The IMS and the Euro

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Abstract

The euro, which replaced eleven national currencies on 1 January 1999, became the single currency of the European Union. It is therefore an international currency, which is not without important consequences for the international monetary system. Can the euro fulfill the functions of such a currency: the answer is affirmative. Will it actually fulfill these functions and become a competitor of the dollar? The answer is more uncertain: yes, but without knowing to what extent or at what rate. One of the reasons for this uncertainty is the offer of the euro as an international currency, that is to say the terms of its creation, which will be linked to the international transactions of the Union. Finally, the international monetary system is still that of Bretton Woods, in which the IMF plays an important role: how will the Euro be represented, how will the Fund integrate the euro into its operations, such as the SDR, and how will it monitor exchange rate policies?

EMU accelerated with the adoption of the Delors Plan for Economic and Monetary Union in Europe 1n1989. As the project took shape and when it appeared that it was likely to come to fruition, one of the most debated issues concerned the international role the euro could play and, beyond that, the impact that this new currency would have on the international monetary system. The answer was not easy as the contours of the future monetary union, remained uncertain. Would the United Kingdom enter, and sterling cease to exist? Would Italy and Spain also enter and allow better compensation within the EU between the countries of the North and the countries of the South? These uncertainties were lifted in May 1998, together with that relating to the calculation of conversion rates in euros.

On January 1, 1999, eleven countries formed the currency union and the euro replaced eleven national currencies. National currencies could still be used for three years and coins and banknotes for six months longer. Since 1 January 1999, the euro has therefore been able to develop its international role, which will not be without consequences for the international monetary system (Kirrane 1996).

This system is currently two-sided. The official face corresponds to the rules enacted at Bretton Woods and several times since amended. The euro will be a problem at this level, for example, the International Monetary Fund, had to replace eleven national currencies. In addition, the supervision exercised by the Fund, as well as the conditionality to which its aid is subject, will henceforth concern the Union at the same time as each member country (Kirrane 1995).

The mark is replaced by the euro, which naturally becomes a much more serious competitor for the dollar, and even more so for the yen. Monetary polycentrism may be rapidly realised, but in conditions different from those previously imagined. It is no longer a national currency this time, but a regional currency, common to several countries that constitute a substantially larger economic and financial unit.

The impact of the euro on the international monetary system will be by examined by attempting to answer the following questions:

- to what extent can the euro fulfill the traditional functions of an international currency? The answer is easy: it fills them, and all;
- to what extent can it effectively compete with the dollar and partially replace it? The answer is much less easy, and we will see why;
- how can the euro, used as a national currency by residents of eleven European countries, become an international currency used by non-residents?
- what are the consequences of the introduction of the euro on the International Monetary Fund, on its operations, on its activity?

Can the Euro fill the functions of an international currency?

The traditional functions of money are well known: the currency is a unit of account, a means of payment, a reserve. These functions are necessarily linked: it is the billing currency that is used in transactions. At the international level, in relations with or between non-residents, these functions are a little more complex, but they remain closely linked (Benassy and Deusy-Fournier 1994). An international currency must be able to be used in invoicing of trade in goods and services, that is to say in a certain proportion of international trade. As a result, this currency must be easy to use, which supposes an efficient banking organisation, guaranteeing limited transaction costs. It must also be widely used in interventions, so as to make conversions on foreign exchange markets easy. And to do this, it must be largely owned by central banks and constitute a significant part of their reserves. All these functions can easily be exercised by the new European currency (Kirrane 1996).

On a commercial level, the euro can be widely used as a unit of account in trade between EU member states and the rest of the world. European countries are very largely open to the outside, their exports and imports represent on average 24% of their GDP against 11.5% for the United States and 9% for Japan. But these percentages have lost their significance simply because of the changeover to the euro. A significant part of the foreign trade of each of the eleven - 50% in 1996 - is carried out with its partners.[1] It is intra-Community trade that will become internal to the Union and be billed and settled in the single currency. The euro is therefore destined to become one of the main currencies of trade between countries in the world.

