

INTERNATIONAL MONETARY FUND

April 5, 1984

**TO:** Members of the Executive Board

**FROM:** Acting  
The/Secretary

**SUBJECT:** Report of the Commission on the European Monetary System

*as* The attached page 10 of EBD/84/110 (4/4/84) is reissued to <sup>add</sup> complete the last sentence. It now reads "In practice, however, the ecu is considered not so much a reserve asset as a means of credit that will eventually have to be settled using other assets."  
*line*

Att: (1)

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*G.D.*

*dist. 4/5/84*

II. THE EMS AS AN INSTRUMENT OF ORDERLY EXCHANGE MANAGEMENT

The stabilization of exchange relations between the EMS currencies has been achieved not only thanks to the policies and behaviour adopted as a result of the introduction of the system, but also to the actual working of the system itself. The EMS will be examined from the point of view of its daily functioning and in the light of the Resolutions of the European Councils of Bremen and Brussels and the provisions of the agreement of 13 March 1979 between the central banks of the member States. The examination will be conducted from the two-fold standpoint of the use made of the EMS mechanisms - how well they fulfil their purpose - and of their scope - which fields they cover.

A. How well the mechanisms fulfil their purpose

a) The use of the ecu

The ecus received by central banks in exchange for gold and dollar contributions are not put to extensive use. As an asset, they are precarious, on the one hand, because they are created by means of a temporary swap system with no indication as to what may happen after the transitional stage, and, on the other, because the volume in existence is unstable given that it depends on volatile variables : the price of gold and the exchange-rate of the dollar. Their attractiveness as an asset is further circumscribed by their limited acceptability (creditors are under no obligation to accept ecus except in settlement of a claim maturing under the very short-term financing facility and only up to 50 % of that claim); accumulated creditor positions in ecu are not convertible; and the yield is low (being an average of official discount rates). For all these reasons, ecus are only used on a small scale even in cases where debtors are explicitly entitled to do so. A new type of operation has, nevertheless, been introduced with swaps between ecus and national currencies being utilised in order to mobilise available ecus. In practice, however, the ecu is considered not so much a reserve asset as a means of credit that will eventually have to be settled using other assets.

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