between the ecu basket and market exchange rate declined by +40bp to -21bp. This reflected a reduction in risk premia, as the markets responded to the confirmation of the legal and definitional status of the ecu contained within the Treaty of Maastricht.

The spread subsequently narrowed further, to approximately +/-10bp during much of November and all of December.

ANNEXE

Table 3 : issuing activity during the fourth quarter

Typ.	Cat. of Issuer	Date of Issue	Issuer	Nat.	Amount (ecu mn)	Maturity	Coupon	Lead Manager	Dur
Dom	Sovereign	28.09.93	French OATs	FR	1298.0	25.04.2004	6.00%	Trésor Public français	10
Dom	Sovereign	19.10.93	UK T-NOTE	UK	500.0	23.01.1996	8.00%	Bank of England	3
Dom	Sovereign	21.10.93	Italian CTEs	It	750.0	26.10.1998	7.75%	Tresor Banca d'Italia	5
Dom	Sovereign	24.11.93	Italian CTEs	It	1000.0	29.11.1998	7.00%	Tresor Banca d'Italia	5
Dom	Sovereign	Q4.1993	Greek ecu-linked bond	Gr	189.0	1994		Greeck Treasury	1
Dom	Sovereign	Q4.1993	Greek ecu-linked bond	Gr	235.0	1996		Greeck Treasury	3
Sovereign					3972.0				
Euro	Instit.	13.10.93	EC	IO	1000.0	03.11.2000	6.00%	CSFB/ Dresdner Goldman Sachs	7
Euro	Instit.	20.10.93	Council of Europe	IO	100.0	14.11.2011	6.37%	Goldman Sach UBS	8
Euro	Instit.	22.10.93	EC	IO	475.0	25.11.1998	5.50%	BZW/SBC	5
Institutional					1575.0				
Euro	Private	05.11.93	Elf Aquitaine	FR	15.0	05.11.1998	6.00%	Société Générale	5
Euro	Private	28.10.93	Halifax Bldg Soc.	UK	150.0	12.11.1998	5.87%	UBS	5
Euro	Private	22.10.93	Fleetwings Ltd	US	50.0	17.11.2003		Citibank	10
Private					215.0				
TOTAL					5762.0				

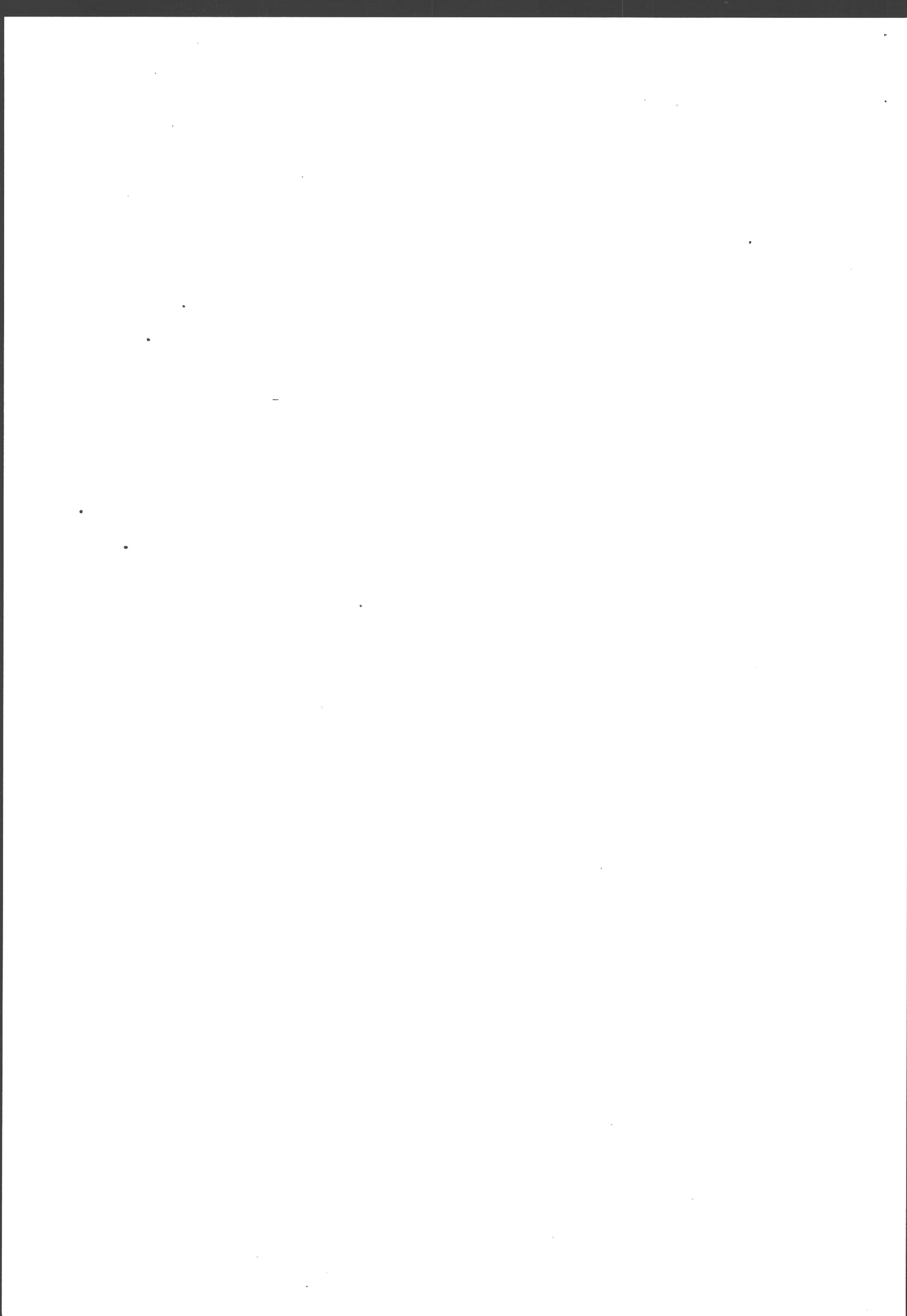
Sources : DG II-D-2, Euroclear, Cedel, Eurostat

PART 2

STATISTICAL REVIEW AND ASSESSMENT

DGII - D - 2 - ECU / M.S - C.C. - A.R.

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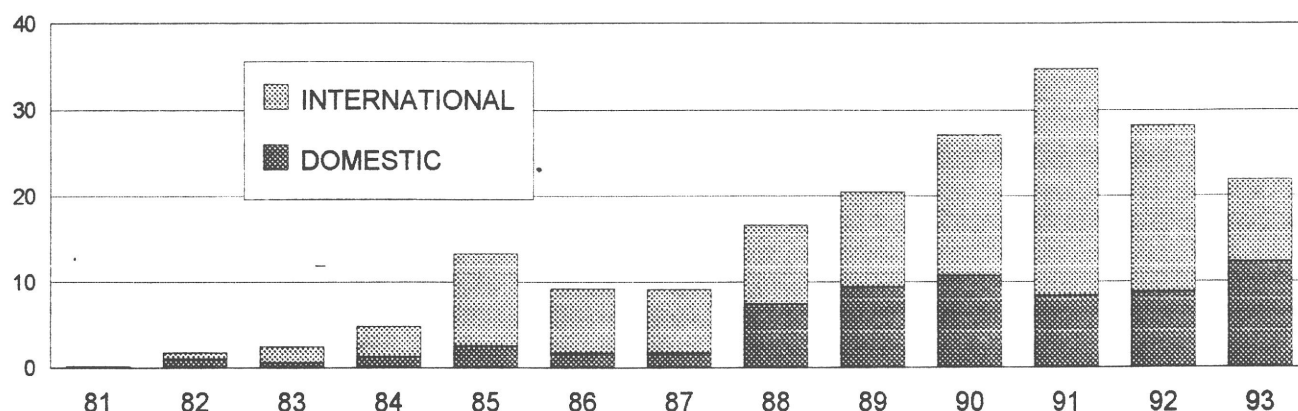
I. FINANCIAL MARKETS

A. PRIMARY BOND MARKET

(Amounts issued in Billions Ecus)

Last update : 31.12.1993

Historical Evolution

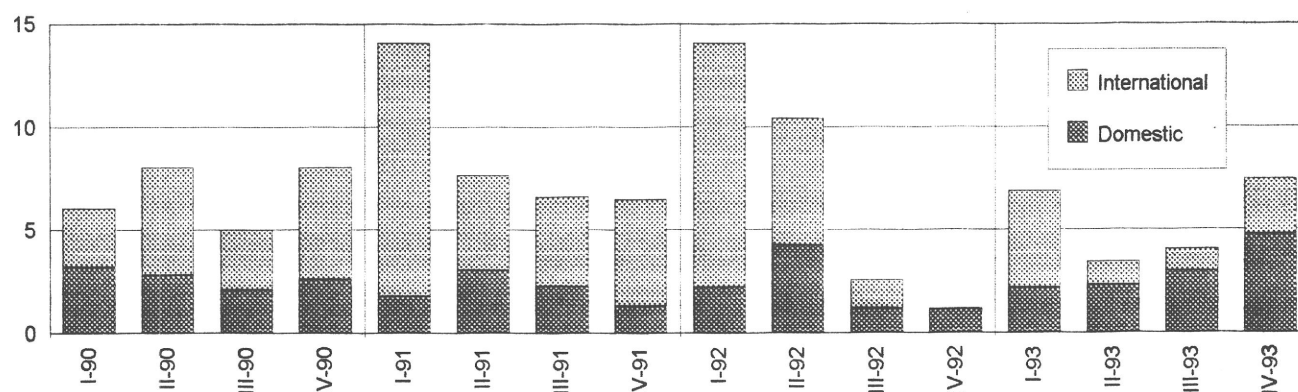


Throughout 1993, new stimuli were given to the market by, on the one hand, the flow of new issues from Sovereign (France, Italy, the UK, Greece), EEC Institutions (EIB, Council of Europe, EC) as well as some private borrowers, and, on the other hand, the positive outcome of the Edinburgh summit in December 1992.