The euro can also become a major international settlement currency. On the one hand, the eleven constitute an economic group of the same order as the United States, with a Gross Domestic Product, equal to 87% of US GDP, and a population that is even slightly higher. The euro will therefore be a known currency, not just around the Union. In this respect, tourism will undoubtedly play a vital role which will be amplified when notes circulate, the biggest note is 500 euros, currently 520 dollars. Moreover, the Community was aware of the need to align the national payment systems before moving to the single currency. Working groups were set up for this purpose in 1991, which called for greater transparency, better organised competition, harmonisation of standards and legal rules. The initiatives that followed allowed both to harmonise national systems (for small amounts), to set up in each country a system of real-time Gross Settlements, and to link these by a common system. The latter, which is managed by the European Central Bank (ECB), is supposed to facilitate monetary policy operations, but it can also be used to settle large-value payments. Transactions with or by non-residents are naturally treated and compensated with the same time as transactions between residents of the eleven. It should be added that the compensation system of the ECU Banking Association is maintained, and that British, Danish, Swedish, but also Swiss, Japanese and American banks have been participating for some years, not to mention the banks Polish, Hungarian, Czech, Bulgarian and Russian partners since 1993.

Transactions in euros with or between non-residents will not be only commercial transactions, there will also be much more financial transactions. And there will be a large volume of securities, assets or claims in euros held by non-residents. The euro will not only be used as a unit of account in which these securities or claims are denominated, it will itself be a reserve asset. On the one hand, it will be held as an international currency per se, in the form of current accounts[1] open to non-residents, and it will be held as international liquidity, in the form of shares, bonds, deposits term or other receivables. These operations should be facilitated by the existence of particularly developed financial markets, such as those of Frankfurt, Paris and in London where transactions in euros have started to take place since 1 January. The euro is all the more likely to become a major investment currency as non-residents have become accustomed to investing a lot in the Union: significantly more than in the United States and three times more than in Japan.

The last quality that is expected of an international reserve asset concerns its value: it must be a strong currency, unlikely to depreciate in the long term, and a stable currency that is unlikely to fluctuate in the short term. Will the euro offer this double advantage? The question is much discussed. It will probably be a strong currency because the European System of Central Banks (ESCB) primary mission to ensure price stability. This is why its statutes make it highly independent. Moreover, at the beginning of the single currency and the common monetary policy, the ECB must establish its credibility and build its 'reputation'. And yet, a strong euro could be a problem for the European economies hit by unemployment or the recession, it could create political difficulties in one or other member countries, which would weaken the image of the single currency (Bourguinat 1998). Will the euro be more stable than the currencies it will replace? Yes, if the exchange agreements envisaged by Article 109 of the Maastricht Treaty are concluded and actually put into practice. But as the opening to the outside of the consolidated euro zone is automatically reduced, the fluctuations of the euro will cause less disruption, and the ECB may attach less importance to the external value of its currency (McCauley1997). And, in any case, does it not risk, like all central banks, being sometimes powerless in the face of market forces?

Is such uncertainty really a hindrance to the international role of the euro? Whether strong or weak, it cannot remain so indefinitely. It will be perfectly capable, like the dollar, of fulfilling all the functions of an international currency, much better than the ecu which was not a full-fledged coin, but a basket of other currencies it did not replace; it was not the currency of any country and had no 'monetary habitat'. Despite the efforts of a few commercial banks, it could not be easily transferred, and despite the initiatives of a few central banks a few years ago, it never became independent of the currencies of the basket and its liquidity had never been guaranteed by a 'lender of last resort'.

[1] Exactly 49.7% of exports and 49.3% of imports in 1996. Calculations based on the geographical breakdown of each country's foreign trade. IMF, Directorate of Trade Statistics Quarterly, March 1998. The percentages announced are often higher: "more than 60%," according to GS Tavlas, The International Role of Currencies - The US Dollar and the Euro, IMF, Finance and Development, June 1998, pp. 42-45. In this case, they generally concern all fifteen member countries of the European Union.

