COMMITTEE FOR THE STUDY OF
ECONOMIC AND MONETARY UNION

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Questions relating to the ECU

1. Can measures promoting the use of the ECU strengthen the process of monetary integration and accelerate the attainment of economic and monetary union?

A number of promotional measures can be envisaged. Barring official action discriminating in favour of the ECU (which would result in highly undesirable and dangerous financial market distortions) and excluding a link between the official and the private ECU, there are, broadly speaking, two types of measures: direct encouragement (e.g. increased borrowing in ECUs by public sector authorities; larger exchange market interventions in ECU; "greater official support" to the ECU clearing system) and indirect encouragement (e.g. removal of restrictions on the private use of the ECU by giving it in each member country the status of a foreign or national currency; demonstration effects through increasing operations in official ECUs within the EMS and by enlarging the group of "third" holders).

What would be the general impact of such measures? Is it likely that they would stimulate to some extent the role of the ECU as an investment currency, but have little impact on its use in commercial transactions and as a unit of account at the retail level?

Even if the use of the ECU grew significantly, would it provide a strong impetus to monetary integration? The supporters of this idea presumably assume that a growing presence of ECU-denominated financial investments and, in particular, transaction balances will force upon central banks a much closer co-ordination of their policy and advance the need for a European central bank in charge of the ECU. However, in practice much will depend on how the increased use of the ECU is distributed within the Community. If there is a markedly different propensity to use ECUs in

individual Community countries, would that not render policy co-ordination much more difficult? What are the views of the Committee?

2. Why should the ECU become the single currency of the Community?

Clearly, a spreading use of the ECU as a borrowing and investment instrument and as a means of invoicing and settling commercial transactions would facilitate the replacement of national currencies by the ECU. But the decisive step before the Community can consider the adoption of a single currency is the irrevocable locking of exchange rates (and when this step will be reached might depend much more on an effective co-ordination of policies than a growing use of the ECU). Once exchange rates are permanently fixed the ECU will become a very close substitute for any national currency. While in principle any of the existing national currencies could then be selected to become eventually the Community's single currency, would the Committee agree that it is mainly for psychological and political reasons that the ECU should be chosen?

3. Should the ECU play a role in the conduct of a common monetary policy?

Gov. Ciampi's proposal advocated the use of the official ECU as a reserve instrument in order to manage a common monetary policy in the Community. Are other schemes for a common monetary policy conceivable in which the official ECU can play a role? In considering this question the Committee may wish to take into account that the ECU should not become a parallel currency (i.e. the official ECU must remain an asset used only within the circle of central banks) and the fact that the official ECU performs already now a number of functions in central bank operations.