

Denmark's Participation in ERM II

At the informal meeting of the ECOFIN Council on September 25-27, 1998 in Vienna the ministers of economic affairs and finance and the central-bank governors of the EU member states concluded an agreement concerning Danish and Greek participation in the new exchange-rate mechanism, ERM II, as from January 1, 1999. The communiqué from the ECOFIN Council appears in the Box. The agreement states that the Danish krone will participate in ERM II with a fluctuation band around its central rate against the euro of ± 2.25 per cent, while the Greek drachma will participate with a fluctuation band of ± 15 per cent.

The Danish fluctuation band of ± 2.25 per cent is equivalent to the previous narrow band for the krone in ERM I up to August 1993. The agreement entails the continuation of Denmark's fixed-exchange-rate policy.

The two other non-euro area member states, Sweden and the UK, have chosen not to participate in ERM II. The two countries' decisions can be assumed to be influenced by the fact that in 1992 they abandoned their fixed-exchange-rate policies. They may naturally apply for participation at a later stage.

The principles, objectives and main features of ERM II, including the possibility of narrow fluctuation bands, are described in the resolution of the European Council in Amsterdam in June 1997. The resolution was published in the Official Journal of the European Communities on August 2, 1997 and can be found on Danmarks Nationalbank's website: www.nationalbanken.dk under "About us".

Furthermore, in September 1998 an agreement was concluded between the central banks of the EU member states not participating in the third stage of EMU, and the ECB, on the technical guidelines and procedures for ERM II. This agreement is also published in the Official Journal of the European Communities and on Danmarks Nationalbank's website. The central-bank agreement sets out the specific rules for e.g. the conclusion and settlement of intervention credits.

A central element of the ERM II agreement is the mutual unlimited intervention obligation should the krone reach one of the limits of the fluctuation band against the euro. However, the ECB and Danmarks Nationalbank may suspend intervention if it is contrary to their primary objective.

The agreement entails that Denmark's monetary policy of recent years will be unchanged. Danmarks Nationalbank has used a combination of

interest-rate policy and intervention in the foreign-exchange market to keep the exchange-rate fluctuations against the D-mark at a very modest level. Danmarks Nationalbank will continue this policy when the krone instead is linked to the euro as from January 1, 1999.

Vienna, September 26, 1998

Communiqué

Danish and Greek participation in the new exchange rate mechanism (ERM II)

The ministers of the euro area Member States, the ECB and the Ministers and Central Bank Governors of the Kingdom of Denmark and the Republic of Greece discussed the participation in ERM II of non-euro area Member States. The European Commission has been involved and the Monetary Committee was consulted. They:

- welcomed the decision by the Greek and the Danish Governments to carry on from ERM I into ERM II their participation in the exchange-rate mechanism linking their currencies to the euro area;
- agreed that the Greek drachma will participate in ERM II with the standard fluctuation band around its central rate against the euro of +/- 15%;
- agreed that the Danish krone will participate in ERM II with a fluctuation band around its central rate against the euro of +/- 2.25%.

The agreement concerning the Greek drachma is a continuation of satisfactory participation in the exchange-rate mechanism following progress towards convergence and recognizes that the flexibility provided by the standard fluctuation band enhances the effectiveness of the stability-oriented monetary policy pursued at present.

The agreement concerning the Danish krone is based on the high level of convergence achieved by Denmark in terms of the convergence criteria, including the very high degree of stability of the krone in the markets and the unchanged parity within ERM I since January 1987. This is the result of sustained stability-oriented economic policies.

The above agreements will be implemented in accordance with the formal procedure envisaged under the ERM II Resolution of the European Council so as to become effective from the opening of foreign exchange markets on 4 January 1999.