

Propositions relating to the ECU

At the end of the January meeting the Chairman pointed out that some issues relating to the ECU needed to be clarified further. In order to facilitate the discussion of these issues this note recalls four propositions, which emerged at the last meeting.

1. "A parallel currency approach is neither a useful nor a desirable way to establish a monetary union." In accordance with this approach the ECU would be created independently of, and in addition to, national currencies, thus circulating in parallel with them and competing with them.

thus establishing a monetary union "in a painless way". The Committee rejected this approach on two grounds. Firstly, it would not contribute to solving the problem of co-ordinating national monetary policies; on the contrary, it would add a thirteenth player to an already difficult co-ordination exercise. Secondly, it could undermine a monetary policy oriented towards price stability, because it would add a source of money creation that is difficult to link to the needs of economic activity.

Concrete implications of this proposition are that before the final stage:

- the ECU should remain a basket;

development of the monetary union. However, 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

the Committee the view was expressed that this scheme represents one, but not necessarily the only, way to give operational meaning to the concept of a single monetary policy. It was also observed that the introduction of such a scheme would be more appropriate in the final stage when a single monetary policy has become indispensable. 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.