

RESOLUTION OF THE EUROPEAN COUNCIL

on the establishment of an exchange-rate mechanism in the third stage of economic and monetary union

Amsterdam, 16 June 1997

(97/C 236/03)

Building on the agreements reached at its meetings in Florence and Dublin, the European Council has today agreed as follows:

AN EXCHANGE RATE MECHANISM WILL BE SET UP WHEN THE THIRD STAGE OF ECONOMIC AND MONETARY UNION BEGINS ON 1 JANUARY 1999.

With the start of the third stage of economic and monetary union, the European Monetary System, will be replaced by the exchange-rate mechanism as defined in this Resolution. The operating procedures will be laid down in an agreement between the European Central Bank and the national central banks of the Member States outside the euro area.

The exchange-rate mechanism will link currencies of Member States outside the euro area to the euro. The euro will be the centre of the new mechanism. The mechanism will function within the requisite framework of stability-oriented policies in accordance within the Treaty establishing the European Community which are at the core of economic and monetary union.

1. PRINCIPLES AND OBJECTIVES

1.1 Lasting convergence of economic fundamentals is a prerequisite for sustainable exchange-rate stability. To this end, in the third stage of economic and monetary union all Member States must pursue disciplined and responsible monetary policies directed towards price stability. Sound fiscal and structural policies in all Member States are, at least, equally essential for sustainable exchange-rate stability.

1.2 A stable economic environment is necessary for the good functioning of the single market and for higher investment, growth and employment and is therefore in the interest of all Member States. The single market must not be endangered by real exchange-rate misalignments, or by excessive nominal exchange-rate fluctuations between the euro and the other EU currencies, which would disrupt trade flows between Member States. Moreover, under Article 109m of the Treaty each Member State has an obligation to treat its exchange-rate policy as a matter of common interest. The surveillance of Member States' macroeconomic policies in the Council under Article 103 of the Treaty will be organised, *inter alia*, with a view to avoiding such misalignments or fluctuations.

1.3 The exchange-rate mechanism will help to ensure that Member States outside the

euro-area participating in the mechanism orient their policies to stability, foster convergence and thereby help them in their efforts to adopt the euro. It will provide those Member States with a reference for their conduct of sound economic policies in general and monetary policy in particular. At the same time, the mechanism will also help to protect them and the Member States adopting the euro from unwarranted pressures in the foreign-exchange markets. In such cases, it may assist Member States outside the euro area participating in it, when their currencies come under pressure to combine appropriate policy responses, including interest-rate measures, with coordinated intervention.

1.4 It will also help to ensure that Member States seeking to adopt the euro after 1 January 1999 receive treatment equal to that of those initially adopting the euro with respect to the fulfilment of the convergence criteria.

1.5 The exchange-rate mechanism will function without prejudice to the primary objective of the European Central Bank (ECB) and the national central banks to maintain price stability. It should be ensured that any adjustment of central rates is conducted in a timely fashion so as to avoid significant misalignments.

1.6 Participation in the exchange-rate mechanism will be voluntary for the Member States outside the euro area. Nevertheless, Member States with a derogation can be expected to join the mechanism. A Member State which does not participate from the outset in the exchange-rate mechanism may participate at a later date.

1.7 The exchange-rate mechanism will be based on central rates against the euro. The standard fluctuation band will be relatively wide. Through the implementing of stability-oriented economic and monetary policies, the central rates will remain the focus for the Member States outside the euro area participating in the mechanism.

1.8 Furthermore, sufficient flexibility is allowed, in particular, to accommodate the varying degrees, paces and strategies of economic convergence of Member States outside the euro area joining the mechanism. Exchange-rate policy cooperation may be further strengthened, for example by allowing closer exchange-rate links between the euro and other currencies in the exchange-rate mechanism, where, and to the extent that, these are appropriate in the light of progress towards convergence. The existence of such closer links, particularly if it implied narrower fluctuation bands, would be without prejudice to the interpretation of the exchange-rate criterion of Article 109j of the Treaty.

2. MAIN FEATURES

2.1 A central rate against the euro will be defined for the currency of each Member State outside the euro area participating in the exchange-rate mechanism. There will be one standard fluctuation band of plus or minus 15% around the central rate. Intervention at the margins will in principle be automatic and unlimited, with very short-term financing available. However, the ECB and the central banks of the other participants could suspend intervention if this were to conflict with their primary objective. In their decision they would take due account of all relevant factors and in particular of the need to maintain price stability and the credible functioning of the exchange-rate mechanism.

2.2 As is made clear in the agreement laying down the operating procedures of the exchange-rate mechanism which is expected to be concluded between the ECB and the national central banks, the flexible use of interest rates will be an important feature of the mechanism and there will be the possibility of coordinated intra-marginal intervention.

2.3 Decisions on central rates and the standard fluctuation band shall be taken by mutual agreement of the ministers of the euro-area Member States, the ECB and the ministers and central bank governors of the non-euro area Member States participating in the new mechanism, following a common procedure involving the European Commission, and after consultation of the Economic and Financial Committee. The ministers and governors of the central banks of the Member States not participating in the exchange-rate mechanism will take part but will not have the right to vote in the procedure. All parties to the mutual agreement, including the ECB, will have the right to initiate a confidential procedure aimed at reconsidering central rates.

2.4 On a case-by-case basis, formally agreed fluctuation bands narrower than the standard one and backed up in principle by automatic intervention and financing may be set at the request of the non-euro area Member States concerned. Such a decision to narrow the band would be taken by the ministers of the euro-area Member States, the ECB and the minister and governor of the central bank of the non-euro area Member States concerned, following a common procedure involving the European Commission, and after consultation of the Economic and Financial Committee. The ministers and central bank governors of the other Member States will take part in the procedure, but will not have the right to vote.

2.5 The standard and narrower bands shall not prejudice the interpretation of the third indent of Article 109j (1) of the Treaty.

2.6 The details of the very short-term financing mechanism will be determined in the agreement between the ECB and the national central banks, broadly on the basis of the present arrangements. The European Monetary Institute (EMI) has drafted such an agreement incorporating the operating procedures required by this Resolution. The EMI will submit it to the ECB and to the central banks of the non-euro area Member States on the date of the establishment of the ECB.
