

European Community



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INFORMATION NOTE

A GUIDE TO EC UNITS OF ACCOUNT

Table of EC Reserves

The essential features of the European Monetary System, which the EC is due to introduce shortly, are:

- the creation of a system of fixed but adjustable exchange rates between member currencies;
- the creation of a European Currency Unit or ECU, whose composition and value will initially be the same as that of the European Unit of Account (EUA), and which will be used as an indicator of divergence between EC currencies;
- the creation of a Community reserve asset, beginning with the deposit by member states of 20 per cent of their gold and dollar reserves in exchange for credits denominated in ECUs;
- the provision of credit facilities of around 25 billion ECUs (or, at the present rate of exchange, about Can.\$40 billion).

The following pages describe the EUA and other units of account used by the European Community and give member states' international reserves.

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EUROPEAN UNITS OF ACCOUNT

The gold-parity unit of account, like the old dollar parity, had a reference weight of 0.88867088 grams of fine gold. Because of the big changes in exchange rates since 1969, the gold-parity unit of account no longer accurately reflected exchange relationships between the different currencies on the market. Its use in the Common Customs Tariff ended in 1978.

The agricultural unit of account, too, is officially defined as the value of 0.88867088 grams of fine gold. But in practice prices laid down in agricultural units of account are converted using representative rates, which apply only to agriculture. Discrepancies between these so-called "green conversion rates", which are normally fixed each year by the EC Council of Ministers, and actual market rates are covered by the Monetary Compensatory Amounts (MCAs). The agricultural unit of account has been tied to the currencies of the member states in the "snake" - Germany, Belgium, the Netherlands, Luxembourg and Denmark.

The European Monetary Unit of Account (EMUA) has the same fine gold value as the other two units. It is used only for transactions of the European Monetary Cooperation Fund. The central banks of the "snake" countries have been using it for settling claims and liabilities arising out of their currency market dealings.

The European Unit of Account (EUA) is based on a basket of fixed amounts of the currencies of the nine member states. The first step in working out its value is to weight the individual currencies in the basket. This is done by taking the average value of each country's GNP and foreign trade over the period 1969-74, which gives the following percentage weightings for each currency:

- German Mark - DM	27.3 per cent
- French Franc - FF	19.5 per cent
- Pound Sterling -	17.5 per cent
- Italian Lira - Lit	14.0 per cent
- Dutch Guilder - Hfl	9.0 per cent
- Belgian/Luxembourg Franc - FB/FLux	8.2 per cent
- Danish Crown - DKr	3.0 per cent
- Irish Pound - Ir	1.5 per cent

The starting value of the EUA was fixed on 28 June 1974, the same day as the Special Drawing Right basket, and, like the SDR, was set at US \$1.2.

The value of the EUA is found by adding together 3.66 FB, 0.14 FLux, 0.828 DM, 0.286 Hfl, 0.0885, 0.217 DKr, 1.15 FF, 109 Lit and 0.00759 Ir.

The value of the EUA in each of the national EC currencies is found by adding up the value in local currency of each of the currencies making up the basket as officially listed on the local currency markets.

The value of the EUA changes in the light of the weighted exchange rate movements of all the basket currencies. Thus the impact of big changes in the values of individual currencies on the EUA is lessened.

The EUA is used for a wide range of Community business.

GROSS INTERNATIONAL RESERVES OF EC MEMBER COUNTRIES AT THE END OF SEPTEMBER 1978, IN US \$ BILLION

Reserves/ countries	Gold	% of Total	Fund Special Drawing Rights	% of Total	IMF	% of Total	Currencies	% of Total	TOTAL	% of Total
Belgium/ Luxembourg	1.904	33.4	0.531	9.3	0.809	14.2	2.449	43.0	5.693	5.3
Denmark	0.086	2.9	0.125	4.2	0.090	3.0	2.692	89.9	2.994	2.8
Germany	5.304	11.9	0.940	2.1	2.465	5.5	35.951	80.5	44.660	41.4
France (1)	4.483	35.9	0.299	2.4	0.637	5.1	7.056	56.6	12.475	11.6
Ireland	0.020	0.8	0.062	2.6	0.076	3.2	2.207	93.3	2.365	2.2
Italy	3.718	26.4	0.256	1.8	0.320	2.3	9.803	69.5	14.097	13.1
Netherlands	2.449	30.7	0.466	5.8	1.034	12.9	4.037	50.6	7.986	7.4
Britain	0.997	5.7	0.757	4.3	-	-	15.846	90.0	17.600	16.3
EC	18.961	17.6	3.436	3.2	5.431	5.0	80.041	74.2	107.870	100.0

Source: International Financial Statistics (IMF)

(1) July 1978