Will the euro compete against the dollar?

As much as the euro is capable of playing an international role, it is difficult to say what the role will be, and to what extent or at what rate it will replace the dollar. In this respect, many forecasts have been made, and many hypotheses have been developed which lead to different results. One thing is certain: substitution can only be done slowly. Use creates habits that are not easily lost. That is why it is more difficult to become an international currency than to remain so (Benassy, Italianer and Pisani-Ferry 1993). There are a few factors that can accelerate the internationalisation of a currency, but the phenomenon is particularly difficult to overcome quickly.

The euro will undoubtedly have an important role in the invoicing of exchanges. European currencies were recently used in 33% of world trade, and the dollar in 48% (Ilzkovitz 1996). The share of the euro could also be expected to be 33%. However, this percentage corresponds to all European currencies, some of which are not part of the eleven replaced by the euro (the pound sterling, the Swiss franc, etc.). But conversely, the trade between the eleven, which will always be international trade, should be done entirely in the common currency of these partners. Moreover, the role of the euro can only extend to trade with neighboring countries. Central Europe, for example, has strongly reoriented its trade with the countries of the Community. The forecasts are however random.

Grassman's well-known law, according to which about two-thirds of an industrialised country's exports and one-third of its imports are billed and settled in its national currency, can be applied. It is then 22.5% of the foreign trade of the eleven that should be done in euros. It is a similar percentage (24%) that Hartman proposes by extrapolating the role of the mark to the euro (Hartmann 1991).

The coefficient of internationalisation defined as the ratio of exports denominated in one currency to the exports of the issuing country can be considered, assuming, for example, that the coefficient of the euro could reach that of the mark (1.4). The calculation is not obvious. Applying this coefficient to euro area exports as a country, the euro would be used in 34% of world trade; if applied to the exports of the eleven countries in the zone, the euro would be used in 39% of world trade. [2] It has even been advanced by 50%, which means that the euro and the dollar would be practically used equally in the billing of world trade and probably in its regulation (Ilzkovitz 1996). The transition will be slow, however, because the habits in this area are stubborn and the companies do not change their business methods overnight, especially as national currencies will survive until 2002 (Kirrane 1996).

Like the ecu, the euro is present on all the behaviour of the financial markets and it is one of the currencies in which the assets are held. But it does not only replace ecu, it also replaces the other national currencies to the detriment of the dollar. The changeover to the euro will not fail to accelerate this development, because of the unification of the European financial markets which will contribute to increase their liquidity, even if, for the moment, London's place remains outside the euro zone (Le Quere 1999).

The difficulty in assessing the impact of the euro is firstly that the breakdown of operations is given for the banks of the different countries (thus for the financial markets), and for the

[2] Exports of the Eleven accounted for 28% of world exports in 1997, half of which are exports among the Eleven. The calculations are as follows: (14% x 1.4) + 14% = 34% and (28% x 1.4) = 39%.

currencies each time globally, without knowing which currencies are used by the banks of each country, and consequently by those of the eleven. We only know that:

- foreign currency liabilities to residents will decrease, as they are banks of the eleven and currencies are currencies of the partner countries. Thus, the French banks' liabilities in lire have become commitments in national currency; foreign currency liabilities to non-residents will also decrease, as the liabilities of the banks of the eleven countries have become, in part, commitments in national currency and they should be broken down henceforth into commitments to non-residents of the country, residents of the Union, and in commitments to non-residents of the Union;
- commitments in national currencies towards non-residents are not modified. Insofar as these commitments concern banks located in the eleven countries, they have become commitments in euros. At December 31, 1998, the commitments of the eleven in dollars amounted to $783 billion.