However, the market remained somewhat fragile, subject to intermittent periods of pressure, in particular during July 1993, but also as a result of continued uncertainty vis-à-vis the legal definition of the ecu which persisted until the ratification of the Treaty of Maastricht.

Nevertheless, demand was relatively good and facilitated the issue of more than ecu 20 bn during the year.

Recent Evolution

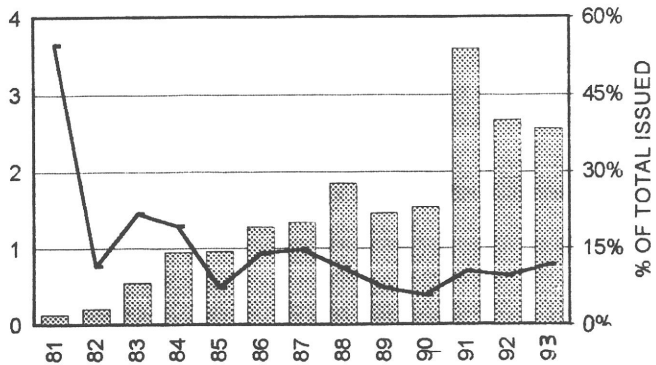


Facilitated by a marked increase in swap opportunities, as well as (during October and November at least) high redemption flows, twenty-two new issues (see table end of Part 1.), totalling ecu 6.9 bn, were brought to the market during the fourth quarter - compared to third quarter of 1993 (ecu 3.87bn) and fourth quarter of 1992 (ecu 1.14bn) -; thirteen by sovereigns, four by institutions and five by private borrowers. Furthermore, it was private issuers who gave pace to the market in the wake of the July ERM crisis; private borrowers issued 73% of new papers during October, followed by Sovereign and Institutions.

However, the quarter ended rather quietly, with no new issues during December. This was due mainly to a fall-away in demand, for example as institutions sought to close balance sheets at year-end.

Bonds by type of issuer

E.E.C. INSTITUTIONS

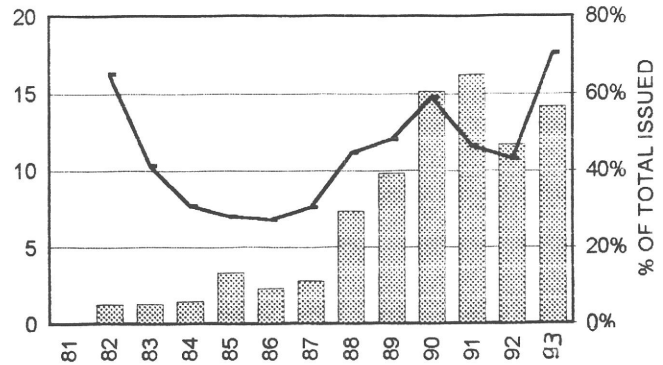


During October and November, EEC institutions were resented in the ecu market. consequently, their share in the primary market rose from 0 % in the third quarter to 23.9 % during the fourth.

The EC successively launched issues of ecu 1bn and ecu 475mn (both to be on-lent to Italy) while the Council of Europe issued ecu 100mn.

In 1993, as a whole, EEC institutions came back to the market rather later than the Member States and the private sector. Nevertheless, their share of total issuing activity increased from 9.8 % in 1992 to 12.8% in 1993.

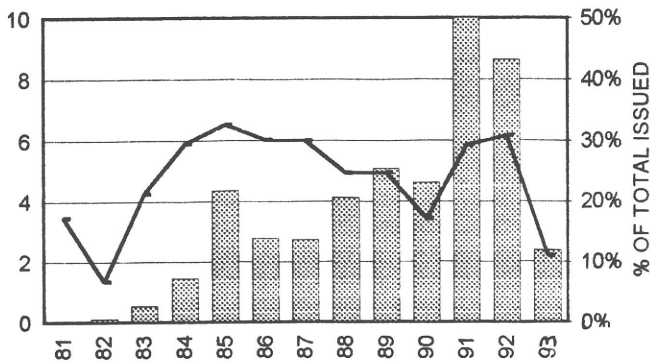
MEMBER STATES



In the fourth quarter, Member States issued 56.6 % of new paper brought to the market, after 77.3 % in the previous quarter. France, Italy and the UK continued their regular issuing programmes. France issued ecu 1.052bn OATs, while UK launched an ecu 500mn T-Note and Italy a total of ecu 1.75bn.

On annual basis, Member States showed their commitment to the monetary union process by increasing their share of total issuing activity to 70.0 % in 1993, compared to 43.1% in 1992 and 46.3% in 1991.

NON E.E.C.

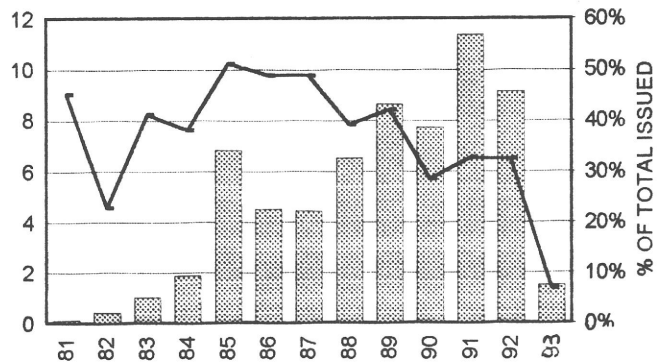


Throughout the fourth quarter there were no new issues by non-EEC borrowers.

During 1993, as a whole, however, the two non-EEC issuers active in the ecu sector were respectively Finland and Sweden, issuing a total of ecu 1.6bn of 5 7-8-year maturity bonds.

As a result, the non-EEC share of issuing activity in 1993 decreased to 12.1 % (back to the level of 1987), after having reached 31.8 % in 1992.

PRIVATE SECTOR

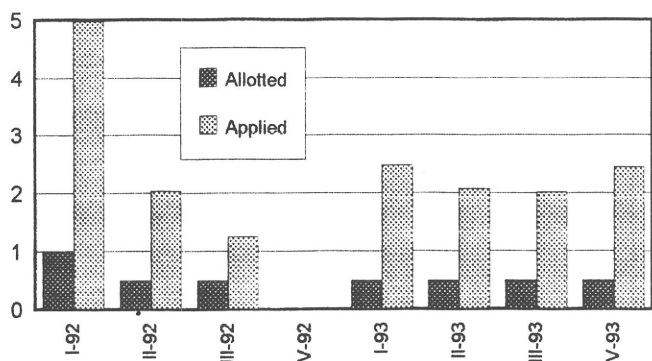


Private borrowers came to the market during the fourth quarter 1993, with new issues totalling ecu 450mn.

Thus, the share of the business sector's issues decreased from 20.1% in the third quarter to 7.3% in the fourth quarter of 1993. For 1993, as a whole, this sector share was 7.3 %, compared to 33.7 % in 1992 and 32.4 % in 1991.

Long Term Domestic Programmes

UK T-NOTE PROGRAMME IN ECU

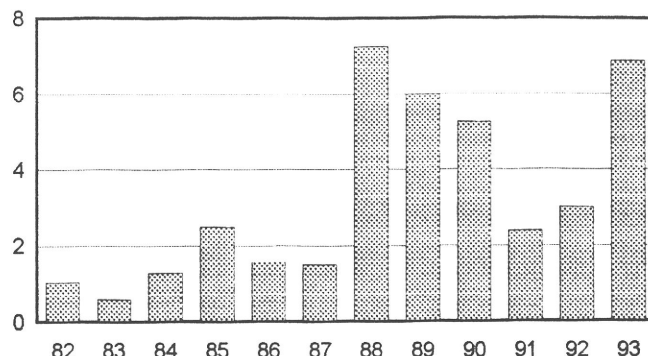


The Bank of England continued its regular 3-year ecu 500mn T-note issuing programme, each quarter.

All issues had a bid-to cover ratio of between 4 and 5; the average yield, in the line of the UK trend of short term interest rates, declined from 7.99 % in the first quarter to 5.87 % in the fourth.

Subsequent auctions will involve issues of ecu 1 bn, rather than ecu 500 mn. The next tender will take place on January 21, 1994.

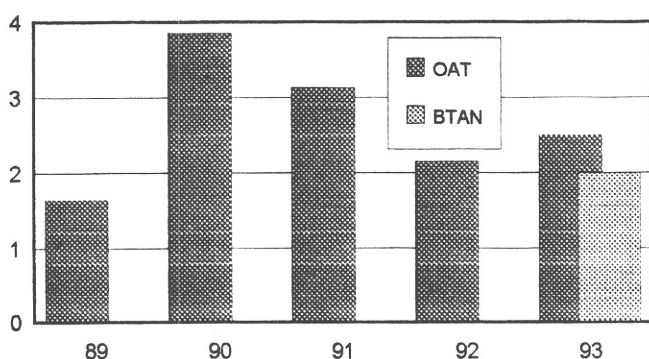
ITALIAN TREASURY CERTIFICATES IN ECU (CTE's)



The value of CTEs issues continued to increase during the fourth quarter (ecu 2.55 bn), as compared to the third quarter (ecu 1.75 bn), and also on an annual basis, with ecu 6.9 bn issued during 1993 compared to ecu 3 bn in 1992.

Again in line with general interest rate decline across Europe, the coupon on CTE issues declined from 10.30 % at the beginning of 1993 to 7.00 % at the end of the year. However, Italian ecu paper continued to offer high yields relative to other issues, reflecting for instance a lower credit rating.

