

THE ECU



Europe
on the move



Although not yet a fully fledged currency, the ecu is already used in prize money for sporting events — here at the Antwerp tennis tournament.

The ecu is the European currency. This has been decided by a majority of the Heads of State or Government of the European Community (EC). EC citizens can already use this currency in a variety of ways. They can open bank accounts in ecus, pay with ecu cheques or buy ecu bonds. But the ecu still lacks a number of features that would allow it to be called a fully fledged currency.

For instance, governments have not yet made it legal tender, there is no European Central Bank responsible for the ecu and no ecu banknotes or coins have been issued. The minting of ecu coins in some EC countries including Belgium, France and Spain is primarily a symbolic gesture intended to give concrete expression to their determination to achieve an economic and monetary union in Europe (EMU).

*'A single currency
long before the year
2000'.*

*Jacques Delors,
President of the
Commission of the
European
Communities*

To enable the ecu to become a fully fledged currency, the EC Member States embarked on Stage I of EMU in the middle of 1990, the start of Stage II being planned for 1994. Before 1997 they will examine whether the conditions for full monetary union are met, with the ecu replacing the national currencies as the single European currency.

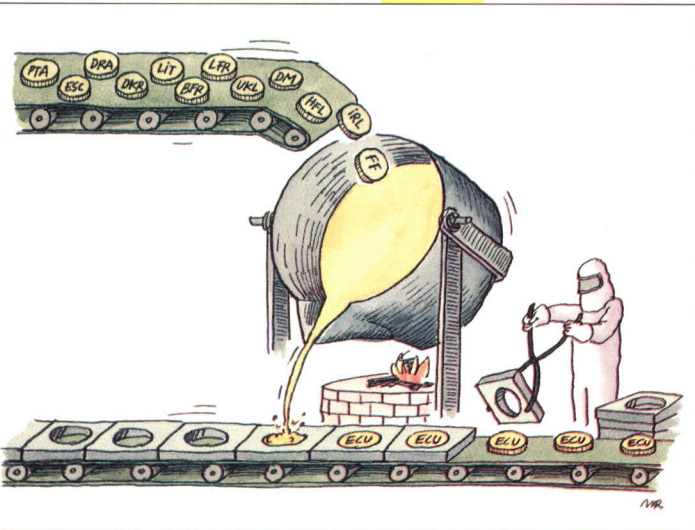
The term ecu is derived from a French coin which was in circulation as far back as the thirteenth century. The ecu developed from the common units of account (u.a. and EUA) which were found to be necessary in the EC. The present ecu was created in 1979, together with

the European monetary system (EMS). Since then, it has been defined as a basket-type currency made up of specific amounts of Member States' currencies that reflect their economic importance. It plays a pivotal role in the EMS, in which the central banks of the participating Member States support the exchange rates of each other's currencies. An extensive private ecu market in bank lending and in other loans and securities has evolved in parallel. In addition, the ecu, like any other currency, is used in international commercial transactions for the issuing and settlement of invoices.

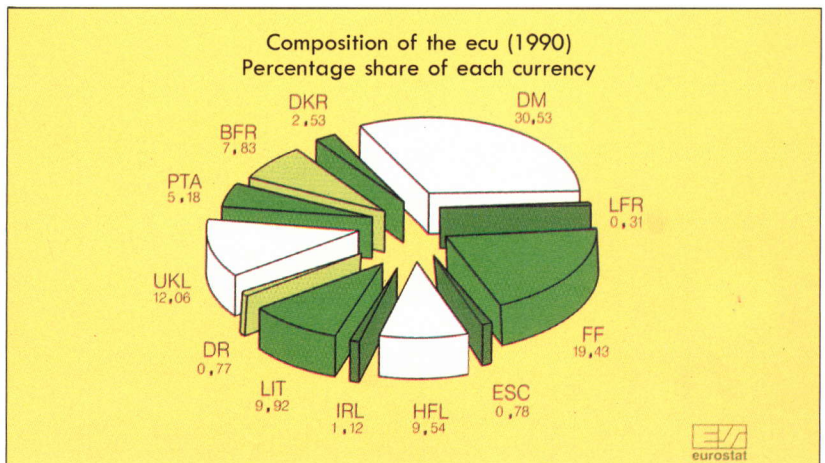
PRIVATE USE

There has been a considerable increase in the use of the ecu on private markets over the last 10 years or so. It is used as a currency for loans, for interbank lending and lending to individuals, for settlements between multinational companies and in foreign trade, as well as occasionally, albeit on a limited scale, for cheque transactions or savings accounts. The ecu's most important function is as a currency for denominating loans and for interbank monetary transactions. On the international bond market it is now one of the top five currencies, joining the US dollar, the Japanese yen, the German mark and the pound sterling.