The introduction of the euro will finally have consequences for the foreign currency holdings of central banks, 57% of which were made up of dollars at the end of 1997. This percentage, which declined before 1990, has since increased and now seems to be stabilising (IMF, Annual Report, 1998). The impact of the euro is often analysed, because these assets have an official character, because they are the best known and because their variations should be easier to predict. The reality is probably different. These holdings will decrease because the central banks no longer need to hold the currencies of their partners to intervene in the foreign exchange markets, and because, in any case, such assets, which have become assets in their common currency, are consolidated (Kirrane 1996). But this decrease will appear not widespread, because as part of the European Monetary System, central banks were required to keep only limited amounts of the currencies of their partners. On the other hand, as the euro becomes an international currency, foreign central banks will probably hold more money than they hold marks or francs. Finally, the question remains as to how the dollar assets will evolve: those of the ECB whose foreign exchange policy is hard to predict, those of foreign central banks that may wish to better diversify their holdings in foreign exchange. When the euro will really compete with the dollar? [3] The volume of official reserves in euros will also depend on the number of countries that decide to peg their currency to the European currency. This anchoring role of the euro will also have consequences for its importance in international trade. Already, some countries which had pegged their currency to the mark under a currency board have attached it to the euro: Bulgaria, Estonia, Bosnia and Herzegovina. Similarly, the countries of the franc zone - they are fifteen - saw their currency, hitherto attached to the franc, automatically attached to the euro, as Cape Verde whose currency was attached to the Portuguese escudo. Many countries also allow their currency to float within certain limits, either directly against the euro (the Czech and Slovak Republics, Slovenia, Hungary on 1 January 2000), or more frequently compared to a basket that

[3] Estimates circulating in this respect reflect above all "the inability to make estimates: they range from 0 to 200 billion dollars. Y.T. Silguy, op.cit., page 365. This figure of 200 billion is given by P.N. Mc Cauley for the case where all developing countries would hold dollars and euros tied. Op.cit., Page 40.

now includes the euro: Poland, but also Turkey, Israel, Botswana, Chile and probably Morocco. [4] But the situation is not fixed, and other countries could someday adopt the euro as a reference. It could be other African countries, or even the countries of the Mediterranean Basin. And one wonders what could be decided by Russia or other countries of the former USSR, China other Latin American countries (McCauley 1997 and Kirrane 1994). This means that the impact of the euro on the international monetary system is still very hard to imagine.

The international creation of euros

So far, we have considered the role that the euro could play starting from the functions that it could fulfill, that is to say the services that it could render. It is the 'demand' aspect that is most often studied. But the euro can only be an international currency if the agents who want to use it have the quantities they need, in other words if enough is created. This is the 'offer aspect, which is rarely mentioned but is essential if it is to become an International currency that can be used by non-residents. It will therefore have to be transferred to them, and this can only be done during transactions carried out between the euro area with the rest of the world and recorded in the balance of payments.

The mechanism is simple. Every time a resident does a transaction with a non-resident in his own currency, it becomes an international currency. This is the case when it imports but the opposite occurs when its exports are settled in its currency which becomes national again: the balance of these transactions must therefore be considered. It is the same when a company invests abroad or when a bank grants abroad a credit in its currency. Each time, the current account of a non-resident in a resident bank is credited and the total of these transfers corresponds to the creation of an international currency. These non-resident demand deposits are then placed at maturity or used to acquire securities or make investments: the international currency is transformed into cash. The balance of payments, which lists all these transactions, can actually be presented in the form of a balance sheet - in flow, it is true - with on the liabilities side the total of the foreign liabilities of the country corresponding to the creation of the international currency and to the credit the counterparts of this creation.

The creation of the international currency corresponds to all of these countries' external liabilities, the majority of which did not remain monetary but took the form of liquidity: $734 billion. It is nearly the same amount as the US Balance of Payments: $733 billion; they are clearly higher than the corresponding one in Japan, $171 billion. This comparison must, however, be interpreted with serious reservations.