FRENCH FUNGIBLE TREASURY BONDS IN ECU (OAT's and BTAN's)

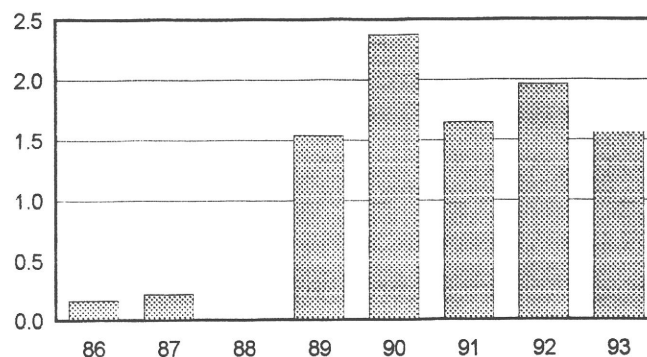


During the last quarter of 1993, ecu 1.298bn OAT due April 25, 2004, was issued, and was well received by the market.

However, it didn't meet the 15% budget deficit, mainly due to technical reasons although operators expected an other auction during the year end period.

For 1993, as a whole, and within the French objective to meet 15 % of the public deficit via quarterly issues in ecu, the Banque de France issued ecu 2.5 bn OATs and ecu 2 bn BTANs.

GREEK ECU-LINKED BONDS



During the fourth quarter a total of ecu 424 mn was issued; this was a significant increase compared with the previous quarter (ecu 234.9 mn); however, internal economic and political problems, as well as the July ERM crisis turbulences hindered any further issuing activity.

The yield on 3-year paper declined from 9.35 % in January 1993 to 6.25 % at year end; the yield on 1-year securities declined from 8.90% to 5.95 % over the same period.

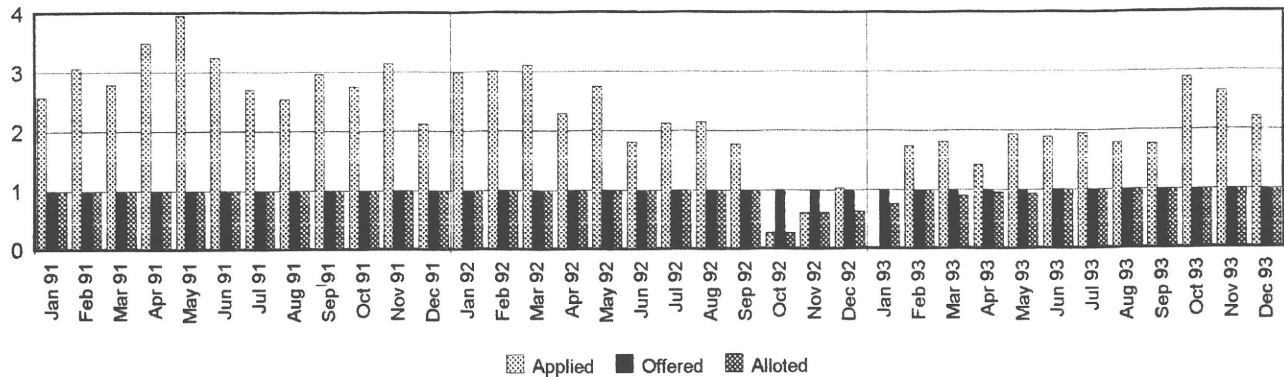
For 1993, as a whole, the regular monthly issues of 1 and 3-year bonds totalled ecu 1564.5 mn.

C. SHORT TERM DOMESTIC PROGRAMMES

(Billions Ecus)

Last update : 31.12.1993

U.K. TREASURY BILLS Primary market

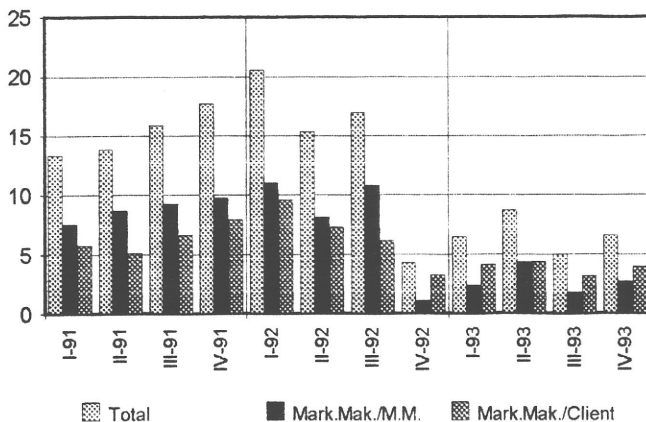


The UK continued its monthly issuance programme of ecu Treasury bills. During the fourth quarter, there were two tenders of ecu 1 bn, with a bid-to-cover ratio of between two and three.

Furthermore, during 1993 as a whole, the UK issued approximately ecu 11bn of ecu Treasury bills, although the total outstanding remained little changed throughout.

All tenders were characterised by a decline in yields, e.g. the average yield on 3-month bills dropped from 10.07 % in January to 7.94 % in December.

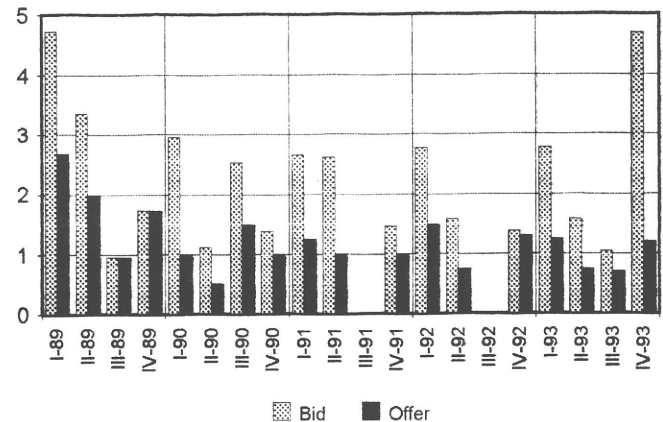
U.K. TREASURY BILLS Secondary market



In the fourth quarter of 1993, turnover increased slightly, to ecu 3.9 bn from 3.1 bn ecu in the previous quarter. This, however, remains very low compared with the turnover in the 1991 fourth quarter of 7.9 bn, but it was slightly higher than in the same period of 1992 (ecu 3.2 bn).

Over the year on the whole, turnover reached ecu 15.5 bn, far below the levels of 1992 and 1991 (ecu 26 bn and ecu 25 bn, respectively). Moreover the share of market makers remained quite stable at about 60 % of the total.

ITALIAN TREASURY BILLS Primary market



The Italian Treasury launched a ecu 3.9 bn 1-year BTE in 1993, approximately offsetting maturing paper.

Yields decreased throughout the year, from 10.48 % in January to 7.19 % at year end.

During the fourth quarter, the Treasury successively issued two ecu 600mn 1-year BTE's, which met a bid to cover ratio of 4 and were fully allocated.

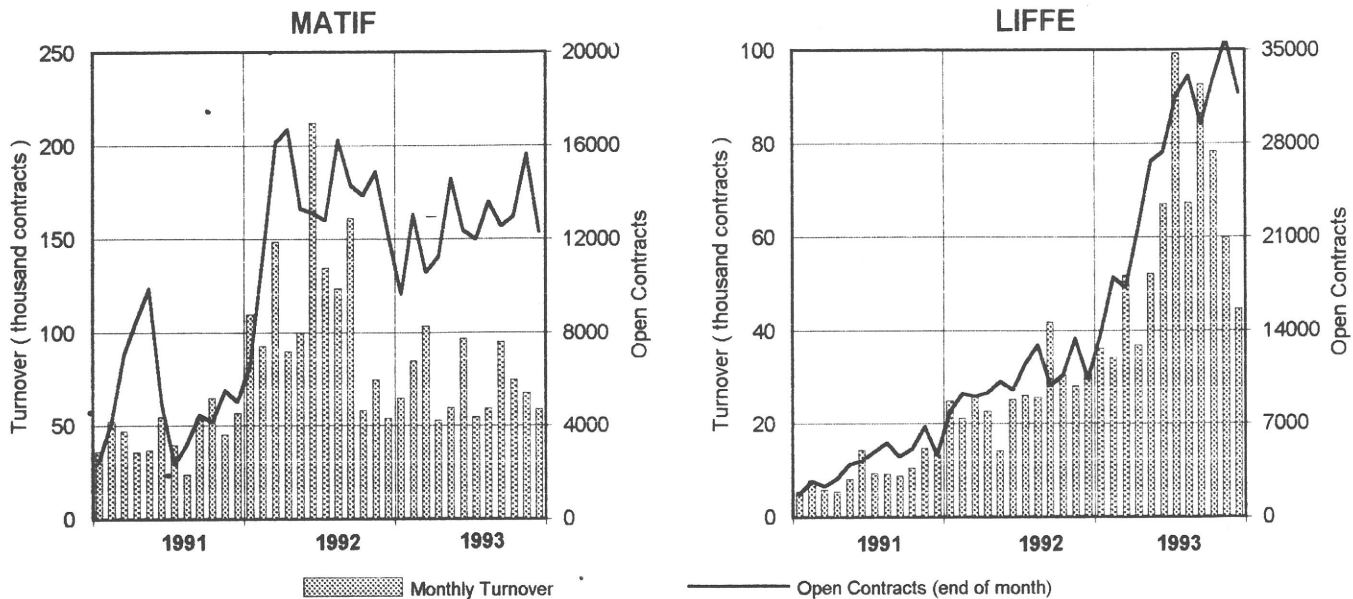
D. DERIVATIVE MARKETS

(Billions Ecus)

Last update : 31.12.1993

LIFFE and MATIF Futures Contracts

Although the primary ecu market did not reach the levels of 1992, trading volumes in ecu long term futures contracts on the MATIF remained reasonable throughout 1993, while on the LIFFE ecu short term contracts continued to increase.



Following a strong performance in September, activity slowed during the fourth quarter, although it remained reasonable nonetheless.

