COMMISSION OF THE EUROPEAN COMMUNITIES

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GUIDELINES IN RESPECT OF THE UNIT OF ACCOUNT

(Commission Communication to the Council)

1. After a decade of currency exchange relations stability, the international monetary system has, from 1968, been adversely affected by ever increasing disturbances, such as large and frequent parity changes, followed by a change from the parity system to a central rates system, wider margins, followed by a generalized system of floating exchange rates. To the extent that these also affect exchange relations between the Member States of the Community, these monetary disturbances have tended to distort the normal operation of certain Community mechanisms based on the technique of the unit of account.

Until now, makeshift measures were used for the operation of the unit of account machinery as difficulties arose in the field concerned. This has led to a confused situation in which the conversion rate of the unit of account into national currencies tended to multiply according to the application sector concerned.

2. The unit of account is used to express monetary value into a unit that is different from the unit of payment in order:

(a) to provide a guarantee of exchange for maintaining at a fixed rate in terms of a common denominator financial amounts resulting from the rights and obligations provided for in relation involving several Member States whose value as regards currency may vary considerably as against the value of the currency of any of their partners. In this connection, the unit of account is particularly used for drawing up the Community budgets, for fixing ECSC levies and for EDF operations as well as implementing conventions between the Community and third countries (the Yaounde Convention, the Agreement with Turkey, etc.),

(b) to express, at the Community level, for a particular economic sector, price unicity. The Common Agricultural Policy sector is the main field concerned, since recourse is had to the unit of account in order to fix common agricultural prices. This is a nominal unicity since the relations of real prices are determined by other factors.

In order to attain these objectives, it is necessary for the currency exchange relations between currencies deriving from the conversion rates of the unit of account to be very close to the currency exchange relations determined by the market.

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During the period of monetary stability, the currency exchange relations have corresponded to the parity relations or the central rate relations, but the generalized floating of currencies has resulted in these two relations being disassociated. By remaining linked to the parities or central rates, the unit of account no longer reflects the market exchange relations.

3. In the present situation, the objectives of correspondence between the conversion rates of the unit of account and the market's exchange relations can only be attained by linking the value of the unit of account to a value that can be determined by the market, such as

(i) a currency,
(ii) a group of jointly floating currencies,
(iii) an average of the development of a group limited to Community currencies or including non-Community currencies.

Regardless of the solution accepted, it will not escape the accusation of giving a floating value to the unit of account in terms of part or all of the Community currencies. But this is inevitable in the present monetary situation if one is to try to attain the aims of providing exchange guarantees for financial amounts and maintaining nominal common prices.

4. The question is therefore to ensure the functioning of the unit of account in the various fields where it is used by adopting conversion rates corresponding to the exchange relations between currencies established on the market, and also to avoid the negative consequences of adopting these new conversion rates.

For obvious reasons, it might be necessary to exclude a unit of account the value of which would be linked to one currency alone, whether this be a Community currency or, even more so, a non-Community currency.

Choosing a unit of account linked to the central rates of currencies jointly floating would appear as a viable solution only in as much as all the Community currencies take part in the float. If this were not so, the charge of the adjustment would not be equitably distributed.

Thus, in a Community currency exchange context characterized by the co-existence of jointly floating currencies and other currencies floating on their own, it is necessary to find a solution which will distribute as fairly as possible the disadvantages of such a situation.

without making a distinction between currencies participating in a Community currency exchange system and those not participating therein.

It would thus be advisable to use a unit of account the value of which would be linked to the average movement of a group of currencies which would in this way reflect the value of a participating currency. This choice would involve the adoption of a unit of account based on a "currency basket".

It is the Commission's view that this "currency basket" should only include currencies of the Member States and the Commission is against the adoption of the International Monetary Fund's Special Drawing Right.

Choosing the SDR basket would mean choosing a unit of account that follows at 45% the average movement of the Community's currencies and at 55% the average movement of other currencies (among which the dollar has a weight of 33%) whereas a Community basket would follow at 100% the average movement of the Community's currencies.

5. The Commission considers that this weighting of the unit of account should be based on factors that take into account the gross national product of each country as well as each country's relative share in intra-Community and world trade.

The daily value of the unit of account would be calculated and published every day by the Commission on the basis of the rates of exchange which are already communicated to the Commission by the Member States within the framework of the Common Agricultural Policy.

6. The Commission will shortly submit for defining the unit of account of the new European Development Fund (EDF) in this manner. The Commission also considers that this same unit of account would, if necessary, be suitable for Community loans. The "European basket" unit of account would also seem to be suitable for most of the sectors where it is to be applied. On the other hand, the Commission is aware of the fact that the introduction of this unit of account might present difficulties for certain sectors (FECOM, and the Common Agricultural Policy).

To this end, the Commission's Departments are studying the matter in order to try to work out the implementing procedures in the various sectors.

7. The Commission considers that a "currency basket" type unit of account would not only constitute a technical arrangement to solve financial problems arising among the Member States, but would also represent a step towards a Community monetary identify. In a world context of currency floats, this unit of account would represent the mean value of all the Community's currencies.