Money creation is of the same order. For the eleven, the balance of current operations is in surplus, their assets have therefore increased since 1997 more than their commitments, they were financed in part (12.5%) by their current account surplus. It is the same for Japan, where this percentage reaches 35%. For the United States, on the other hand, the current account is in deficit, so their commitments have increased more than their assets, and they have contributed 21% to finance this deficit (de Larosière 1998).

The above data are global, they concern all eleven. Their balances of payments have been grouped, but the situation of countries is not homogeneous. In 1997, three countries had a current

[4] The weight of the euro is different in each case because it is decided by each country. Since January 1st 1999, it is approximately 30% in the SDR to which are attached several currencies. But this time the euro is not directly chosen as a reference.

account deficit; France and Germany accounted for 54% of foreign direct investment and 45% of portfolio investment; France and Belgium received 57% of direct investment from abroad, Germany and Italy accounted for 52% of portfolio investment; Germany alone accounted for 36% of bank assets and liabilities.

The cumulative balance of payments at the Union level groups the transactions made by each country with the rest of the world. Will those that are carried out with its partners still be international transactions as soon as they are settled in a single currency which will be the national currency of each of these countries? Will the euro become an international currency when it is lent by a German bank to an Austrian company, or when it allows a Spanish firm to import Portuguese products? If not, it is obvious that only a consolidated balance of payments will be able to account for the creation of euros as an international currency. The aggregates measured above will therefore be much smaller.

A more serious problem is that not all the international transactions of the eleven are carried out in their national currency, as they are in the United States. These transactions are also carried out in foreign currencies, notably in dollars. When countries do not feel utilise their own currencies in their relations with the outside, they do not have any impact on international money creation. The increase in the commitments of the eleven in 1997 ($734 billion) therefore only represents a part of the transformation of their own currency into an international currency. It is not possible to know more as transactions recorded in the balance of payments are not broken down by currency.[5]

In other words, the eleven constitute an area that, in monetary terms, is less autonomous, so to speak, than the United States. In its foreign relations, this country uses only its own currency, the eleven use their currency, but also those of their partners along with the dollar. The euro will allow Europe to come closer in this respect to the United States, because the eleven will use more and more their currency in their operations with the rest of the world and this is how the euro can become an international currency (Kirrane 1996). But two unknowns remain: at what rate will the eleven replace the currencies (the dollar) with the euro and the United States will they not, little by little, use the euro instead of the dollar in some of their transactions, for example in their transactions with the eleven?

The international currency can also be a euro-currency. International cash in dollars includes assets of non-residents in banks in the United States, but also in banks abroad: they are Euro-dollars. Similarly, holdings in euros may be held with banks located in countries other than the eleven: these will be 'euro-euros'. The operations of these foreign exchange banks do not affect the creation of the international currency proper, but through the deposit and credit mechanism, they lead to an increase in international liquidity. It will be for the euro as for the dollar. The holdings in euros will include both euros linked to the operations of the eleven with the rest of the world and euros linked to the operations of banks in the world.

It would be imprudent to venture into any numerical forecast. We do not have the elements that would make it possible to draw up a consolidated balance sheet of the euro system at the level of the eleven and with regard to their own currencies. But it is likely that two influences will be exerted, and in the opposite direction. The first is that the banks of the eleven that are in the euro system with regard to the dollar will no longer be there with regard to the euro. These banks now

[5] The operations of the banking sector are broken down on the French balance of payments, for example, according to that it involves assets and liabilities in foreign currency or francs. But the other operations are not broken down.

account for more than 36% of euro-currency transactions.[6] Only the others, in London (for now), in Zurich, Montreal or Singapore will be able to do operations in 'euro-euros'. The second is that the euro will gradually compete with the dollar. Even if the evolution is slow because the inertia of the behaviours is strong, the single currency will have little by little in the euro system a larger part than that of the currencies of the eleven, which exceeds 26% for the time being in the liabilities of banks located in industrialised countries.[7]

The quantitative aspects of the international role of the euro are difficult to control. The mechanisms are known, but not the volumes that will be affected. They will depend on the demand and the functions that this currency can fulfill, as well as the supply and the quantities that can be used. But the use of national currencies is not sufficient to characterise the international monetary system, which is also based on changing rules and on an institution whose role is growing.