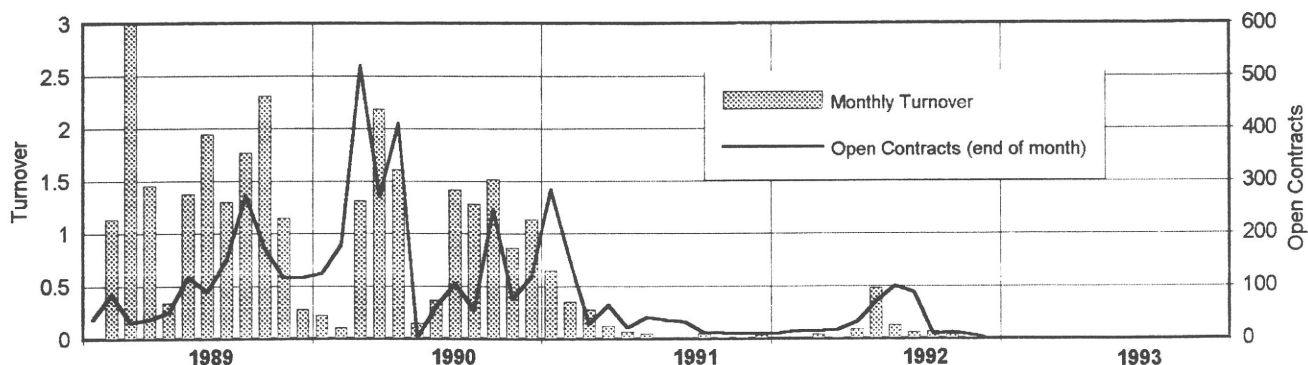
Monthly volume on the MATIF slid back from 95.200 contracts in September to 74.900 in October, 67.700 contracts in November, and 58.900 contracts in December.

During 1993 as a whole, the volume of MATIF (873.010 contracts) decreased by 35.8% as compared to 1992. This was due mainly to the decline in issuing activity during 1993 relative to 1992.

Traded volumes of the LIFFE short-term interest rate contract also decreased during the fourth quarter, as compared to the previous period: 78.400 contracts were traded in October, 59.800 in November and 44.700 in December; these volumes compare with 92.600 in September (a record high).

However, over 1993 as a whole, there was an increase in traded volumes, as well as the liquidity of the ecu contract, on the LIFFE: 720.790 contracts traded in 1993, compared to 316.780 during 1992. The increase in liquidity was largely due to the introduction of a Designated Market Maker Scheme.

FINEX Ecu / Dollar Options Contract



During the fourth quarter of 1993 no FINEX ecu contracts were traded.

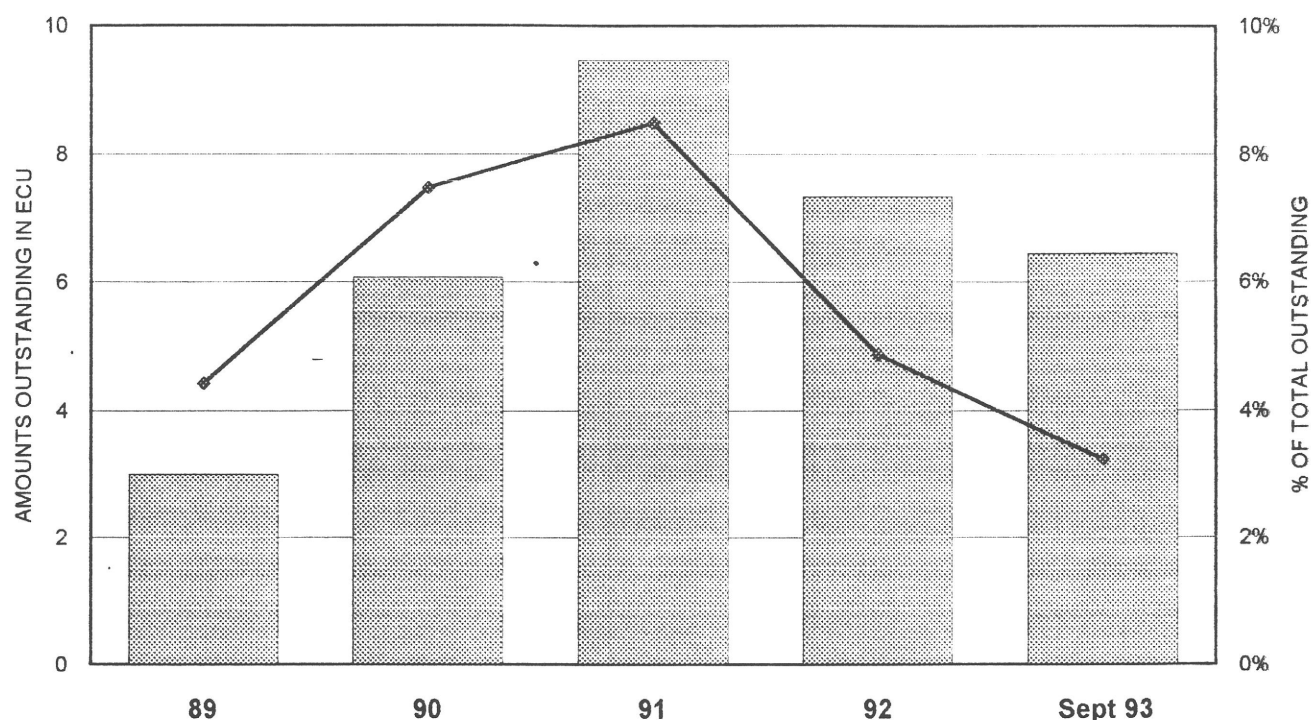
However, prospects for the reopening of ecu/USD option and future contracts have brightened recently, with the probable establishment of a new trading market in Dublin.

E. EURO NOTES

(Billions Ecus)

Last update : end of September 1993

Commercial Paper and Medium Term Notes Outstanding



During the third quarter of 1993, total outstanding amount of ecu papers declined and reached ecu 6.4 bn (composed by its three components: ecu 1.3 bn of Euro-commercial papers, ecu 1.9 bn of other short term euro-notes denominated in ecu, and ecu 3.3 bn of Medium-term notes), compared to ecu 6.5 bn during the second quarter of 1993 and ecu 8.7 bn during the third quarter of 1992.

Nevertheless, on an annual basis, as a whole, total outstanding amount in ecu increased, from ecu 150.8 bn in 1992 to ecu 177.7 bn in 1993 (end of third quarter).

It is noteworthy that a non-EC private, the Western Australia Treasury Corporation, came to the market during December, with a ecu medium term quasi-commercial paper, for an amount of ecu 60 mn (maturity of 1 year, carrying a zero-coupon).

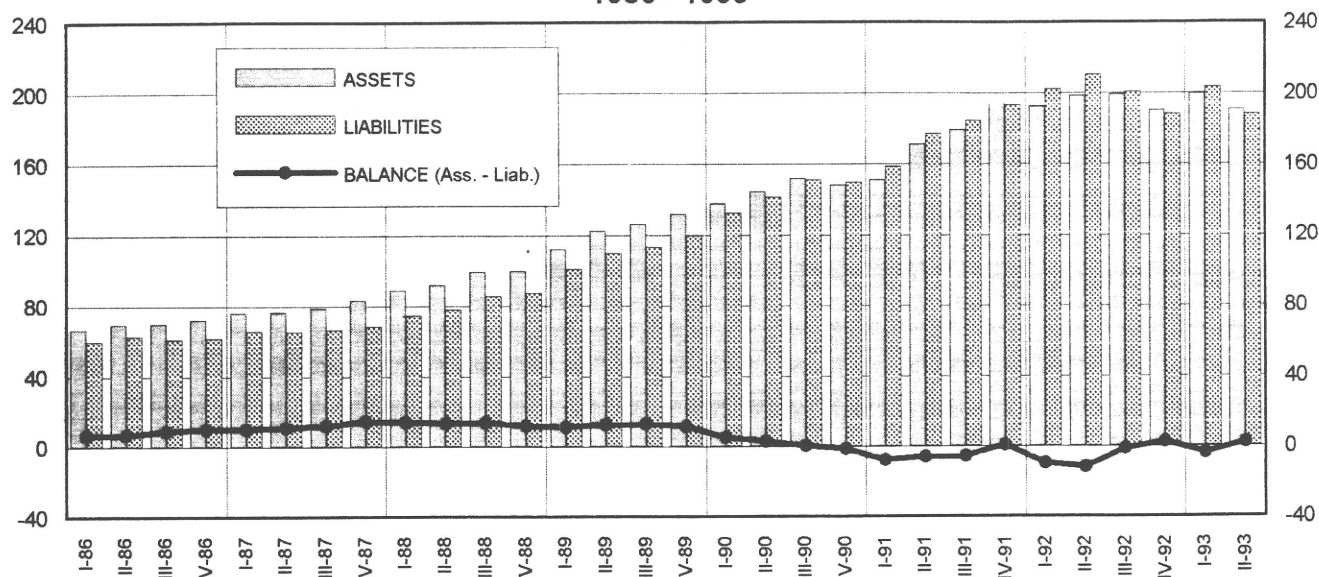
II. BANKING MARKET

ASSETS AND LIABILITIES

(Billions Ecus)

