

ORAL REPORT
TO THE GOVERNORS
BY THE CHAIRMAN OF THE COMMITTEE OF ALTERNATES

The Alternates had a first discussion on the long-term perspectives for the ECU and the EMS, as was agreed in the work programme established in January.

1. There was widespread agreement that the long-term objective of monetary integration remains, as it has been since the adoption of the Resolution of 1971, the attainment of an economic and monetary union.

As, however, the road to this end is long and tortuous, views tended to diverge, perhaps not surprisingly, as to the precise path to be chosen and the first steps to be taken. Some want to keep open as long as possible the options concerning the ECU and the European Fund, arguing that the EMS Resolution of 1978 lays down the goals with sufficient precision. They felt that the development of the ECU should not be halted and that the ECU could and should be used as a vehicle for progress. They saw room for a succession of small further steps within the present institutional setting increasing the ECU's usability.

Others wished the route to be followed to be mapped out with more clarity before embarking on it. In particular it was argued that the institutional requirements for integration in the field of Central Banks should be elaborated. They felt that progress should be sought in the first place in aiming at greater convergence and in promoting more fully integrated and therefore better functioning capital markets. They were not convinced of the contribution that promotion of the ECU by itself can make to monetary integration.

2. There was general interest in taking a closer look at the private ECU. It was agreed to examine the causes of the remarkable expansion

achieved until now: is this to be considered as a success of the EMS, a proof of its health and sustainability? Or should it, on the contrary, be seen as a symptom of its weaknesses, such as the co-existence of weaker and stronger currencies and the curtailment of investment flows by restrictions? What, then, is the potential for its future development? If the private ECU does expand further, what are then the implications for the EMS Central Banks? Would there, for example, then be a rôle for official interventions in this market even in the present institutional set-up? In what way would this expansion of the private ECU promote progress towards the goal of monetary integration?

3. The Alternates also agreed to examine the implications, if the ECU were to be developed into an international reserve asset.

In this context, it was argued that an international reserve rôle for the ECU does not preclude its development into a common currency within the Community. On the other hand, the question was raised, how an international rôle could contribute to monetary integration within the Community.

It will also be discussed, what the conditions are for the ECU to develop into an international reserve asset and whether the Community can become more independent from the fluctuations of the dollar in this way. The implications of a reserve rôle for the ECU with regard to the international monetary system are also to be looked into.

4. The Alternates intend to pursue these questions in the course of the coming months. They stand ready, of course, to examine any further questions Governors may wish to pose. They will report periodically to Governors, as progress in their work will permit them to do so.