The euro and the IMF

These are the countries that are members of the IMF (article II of its statutes). The eleven member countries of the Monetary Union therefore remained members of the Fund: each retained its own share. After the last increase, which came into force in January 1999, the combined quotas of the eleven represent 23% of the total quota. This is more than that of the United States (17.5%), and it would be even more if the fifteen countries of the Community had all participated in the Monetary Union (30%, notably because of the United Kingdom). Quotas determine the subscription paid by each country, the assistance it may request and the voting rights it may exercise (Kirrane 1993).

Voting rights raise a problem, not at the level of the Board of Governors in which each country has its own, which exercises its voting rights, but on the Board of Directors which comprises 24 directors. Eight are named, each by one country, this is the case of France and Germany. Sixteen are elected by the countries that have formed into so many Groups. The other nine members of the Union are found in six of these Groups. Sometimes they are the main constituent: Italy and Portugal are associated with Greece, Malta and Albania; Belgium, Luxembourg and Austria are also associated with Turkey, Hungary, the Czech and Slovak Republics, Belarus and Kazakhstan. Finally, the Netherlands has half of the voting rights that can be exercised by a Group that also includes Israel, Romania, Bulgaria, Ukraine, Croatia. These three directors are respectively Italian, Belgian and Dutch. In other Groups, on the other hand, the European countries are clearly 'minoritarians'. Spain is isolated next to Mexico, Venezuela, El Salvador, Honduras like Finland alongside the Scandinavian countries and the Baltic countries, and like Ireland which is part of a Group from twelve countries involving Canada and the Central American countries, such as the Bahamas and St. Lucia. At the present time, eight out of twenty-four administrators are directly or indirectly concerned by the problems of the euro while everyone has to use their votes as a whole! (art XII, 3i).[8]

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[6] Transactions in Euro-currencies are transactions in foreign currencies. Banks located in eleven countries have 39% of foreign currency liabilities to residents ($ 1.399 billion) and 35% foreign currency liabilities to non-residents ($ 7.019 billion).

[7] This percentage is certainly below the level of the whole system, since the mark, the franc or the read are less present in the balance sheets of banks in Mexico or Korea than in Canada or Switzerland! The currencies also represent 32.5% of national currency liabilities to non-residents.

[8] The countries of the Franc Zone are, with some neighboring countries, part of the same Group, so they have the same administrator. But since they have the same currency, their relations with the IMF have also raised the problems we are going to talk about. But of course we cannot compare the CFA franc and the euro.

Things should change gradually as elected directors reach the end of their term. But on the one hand, several Groups elected their directors in 1998, when the establishment of the Monetary Union was near and its contours were already well known. The fact that the directors are not elected at the same time does not facilitate the reorganisation of the Groups. On the other hand, the same problem will arise when the Union expands and welcomes new member countries. But the eleven wished that pragmatic solutions be found to ensure their representation in the Fund. Already, the Governing Body has agreed to grant observer status to the ECB. And the Vienna European Council in December 1998 called for the Union's point of view to be presented by the Director representing the country holding the Presidency of the Group of Eleven, assisted by a representative of the Commission.

Another difficulty will come into play when quotas are revised. The increase is now selective, it is determined according to certain criteria, the most important of which are the level of the reserves of each country and its participation in international trade. The reserves of each of the eleven will probably decrease but weakly. On the one hand, they no longer include the currencies of their partners which, converted into euros, have become national currency and are consolidated. On the other hand, the national central banks, whose dollar holdings are now managed, at least in part, by the ECB, no longer each needs to defend their national currency. This impact will remain limited because the 11 countries hold only 17.5% of all foreign currency assets at the end of 1998, but more than 41% of the gold reserves do not vary.