Last update : End of June 1993

TOTAL 1986 - 1993

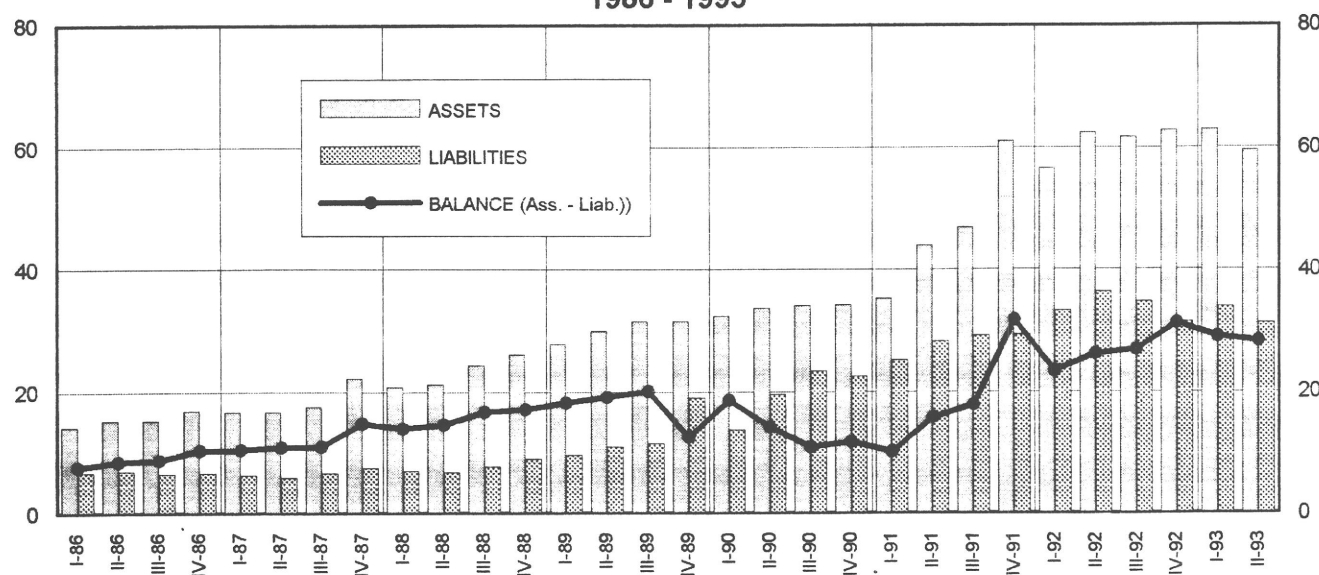


Since the beginning of 1992, the net-liability position has declined from about 5 % to 1.3 % (at the end of the second quarter of 1993), mainly due to a decline in banks' liabilities as a result of decline in Central banks' official holdings of ecu.

Thus, over the period as a whole, while total assets were little changed (falling from ecu 199.79 bn during the first quarter of 1993 to ecu 190.64 bn during the second quarter), liabilities declined more sharply from ecu 203.52 bn to ecu 188.11 bn.

NON-BANK

1986 - 1993



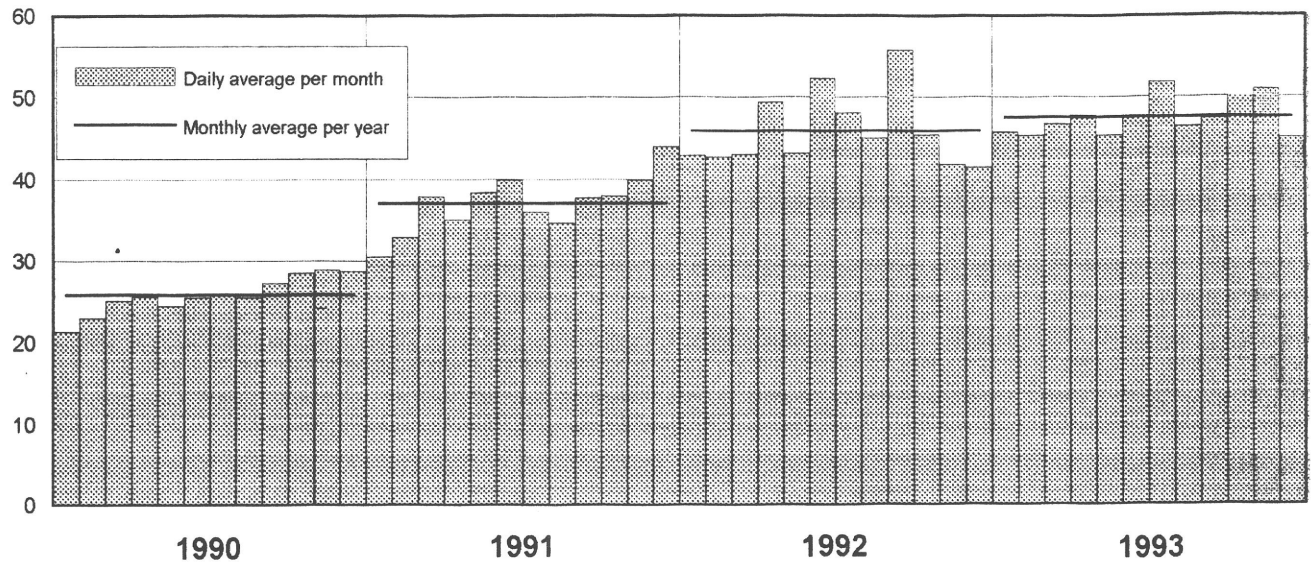
Compared to the first quarter of 1993, liabilities and assets decreased during the second quarter, by ecu 2.6 bn and by ecu 3.45 bn respectively; thus the gap between assets and liabilities remained reasonably stable at 47%. In 1993 as a whole, non-bank assets and liabilities (31 % of the total ecu banking market) remained stables; although the net-asset imbalance of this sector declined slightly compared to 1992, from 50 % to 46 %.

B. ECU CLEARING THROUGH S.W.I.F.T.

(Billions Ecus)

Last update : 31.12.1993

DAILY AVERAGE TURNOVER PER MONTH



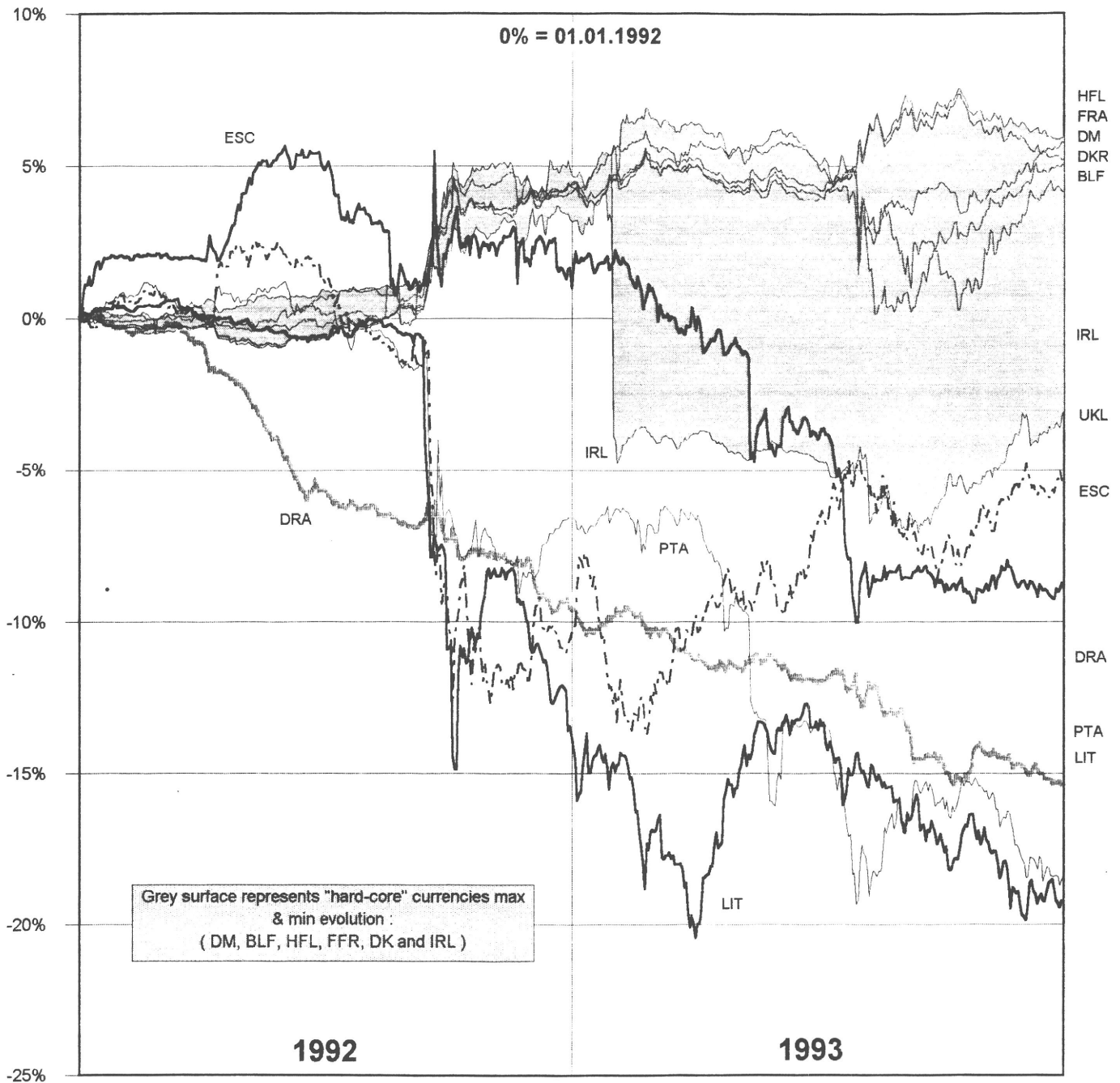
Daily average turnover through the S.W.I.F.T. network continued to increase, reaching ecu 47.6 bn in 1993, compared to ecu 47.1 bn during the previous year.

Furthermore, fourth quarter average daily turnover, which peaked in November (ecu 50.9 bn), greatly exceeded the comparable period of 1992 (ecu 42 bn), although the latter figure was particularly low due to uncertainty associated with the onset of problems within the ERM.

III. EXCHANGE RATES

Last update : 31.12.1993

EXCHANGE RATE MOVEMENTS VIS-A-VIS ECU



In the wake of the ERM crisis of July in 1993 and the decision of August 2 to widen temporarily the fluctuation bands of the ERM, from $\pm 2,25\%$ to $\pm 15\%$, exchange rate volatility has reduced dramatically between ERM currencies.

