CONVENTIONS AND PROCEDURES FOR THE NEW EXCHANGE RATE MECHANISM (ERM II)

In accordance with the Resolution adopted by the European Council at its meeting in Amsterdam in June 1997, the European Monetary System (EMS) will, from the start of Stage Three of EMU, be replaced by a new exchange rate mechanism that will link the currencies of non-euro area Member States to the euro. The exchange rate mechanism will help to ensure that non-euro area Member States participating in the mechanism orient their policies towards stability, foster convergence and thereby help them in their efforts to adopt the euro. Participation in the exchange rate mechanism will be voluntary for all non-euro area Member States. A Member State which does not participate in the exchange rate mechanism from the outset may participate at a later date. The operating procedures for the new exchange rate mechanism have been laid down in an agreement between the European Central Bank (ECB) and the non-euro area national central banks.

For the currency of each Member State participating in the mechanism, a central rate against the euro and a standard fluctuation band of ±15% will be defined, in principle supported by automatic unlimited intervention at the margins, with very short-term financing available. However, the ECB and the participating non-euro area national central banks could suspend automatic intervention if this were to conflict with their primary objective of maintaining price stability. In line with the Resolution of the European Council, exchange rate policy co-operation 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.

Since the adoption of the Resolution by the European Council at its meeting in Amsterdam in June 1997, some operating features have been laid down in annexes to the above-mentioned agreement:

- For all the currencies of the non-euro area Member States participating in ERM II, the exchange rate for the bilateral central rate vis-à-vis the euro will be quoted using the euro as the "base" currency. This means that for all currencies the exchange rate will be expressed as the value of € 1 using six significant digits. The same convention will be applied for quoting the upper and lower intervention rates vis-à-vis the euro of the currencies of the non-euro area Member States participating in ERM II. The intervention rates will be determined by adding or subtracting the agreed bandwidth, expressed as a percentage, to or from the bilateral central rates. The resulting rates will have to be rounded to six significant digits;
- In order to reduce the settlement risk inherent in unlimited intervention at the margins, a payment after payment procedure will be applied as from 1 January 1999 by both the ECB and the euro area national central banks and may be applied by the non-euro area national central banks participating in ERM II. However, the payment after payment procedure to be applied is intended as a temporary solution for the interim period between the entry into force of ERM II and the introduction of a reliable payment versus payment mechanism covering the euro and other ERM II currencies.

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