The international trade of the eleven will also decrease, and more importantly. The exports and imports of each country also include transactions with their partners, which account for about 50%. Can intra-Community trade, which is settled in euros, be considered as international trade? These are transactions with foreign countries, but they are done without foreign exchange transactions. If they were to be excluded, the share of each of the eleven, and the ensuing voting rights, would be substantially reduced. It is likely that by the next revision, probably in 2004, the above criteria will be scrutinised. One of the most important roles of the Fund is the financial assistance to member countries in difficulty. In fact, it is now - for twenty years - intended for developing countries. But it is always open to all countries that must be treated on an equal footing. It is difficult to see France or Spain asking for help from the IMF, any more than the countries of the South: they have made considerable efforts to respect the convergence criteria; they will have to respect the stability pact; their economic policy will have to be coordinated with that of their partners (Kirrane 1996). Finally, financial assistance is available in the European framework, not to mention the Structural Funds, raised to 30 billion euros per year. But if one of the eleven ever had a balance of payments deficit and wanted to apply for help from the Fund, could the conditions be discussed without any intervening community authority? (Polak 1997)And if the euro should one day be supported against the dollar or the yen, or simply if it could fluctuate sharply, how could the Fund negotiate and put in place a safety net (Deppler 1998)?

Another important question posed to the IMF about the arrival of the euro on the international scene concerns the surveillance that it must exercise on the exchange rate policies of the member countries, in terms of article IV of its statutes. This monitoring involves regular consultations with national authorities. They must also be done with the community authorities. Article 109 of the Maastricht Treaty specifies the conditions under which formal (Bretton Woods type) or informal (Plaza-Louvre type) exchange rate agreements may be concluded by the Union. In both cases, the responsibility lies with the Ecofin Council, but the ECB is directly involved because it has to be consulted in order to respect the objective of price stability. These two bodies are therefore the privileged interlocutors of the Fund in its supervisory role, which also extends to monetary policy, this is still the ECB's business, and to economic policy (Kirrane 1993). The Fund's monitoring is thus at two levels, national and supranational.

The monitoring of exchange rate policies is complemented by international coordination of the major economic and monetary guidelines of the main industrialized countries in the G7. France, Italy and Germany are among them. The President of the Commission participates in the G7 summits, but the Community is not represented and is not involved in their preparation. The Luxembourg European Council in December 1997 called for a pragmatic solution to ensure representation of the euro area. The Vienna European Council in December 1998 proposed that March President of the ECOFIN Council, or if this president comes from a country that is not part of the area, the chairman of the Council of euro participates with the ECB in discussions on the euro. In addition, a representative of the Commission will be part of the Community delegation to assist the President of the Ecofin Council or the Council of the Euro.

The introduction of the euro also has implications for the Fund's operations. Each Member State has paid in its currency three-quarters of its share. The assets of the Fund in the currencies of the eleven were converted into euros at the conversion rate of 31 December 1998. On that day, the Fund held 17 billion euros, which represented almost 10% of its foreign currency holdings and exceeded its dollar holdings (7%). These euros may remain held in accounts open to the Fund by each of the eleven central banks but some countries may designate the ECB as the ‘custodian’ of the Fund's assets. Even if all eleven did so, the ECB should isolate the Fund's assets on behalf of everyone. Moreover, when the Fund transfers or receives euros in a transaction with a third country, it is the currency of a country that it uses, and the debt of that country - its reserve position in the Fund - is modified.[9] This Reserve Position determines a number of rights and obligations. It is the remuneration that the country will receive, it is its contribution to the ‘distribution of charges’ related to the unpaid ones which reduce the receipts of the Fund, it is its obligation to buy back its currency. This is why the Fund is obliged, when it uses euros, to specify which euros it is: French, Portuguese, Austrian, as it must distinguish the Ivorian CFA francs, Togolese or Cameroonian (Kirrane 1993).