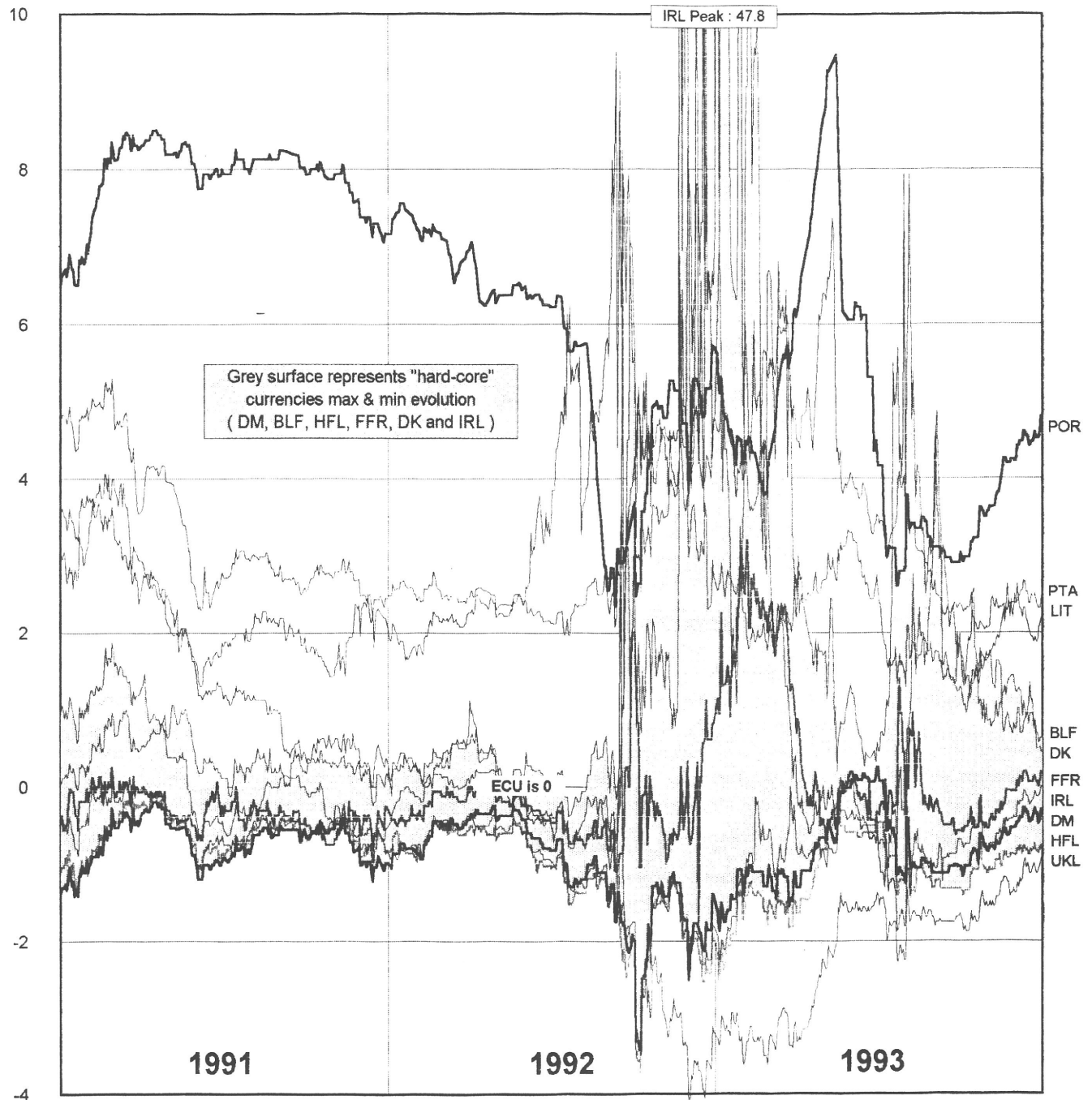
Within the "hard core" of the EMS, there have been two subsequent events of particular interest. First, concurrent to the reduction in volatility, these currencies have converged, leading to a strengthening in the ecu. Second, the DM weakened during this period, thereby facilitating unilateral interest rate reductions in some other Member States without adverse effects for their currencies.

In terms of other EMS currencies, the UKL and the ESC regained stability. While the LIT has continued to suffer, this has been due to a persistence of political problems, rather than the result of economic fundamentals. One can expect that LIT emphasis will return to economic factors during 1994, and particularly after up-coming elections.

IV. INTEREST RATES

Last update : 31.12.1993

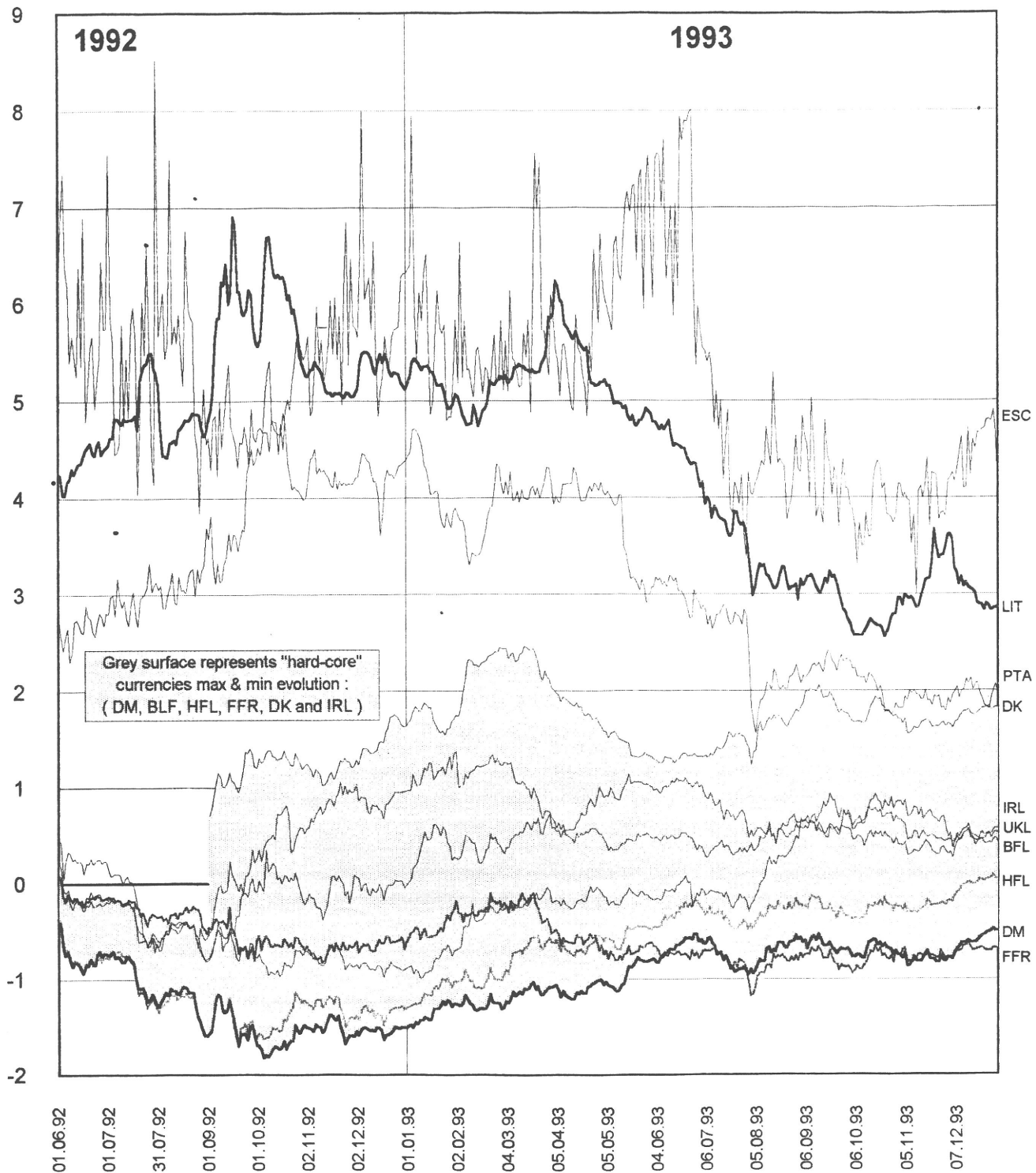
SHORT TERM DIFFERENTIAL AGAINST ECU



After October 21, the general reduction of European interest rates (except UK rates) - following the initiative of the Bundesbank to cut its "key-interest" rates by 50 bp - pushed yields, including the ecu, downwards; in addition, yields also converged generally during the fourth quarter.

However, there were some exceptions, for instance yields on Portuguese (which continued to increase despite reductions in short term interest rates), on Italian (which continued to fluctuate marginally) and on Spanish papers (here, at least, the short term rate differential was stabilised).

LONG TERM DIFFERENTIAL AGAINST ECU



Long term component rates remained quite stable vis-à-vis the ecu during the fourth quarter of 1993.

