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SUMMARY OF QUESTIONS AND OPTIONS



Annex to the Interim Report  
on the European Monetary System - No. 39

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I. THE NUMERAIRE

The Bremen communiqué indicated that the European currency unit (ECU) would be at the centre of the European Monetary System. It would serve two principal functions:

- (1) as the numeraire for determining intervention points;
- (2) as a means of denominating and settling claims and liabilities among member countries. Once the European Monetary Fund had been established, it would be used to denominate all transactions in the EMF.

As regards (1) above (the numeraire to be used in the European exchange rate system), the Group of Experts has identified three areas in which a choice would have to be made between alternative possibilities:

- A. A first choice would have to be made between the two main ways in which the ECU could be used in the projected intervention system:
- (a) the "direct" way, with the basket ECU representing the reference point for the central (pivot) rate and corresponding intervention limits of each participating currency (see page 3 of the Report);
  - (b) the "indirect" way, with the ECU merely serving as the basis for the calculation of a grid of reciprocal central rates and intervention rates (see pages 5-6 of the Report). As a refinement, the ECU could also be used as an indicator of divergent currencies (see page 6 of the Report).

- B. If the "direct" way were chosen, should the ECU basket be:
- (a) a standard basket, as suggested in the Bremen communiqué, and equivalent to the present EUA (see pages 4-5 of the Report);
  - (b) an adjustable basket, with the possibility of equal weightings (see page 5 of the Report)?

C. If the "standard" basket were selected, a choice would have to be made among the following three ways in which a currency absent from or "opting out" of the system could be dealt with in the ECU (see pages 7-8):

- (a) it could be retained at a constant rate;
- (b) it could be excluded altogether from the basket;
- (c) it could be retained in the ECU at its prevailing market rate.

If an ECU numeraire were to be chosen that was not identical to the EUA:

- the link with the EUA used in other areas of Community activity would be broken;
- a decision would have to be made concerning the numeraire for the denomination and settlement of claims and liabilities among member countries (see (2) above): the same ECU numeraire as used in the intervention system could be retained or this link could be broken and the present EUA retained for the denomination and settlement of claims and liabilities.

## II. THE INTERVENTION SYSTEM

If a basket system were to be selected:

### 1. Width of the margin of fluctuation

- Would it be acceptable to apply graduated margins to alleviate the consequences of unequal currency weightings in the basket? (see page 10 of the Report.)
- The possibility of wider margins for some currencies is envisaged in the Bremen communiqué. A consequence would be the shifting of the intervention burden. Would this be acceptable?

- A choice would have to be made concerning the width of the band around the ECU central (pivot) rate. The final width would lie somewhere between  $\pm 1 \frac{1}{8}$  per cent. (at which the "snake" limits would come into operation only rarely, the ECU limits being normally reached first) and  $\pm 2 \frac{1}{5}$  per cent. (beyond which the "snake" limits would always come into operation first). (See page 9 of the Report).
- Should the bilateral rate limits and the width of the ECU band be disclosed? (See page 9 of the Report).

## 2. The choice of intervention currencies

If an exchange rate system were to be adopted under which the intervention currency or currencies was a matter of choice, it should be borne in mind that a decision to intervene in currencies which were not at their ECU limit would compel the central banks concerned to accept what for them would amount to an intra-marginal intervention, the corresponding liabilities or claims and the resulting impact on their money market. If these consequences were accepted, it would be sufficient to lay down guidelines for the choice of intervention currencies.

If, however, these consequences were to be controlled or limited, it would be necessary to specify in percentage terms the position vis-à-vis the ECU central rate at and beyond which a currency might be chosen automatically to give, if necessary, a similar indication for "snake" currencies regarding their position vis-à-vis their partners in that system; otherwise, increased recourse to dollar interventions would be inevitable (see Section II, 3 of the Report).

## 3. Coexistence with the "snake"

In the case of conflicting intervention obligations under the "snake" and ECU basket systems, which would be given priority? (See page 13 of the Report.)

4. Book-keeping and financing arrangements in respect of interventions in currencies participating in the system

Would it be acceptable to "snake" members to have claims and liabilities resulting from "snake" interventions denominated in the future in ECUs? (See page 15 of the Report.)

5. Co-ordination of exchange rate policies vis-à-vis third currencies

The Report gives some guidelines for the co-ordination of exchange rate policies vis-à-vis third currencies and notes the value of an effective application of the provisions contained in the arrangement of 12th March 1975 concerning dollar policy and in the Report of the Committee of Governors to the Council of 9th December 1975 (Section II, 7 of the Report). Are these acceptable?

6. Association of third countries

Should associated third countries' claims and liabilities deriving from intervention under the new ECU system be recorded in the EMCF initially and later in the EMF? (See pages 17-18 of the Report.)

III. THE EUROPEAN MONETARY FUND

A. Is it agreed that during the transitional period the initial ECU fund would operate through the EMCF and would remain essentially a passive entity? (See pages 19-20.)

B. The contribution of reserves to the Fund raises questions relating to :

1. The determination of the nature of contributions. Which of the following criteria should be given priority:
  - representativeness (inclusion of SDRs as a matter of principle?);
  - conformity with the Bremen communiqué (gold, dollars);
  - practical simplicity (only one type of asset?); (See pages 20-21.)
2. The determination of the overall volume of such contributions, its apportionment among countries and the composition of national contributions: the Report proposes four different models (see pages 21-23).

3. The conditions governing the possible mobilisation of gold against ECUs: at what price should gold be "converted" into ECUs? (See page 25.)
4. The form of contributions: would it be preferable to avoid any Community-wide collectivisation of risks by opting for the deposit (as mentioned in the Bremen communiqué) or swap procedure, or should collectivisation be aimed at in order to achieve greater flexibility in the management of the Fund's assets? (See page 24)
5. Should provision be made for a periodic adjustment of the contributions? On what principles should it be based? (See pages 23-26.)

C. The Bremen communiqué envisages:

- the creation, against the deposit of reserve assets, of freely utilisable ECUs;
- the creation, against the deposit of national currencies, of ECUs which would have certain conditions attached to their use.

Bearing this in mind, should provision be made for:

- the issue of a single type of ECU, in conjunction with accounting and settlement procedures designed to impose restrictions on the use of those ECUs created against national currencies;

or should a distinction be drawn between:

- the ECU proper, having the characteristics of a reserve instrument and corresponding to deposits of gold or of dollars;
- the ECU as credit instrument, issued against deposits of national currencies and representing the central banks' rights of recourse to credit facilities?

D. Should the contributions in national currencies take the form of an actual deposit with the Fund or that of a credit line? (See pages 27-28.)

E. Might the operation of the Fund rest on the following principles:

- the Fund's ECU to be at all times identical in value with the numeraire serving as the basis for the European exchange rate system (see question I, C above);

- the Fund, at least in the initial stage, to incur no exchange risks, balancing its assets and liabilities in ECUs and other reserve assets (its assets in national currencies to be backed by an ECU guarantee);
- the Fund to pay interest on its liabilities in ECUs on the basis of the yield on its assets (including a compensatory charge by the Fund on gold received on deposit)?

F. Should special provisions be made for the settlement of balances between "involuntary debtors" and "involuntary creditors", or should the settlement of such balances be governed by the same procedures as that of interventions at the limits? (See Section II, 6 and Section III, D of the Report.)

G. Should an initial very short-term credit facility, unlimited in amount, be maintained, given the availability of ECUs? If so, should its terms be identical with those applying under the "snake" or should its duration be prolonged and by how much (say, 60 days from the end of the month instead of 30)? (See Section III, D.)