Two EC institutions, the Commission and the European Investment Bank, have



Mario Ramos

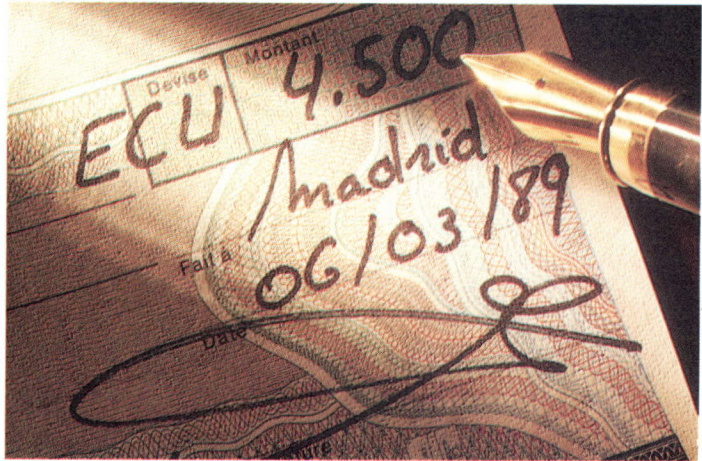


'It must be remembered that only an economic and monetary union, with a single currency, will make it possible to reap the full benefits of the single market process.'

Henning Christophersen,
Vice-President of the
Commission of the European
Communities

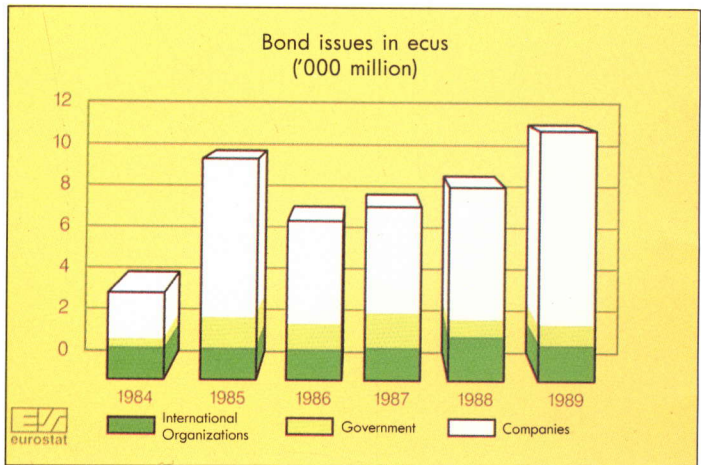
played a major role in this connection by denominating their own loans in ecus. Recently, some EC countries have raised large sums in ecus on the capital market. Investors and borrowers in Japan and the United States of America have also come to appreciate the ecu. It is no longer just a European currency; it has become an international one. The definition of the ecu used on private markets is the same as that of the official ecu within the EMS, that is, a basket consisting of specific amounts of the currencies of the Member States that reflect their economic importance. The ecu is popular as a borrowing and lending currency primarily owing to its stability, because, as a basket-type currency, it is an average and thus evens out the fluctuations affecting individual currencies and reflected in exchange rates and interest rates.

And so, despite the distinction made between the official use of the ecu by the central banks participating in the EMS and its use on private markets, a link exists in the shape of the common definition. These two areas will increasingly merge together as Member States' governments become more committed to promoting private use of the ecu and as the goal of achieving EMU in full gains in credibility and comes closer to realization.



Cheques too can be made out in ecus.

Bonds denominated in ecus are floated both inside and outside the Community (the latter accounting for 42% in 1989). Companies are the main issuers of ecu bonds on account of their greater stability, which affords increased security.



	European Community			Outside European Community		
	Companies	Government	Institutions	Companies	Government	Int. Organizations
1984	1.20	0.20	0.95	0.80	0.22	0.27
1987	2.06	1.00	1.34	2.20	0.45	0.30
1989	4.40	0.50	1.56	4.14	0.42	0.10

ROLE OF THE ECU IN THE EMS

The ecu plays a pivotal role in the EMS, which was set up in 1979.

