

The birth of the ECU

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The birth of the ECU

The nine Member States now had at their disposal a single accounting currency based on a basket of national currencies called the European Currency Unit (ECU). It was a new benchmark currency able to take the place of the German mark and the US dollar. France proposed the English acronym because it was reminiscent of the currency in use in the Middle Ages during the Valois reign in France. In fact, the ECU was no more than a unit of account, as no bank notes or coins denominated in ECU were issued. However, international bonds, bank deposits and cheques could be denominated in ECU.

The value of the ECU was calculated every day on the basis of a basket of EEC Member State currencies, the composition of which reflected the share of each country in intra-Community trade and production. It was a notional currency whose rate represented an average of the value of the European currencies. It acted as a means of settlement between central banks when they intervened on the exchange market to defend exchange rates. It was also used as a benchmark unit for the establishment and operation of indicators to show the divergence of a currency in the EMS from the ECU. The ECU was used as a means to set central rates in the new exchange-rate mechanism.