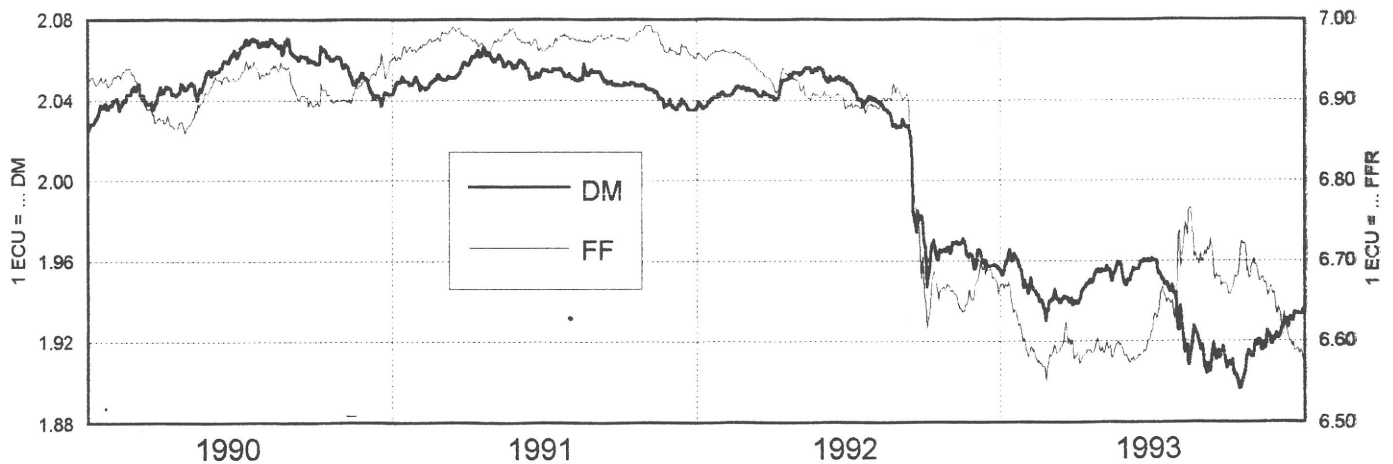
Within the "hard core" of the EMS, long term differential were stable, with Dutch, German and French interest rates remaining below the ecu long-term rates, while Belgium and Irish differential rates moved closer at the end of the quarter to about 0.5 % over the ecu long-term rate. Only Denmark, which suffered most as a result of the decision of August 2, 1993 to widen temporarily the ERM margin bands, had long-term rates which continued to rise, albeit slightly.

Outside the "hard core", UK long term rates converged like Belgium and Irish rates, while the Escudo fluctuated marginally with an increasing premium vis-à-vis the ecu, from 3.2 % in the beginning of October to 4.8 % at the end of December, and the Italian Lira recovered at the end of the quarter the level of the end of October.

V. DM and FFR : EXCHANGE and INTEREST RATES

Last update : 31.12.1993

DM and FFR EXCHANGE RATE vis-à-vis ECU



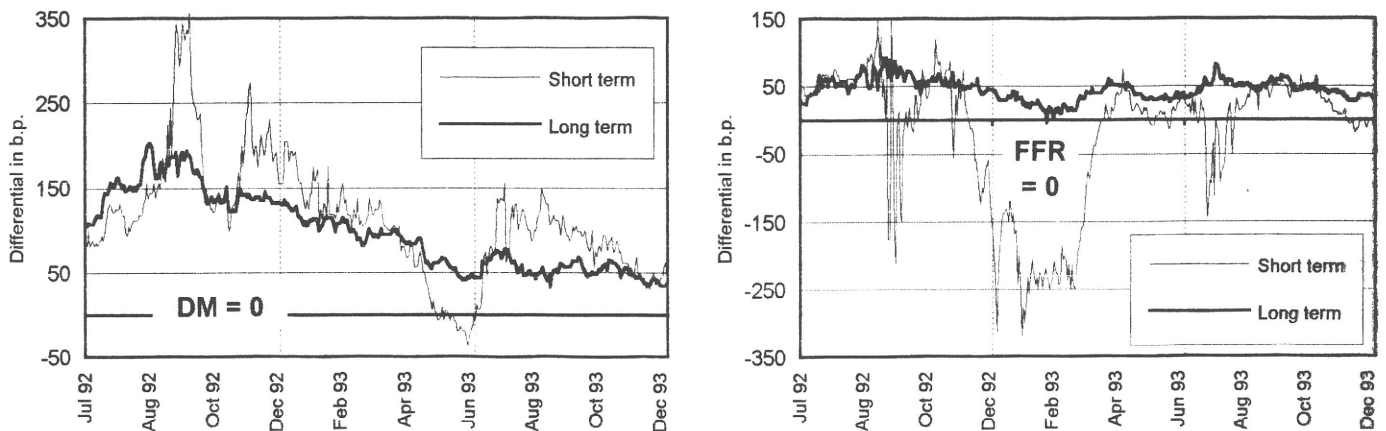
In terms of relative positions, the ecu depreciated marginally, by 0.92 %, against the DM, from August 2 until the end of September, while it appreciated, by 1.04 %, against the FFR during the same period.

During the fourth quarter the ecu appreciated approximately by 1.78 % against the DM, to ecu1/DM1.935 at the end of the period.

Although the ecu also initially appreciated marginally against the FFR, by 1.05 % to ecu1/FFR6.72 on 20/10/93, the subsequent strength of the FFR reversed these gains.

Indeed, during the fourth quarter as a whole, the value of the ecu fell by 1.2 % against the FFR, to end the period at ecu1/FFR6.57.

DM and FFR INTEREST RATE DIFFERENTIAL vis-à-vis ECU



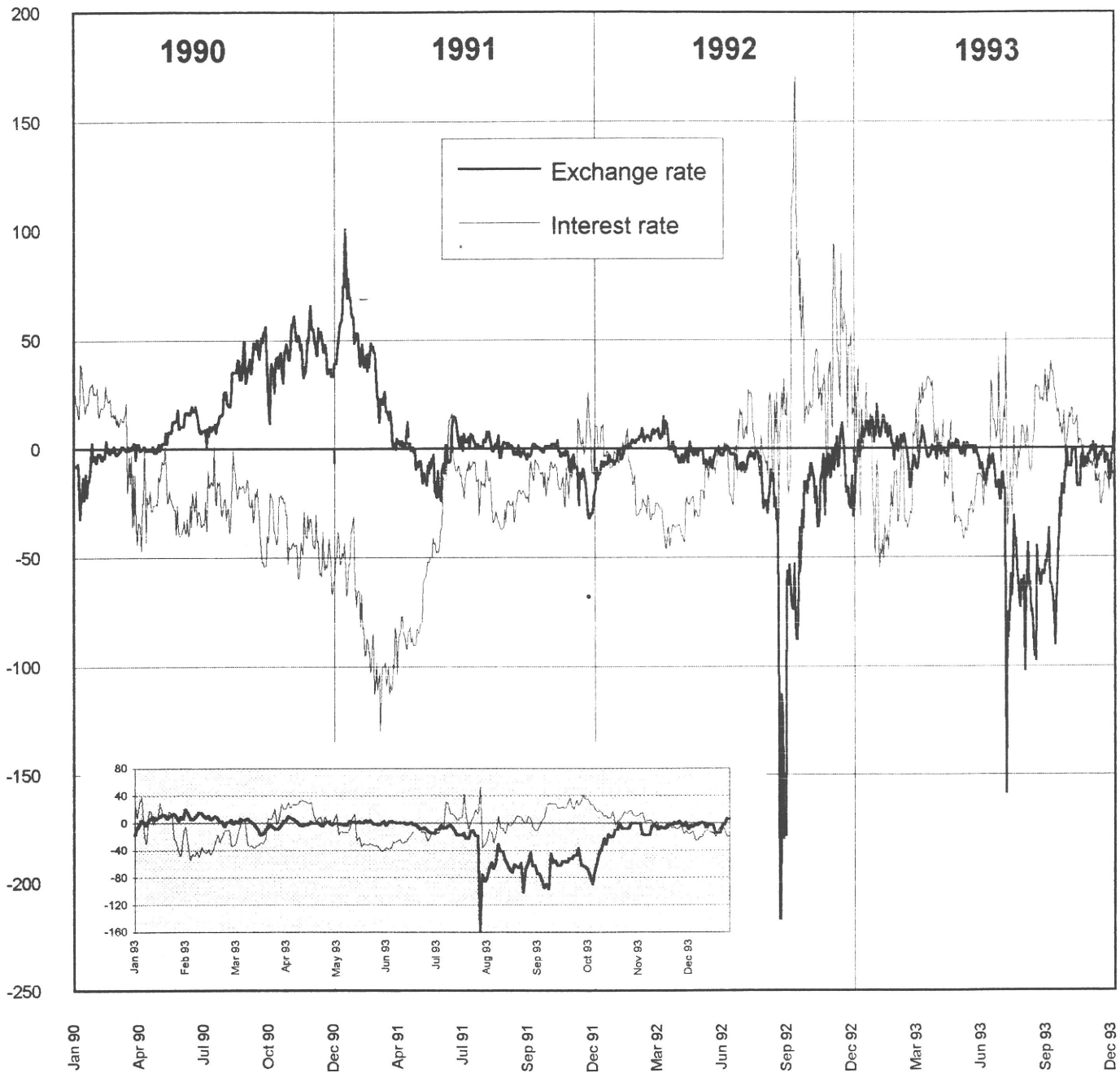
During the latter part of the third quarter, the markets were dominated by expectations of early and substantial interest rate cuts in Member States, given the temporary widening of ERM bands, the generally depressed state of real sector activity and subdued inflation expectations in these countries. These interest rate expectations were felt in the ecu market, too. Consequently, the 3-month ecu market interest rate fell substantially, from 8.06 % on July 30 to 7.13 % at the end of the first week of August. In addition, however, this reduction was also due to the general decline in risk premia experienced in the wake of the July ERM crisis.

During the fourth quarter, first reductions of interest rates in component sectors were effected. In the wake of DM and FFR interest rate reductions during this period (-94 bp and -69 bp, respectively), the ecu 3-month interest rate fell sharply, to end the period at 6.25 %. Consequent to the above, ecu/DM and ecu/FFR spreads tightened substantially during the period, by 53bp to 40bp and by 74bp to -19bp, respectively.

VI. EXCHANGE AND INTEREST RATES SPREADS

Last update : 31.12.1993

THEORETICAL VERSUS MARKET RATES SPREADS IN b.p.