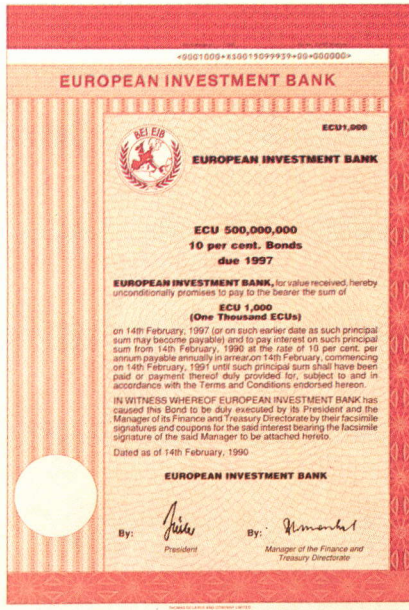
The purpose of the EMS is to create a zone of monetary stability in Europe. To this end, the exchange rates of the participating countries' currencies are stabilized. Thus, the exchange rates between two Member States' currencies are allowed to fluctuate by not more than 2.25% either side of a fixed rate. For certain countries, fluctuations of up to 6% are permissible for the time being. The ecu performs four functions within the exchange-rate mechanism of the EMS:

It is the benchmark for fixing the central rates on which calculation of the permissible fluctuations is based;

It constitutes the point of reference for an early-warning system designed to induce governments to take economic policy measures even before the permissible fluctuation margin of 2.25% or 6% has been reached;

It is the denominator for payment transactions between central banks and for settlements resulting from purchases and sales in support of exchange rates. Official ecus are created by Member States depositing 20% of their gold and US dollar reserves with the European Monetary Cooperation Fund (EMCF), through which settlements are made centrally;

It is the denominator for Community balance-of-payments' assistance to Member States in economic difficulties. The ecu used between EMS central banks is called the official ecu, and the term official ecu circuit is used to distinguish it from the private ecu circuit.



The European Investment Bank (EIB), the EC institution for the long-term financing of capital investment, raises by far the bulk of the funds required for its financing operations by placing loans on capital markets. Its loans regularly receive an 'AAA' rating, which is assigned to the category offering investors the greatest security. In 1981 the EIB was the first Community institution to issue a loan in ecus; today it is the world's biggest borrower and lender in ecus. It placed the first ecu loans in Austria, Denmark, France, Italy, Japan and Switzerland. In this way, it has for many years helped to promote wider use of the ecu and occupies an important position in all segments of the ecu market. In 1989 and 1990 the ecu ranked first (Ecu 1 800 million in each year) among the 15 currencies borrowed by the EIB.

Illustration: Example of a loan issued by the European Investment Bank (EIB).

The major currencies used for international loans

Currency	Percentages			
	1987	1988	1989	1990
US dollar	38.8	41.2	52.0	38.5
Yen	13.7	8.4	8.3	11.6
Swiss franc	12.9	11.1	7.5	10.0
Pound sterling	7.8	9.4	7.1	8.5
German mark	8.0	10.1	6.3	8.1
Ecu	4.0	4.9	4.9	8.5

A SINGLE CURRENCY BEFORE THE YEAR 2000?

There is a good chance that Europeans will have the ecu as their single currency before the year 2000. The 12 EC Member States started out on Stage I of EMU at the beginning of July 1990. The main aims during Stage I are to remove most of the remaining controls on money transactions and capital movements, and to achieve closer coordination of Member States' economic and budgetary policies and greater cooperation between central banks, the guardians of the value of money. Important decisions regarding future developments have been taken. For instance, a majority of Member States have agreed that Stage II of EMU should start at the beginning of 1994. This still calls for amendments to the basic EC Treaties. Work is already under way at an intergovernmental conference which is closely linked to a second conference dealing with political union in Europe. As agreed by most of the Heads of States or Government concerned, the results of the two conferences are to be ratified by the Member States by the end of 1992. There are many reasons for creating a single European currency. It would eliminate exchange costs, promote trade and generate welfare gains. Not until monetary union has been achieved can the internal market, which will be fully established by the beginning of 1993, when all frontier controls will have been abolished, produce its full effects. A single European currency would also make for greater influence and stability

in relation to the US dollar and the Japanese yen, which are often subject to wide exchange rate fluctuations. Moreover, a European currency has a symbolic importance in a growing Community which is becoming increasingly attractive to more and more countries. A majority of EC residents are in favour of a single currency. The private sector too has for some time now demonstrated its support for the ecu as the European currency by launching initiatives of its own.

Official quotation of the ecu on stock exchanges — here the Paris 'bourse'.

