The European Payments Union

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After the end of the Second World War, bilateral payments agreements were signed between various European countries with the aim of reviving international trade. But these initial agreements were founded on exchange-rate controls, which meant that authorised payments had to be made in accordance with fixed rates that matched the official value of the currencies. In addition, trade and payments had to be balanced within the credit limits set by these agreements. That led to the decision taken in July 1950 by the Organisation for European Economic Cooperation (OEEC) to replace these bilateral payment agreements by a multilateral system capable of revitalising the European economy.

The European Payments Union (EPU) was created on 19 September 1950 by the 18 Members of the OEEC and entered into force, retrospectively, on 1 July 1950. The EPU facilitated the convertibility of European currencies by setting exchange rates that were deemed to reflect the reality of each country's economic situation. On the other hand, currency restrictions were maintained vis-à-vis the dollar area. It therefore acted as an international clearing house, helping to compensate and balance the accounts of each European country with those of its neighbours. In practice, each EPU Member set a parity between its currency and the unit of account, which was fixed in grams of gold based on the gold value of the dollar, as well as a single exchange rate. At the end of each month, settlement of trade was carried out partly in gold and partly via the granting of credits to the EPU. The EPU's initial capital, subscribed by the United States, was used to settle with the creditors as soon as the debtors made their payments. Thanks to this system, the national central banks also made their currency available to their partners, while the Bank for International Settlements (BIS) in Basle managed the settlement transactions. Every month, the EPU calculated a net credit or debit balance for each country in relation to all the other countries in the Union. A quota was set for each Member that represented the maximum that its account balance could attain. Adjustments, partially calculated in gold, were made depending on the monthly credit or debit balance of the country in question. Once the EPU's exchange mechanism had been shown to work, it was gradually made more flexible by the introduction of a bank arbitrage procedure, greater flexibility in the intra-European payment arrangements and the decentralisation thereof, to the benefit of the markets.

In the post-war period, the EPU helped to secure complete stability of exchange rates and to promote free trade amongst the Member States. But the EPU fell victim to a series of crises caused by opponents objecting to price fluctuations and to the convertibility of European currencies between issuing banks but not between individuals. Finally, the EPU, which had advocated a return to full currency convertibility in Europe but which some feared would compete with the International Monetary Fund (IMF), was wound up on 27 December 1958 and replaced on the same day by the European Monetary Agreement (EMA), which called for a collective return to monetary convertibility in Europe.

The EMA was signed by the 17 Member States of the EPU on 5 August 1955, thereby creating a European reserve fund for those countries whose balance of payments showed a deficit and a multilateral settlement and equalisation system founded on exchange rates, which were kept as stable as possible. The Bank for International Settlements managed the financial transactions resulting from the EMA, but, unlike the EPU, the EMA's system of multilateral settlements and granting of loans was neither compulsory nor automatic.