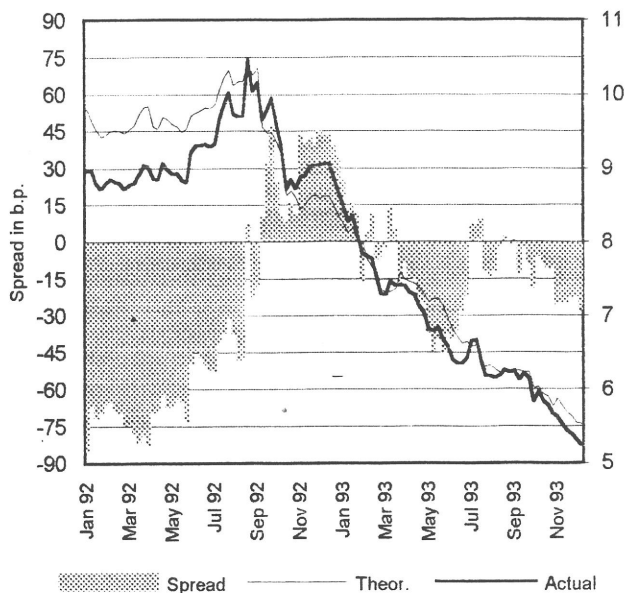
During the first half of 1993, spreads always fluctuated around zero, within a range never exceeding -9 or +11 bp. Compared to ERM crisis in September 1992, where the spread between ecu theoretical and market exchange rate reached a peak of -200 bp, the situation during the ERM crisis of July 1993 was better; the spread reached a peak of -160bp, before returning to a normal range much more quickly, i.e. from the end of October 1993.

The 3-month interest rate spread narrowed regularly during the year; after the Danish ratification of the Maastricht Treaty on May 18, the temporary widening of ERM bands on August 2, the decision of the German Constitutional Court on October 12, and the official ratification of the Maastricht Treaty.

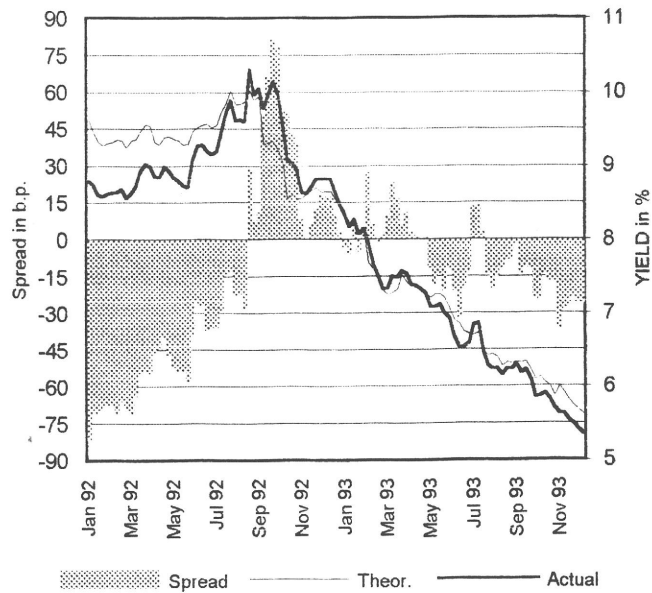
VII. YIELDS

Last update : 31.12.1993

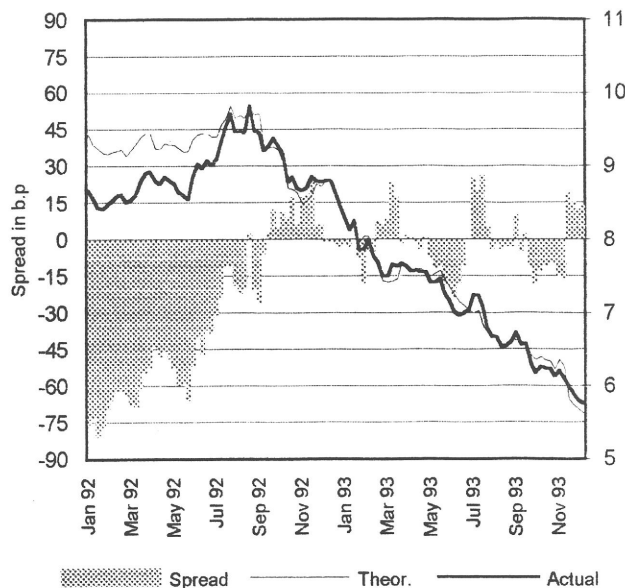
3 YEARS



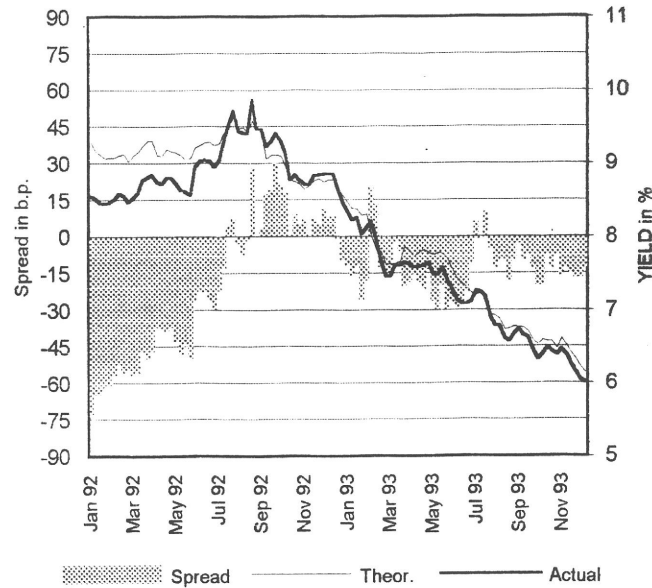
5 YEARS



7 YEARS



10 YEARS



During 1993, as a whole, yields continued to fall along the curve. They fell markedly from October 1993, due to the general reduction in component yields. Member States' monetary stance continued to underline their commitment to return the inverse yield curve; as the long end of the curve decreased faster than the short end, the yield curve steepened during the fourth quarter.

During the fourth quarter, except for the 7-year maturity, market yields remained below theoreticals as a result of the ratification of the Treaty of Maastricht, and thus the reduction in risk premia. In 1993 as a whole, the 3-5-10 year securities had again market interest rates below the theoreticals, only for the 7-year securities market rate marginally went above and below the basket rate.



EXPLANATIONS

PRIMARY MARKETS

SOURCE : O.S.C.E., IFR, Cedel

Type of issuer E.C. Institutions : European Investm. Bank, ESCC, EURATOM, EC Commission, EC Member States : EC Governments
Non-E.C. : Non-EC Institutions, non-EC Governments, non-EC Privates
Private Sector : EC and non-EC Private Borrowers

NB : Total is not 100 % because a issuer may be counted in more than one group (ex: non-EC Privates)

Domestic Programmes UK T-NOTES : 3-year Treasury Notes, introduced in 1992
ITALIAN CTE's : from 4-year to 8-year Treasury Certificates, introduced in 1982
FRENCH OAT's : from 5-year to 30-year Fungible Treasury Bonds, introduced in 1989
GREEK ELB's : from 1-year to 5-year Ecu-Linked Bonds, introduced in 1986

REM: payment date is considered

SECONDARY MARKET

SOURCE : Cedel, Euroclear

The average monthly turnover data (based on nominal value) are the sum of Cedel's and Euroclear's data, including issues of 17 countries :the 12 EC countries, the 4 Scandinavian countries and Canada.

Transactions registered are: - clearance between customers : only one side is counted ;
- bridge (Cedel/Euroclear) transactions : double-counting is avoided ;
- physical movements via depositaries : both receipts and deliveries.

Amounts received in US\$ are converted with ecu / UD\$ monthly average exchange rate.

SHORT TERM DOMESTIC PROGRAMMES

SOURCE : Bank of England, Banca d'Italia

UK T-BILLS : Treasury Bills (1, 3 and 6-month maturities), introduced in Oct. 1987
ITALIAN BTE's : 1-year Treasury Bills, introduced in Oct. 1987

DERIVATIVE MARKETS

SOURCE : MATIF, LIFFE, FINEX

MATIF : Ecu Long Interest Rate Futures, introduced in Oct. 1990
Unit of trading: ecu 100.000 (nominal value)
LIFFE : Ecu 3-Month Interest Rate Futures, introduced in Oct. 1989
Unit of trading: ecu 1.000.000
FINEX : Exchange Rate Futures, introduced in Jan. 1989
Unit of trading: ecu 100.000 (nominal value)

EURO NOTES

SOURCE : Bank for International Settlement

Amounts outstanding for commercial paper, other short term Euro-notes and medium term notes

BANKING SECTOR

SOURCE : Bank for International Settlement

TOTAL Assets and liabilities (bank and non-bank)
NON BANK Assets and liabilities (non-bank)

ECU CLEARING THROUGH S.W.I.F.T.

SOURCE : E.B.A.

SWIFT : Society for Worldwide Interbank Financial Telecommunications as telecommunication network used by the E.B.A. ecu clearing system.

Daily private banking transactions cleared in ecu.

EXCHANGE RATE

SOURCE : C.C.E.

EMS currencies' exchange rate movements vis-à-vis ecu (0 % variation is 01.01.1992)

INTEREST RATES

SOURCE : Financial Times

E.E.C. currencies short (3-month) and long (10-year) term interest rates differentials against ecu

ECU / DM EXCHANGE AND INTEREST RATES

SOURCE : C.C.E, Telerate

ECU / DM daily exchange rate at 14.15 Brussel's time

ECU / DM short (3-month) and long (10-year) term interest rates differential

ECU EXCHANGE AND INTEREST RATES SPREADS

SOURCE : C.C.E, Reuters, KB

Interest Rates Spread = Ecu Market 3-month Interest Rate - Ecu Basket 3-month Interest Rate

Exchange Rate Spread = 100 - Bid and Offer Exchange Rate Average

(Bid and Offer Exchange rates are expressed vis-à-vis Basket Exchange rate, which is 100)

ECU YIELDS

SOURCE : Deutsche Bank AG London

Theoretical yields : composite yields of bonds traded in component currencies.

Actual yields : yield observed on ecu securities