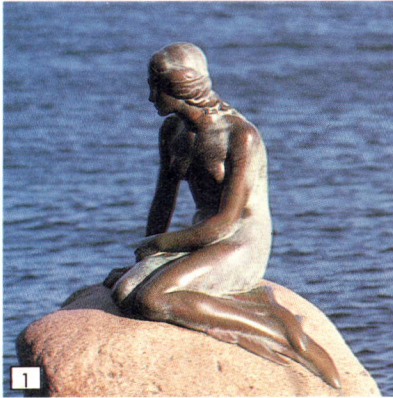


Ecu rate, annual averages
ECU 1 =

Member State	1980	1990
B/L	40.6	42.4
DK	7.8	7.9
D	2.5	2.1
Gr	59.3	201.4
E	99.7	129.3
F	5.9	6.9
IRL	0.7	0.8
I	1 189.2	1 521.9
NL	2.8	2.3
P	69.6	181.1
UK	0.6	0.7

'It is a strange paradox that, while monetary matters are among the most intractable problems encountered in economics, EC citizens, when asked, put a common currency first and removal of frontiers only second'.

*Jacques Delors,
President of the Commission
of the European
Communities*



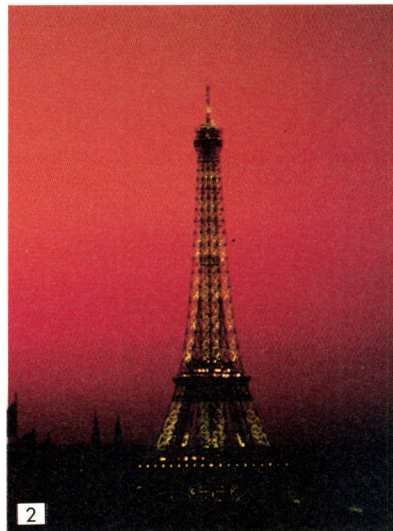
Eureka Slide

Implementation of these principles and of precautionary measures, backed up by budgetary discipline, will make the ecu a strong currency.

1. *There is a good chance...*

A STRONG CURRENCY

For four years now, the ecu has, to the extent of 80% of its value, consisted of stable currencies, and it will continue to be a strong European currency. This is clear from the decisions taken by the Heads of State or Government and from the existing plans for completing EMU. Most Member States have already reached agreement on many important principles which are of great importance for stable money and a strong currency. These principles include the prime importance of price stability as an economic policy objective and as a guideline for the monetary policy of the European system of central banks (ESCB), which will be responsible for the European currency and independent of political instructions from the EC and from its Member States.



Eureka Slide

'A single currency, a strong and stable ecu, these are concrete steps on the road towards [European] union'.

*Jacques Delors,
President of the Commission
of the European
Communities*

2. *... that before
the year 2000 ...*



Eureka Slide

3. *... the EC will have a single
currency.*



EN



This booklet is part of the European File series and appears in all the official Community languages — Danish, Dutch, English, French, German, Greek, Italian, Portuguese and Spanish.

Commission of the European Communities

Directorate-General for Audiovisual, Information, Communication and Culture
Editor: Publications Unit — 200 rue de la Loi, B-1049 Brussels

Manuscript completed in March 1991

Cover photo: EC Commission

Drawings: Mario Ramos

© ECSC-EEC-EAEC, Brussels • Luxembourg 1991

Reproduction is authorized, except for commercial purposes, provided the source is acknowledged.

Printed in Belgium

COMMISSION OFFICES

Office in Ireland	39 Molesworth Street, Dublin 2 — Tel. 71 22 44
Office in England	8 Storey's Gate, London SW1P 3AT — Tel. 222 81 22
Office in Wales	4 Cathedral Road, Cardiff CF1 9SG — Tel. 37 16 31
Office in Scotland	7 Alva Street, Edinburgh EH2 4PH — Tel. 225 20 58
Office in Northern Ireland	Windsor House, 9/15 Bedford Street, Belfast BT2 7EG — Tel. 24 07 08
Information services in the USA	2100 M Street, NW, Suite 707, Washington DC 20037 - USA Tel. (202) 862-9500 305 East 47th Street, 1 Dag Hammarskjöld Plaza, New York, NY 10017 - USA — Tel. (212) 371-3804

Countries fully or partly English speaking. Offices also exist in other countries including all Member States.



Office for Official Publications
of the European Communities
L-2985 Luxembourg

ISSN: 0379-3133

Catalogue number: CC-60-91-458-EN-C