And this choice itself raises a difficulty, not only which euros to choose, but why euros rather than dollars, pounds, Swiss francs, Saudi riyals. The question has been decided since a long time, with the technique of operating budgets. The Fund examines quarterly which countries are in a sufficiently strong position with regard to their balance of payments and reserves, so that they can transfer their currency into drawdowns. And, day by day, it uses the currencies thus selected according to a criterion that has changed several times and which was recently the reserves of each country.[10] The arrival of the euro naturally disrupted this procedure. The reference to

[9] The Reserve Position is equal to the difference between the quota of a country and the assets of the Fund in its currency, if this difference is positive. It therefore corresponds, initially, to the payment of the in reserve assets (gold, SDRs or currencies). A negative difference measures the "use of the credit of the Fund "which characterizes a debtor position of the country.

[10] We only consider draws here, but redemptions are also made in registered currencies. in another budget, in order to gradually equalize the relationship between the country's Reserve Position concerned and their share.

reserves, already discussed with the extension of floating exchange rates and the free movement of capital, as the reference to the balance of payments, have lost their meaning in the case of the eleven. Could the situation of any one of the eleven countries, measured by its reserves and balance of payments, lead to its currency not being included in the budget, while its currency is also that of its partners?
The euro also has consequences for the SDR system: on their use, on their holding, on their value, on their return. On their use: a country can use its SDRs to buy a currency by transferring it to another country that can be designated by the Fund - the procedure has fallen into disuse - or with which it gets along directly or because the other country has committed, under a standing agreement, to receive - or to transfer - SDRs on fixed terms. This country must give in exchange 'a freely usable currency'. Five currencies were considered as such, including the franc and the mark. The euro is too. In fact, the dollar has been used so far in most of these transactions. It will be interesting to see how far the euro is going to be used from now on. The Fund may grant certain institutions the status of 'approved holder'. It may therefore, in its name, hold, use and receive SDRs, in transactions with countries, with other authorised holders, with the Fund itself. It could in turn sign a permanent agreement with the Fund that would allow it to play a certain role in the system. On their value: the value of the SDR is that of a basket of five currencies whose weights and quantities are modified at each revision, every five years. Already the mark and the franc have been replaced by the euro without changing the value of the SDR.
The advent of the euro will completely change the international monetary system. The importance and the novelty of this shock make any attempt at forecasting delicate. A currency replaces a dozen others, not currencies of small or developing countries, but currencies of major industrialised countries, some of which already had a role, and which was not modest, on the international scene. And it was done suddenly, on a given day, and announced in recent years. Worse, it will be renewed when other countries decide to participate in the adventure, probably soon Britain - which means that the pound will disappear - maybe one day too, the Central European countries whose economy was planned not ten years ago!
In international relations, the reaction has been rapid. The euro is already widely used, especially in financial transactions. But its development depends on many factors that are hard to control for the moment. Was it not foreseen that the new currency would be a strong currency? In fact, it lost 12% of its value in six months. Was not it also wrong about its use in each country and the rate at which people would 'move to the euro'. They will have six months in 2002 to get the notes and coins but they are three years old in their bank accounts. Was this passage going to be fast, regular and general, or slow, jerky and sectoral? And was it going to be done at the same pace in each of the eleven countries? There is little information for now. But it seems that the factors of resistance have prevailed over the attraction of change and novelty.
At the international level everything is clearer. But it remains very difficult to predict how the role of the euro will evolve, and how the monetary polycentrism that has been talked about for a long time will actually be put in place. The decisions of the economic agents will be decisive and the role of the markets will be essential. The modalities and effectiveness of international co-operation will be just as important. The consequences of the changeover to the euro on IMF operations, as well as on surveillance, which is now one of its main responsibilities, are indicative of this uncertainty.

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