

General Secretariat of the Council of the European Union

European Commission

Economic and monetary union

Legal and political texts

June 2007

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Preface

Economic and monetary union (EMU) in general, and the euro in particular, is designed to create the foundation for sustainable long-term economic growth by providing macroeconomic stability, while, at the same time, constituting a natural complement to Europe's single market. The introduction of the single currency on 1 January 1999 and the introduction of the euro banknotes and coins on 1 January 2002 are two key events in the history of the European Union. Since the adoption of the euro by Slovenia on 1 January 2007, the euro area comprises 13 Member States and counts a population of more than 315 million who share the single currency and benefit from the euro.

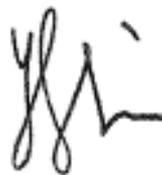
This compilation, issued jointly by the General Secretariat of the Council of the European Union and the European Commission, brings together the core legal and political texts on EMU and the euro.

The concept of this publication is to cover the key provisions governing EMU in the format of a handy booklet. It was therefore unavoidable to be selective, despite the fact that numerous other texts are relevant for the functioning of EMU, for example legal acts relating to institutional and external aspects as well as to practical aspects of the single currency. They are therefore listed in the Annex, together with references to the Official Journal.



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Introductory note

This publication includes extracts from the consolidated versions of the EU Treaty and the EC Treaty. The extracts are numbered in accordance with the provisions of the Amsterdam Treaty. Consequently, references to the Treaties in other texts which do not correspond to the numbering according to the Amsterdam Treaty should be read in conjunction with the Table of equivalences referred to in Article 12 of the latter.

Regarding secondary Community legislation which has been amended, this publication contains unofficial consolidated versions.

The publication has been produced for documentary purposes and does not involve the responsibility of the EU institutions.

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1. Primary law

1.1. Extract from the Treaty on European Union

TITLE I COMMON PROVISIONS

Article 2

The Union shall set itself the following objectives:

- to promote economic and social progress and a high level of employment and to achieve balanced and sustainable development, in particular through the creation of an area without internal frontiers, through the strengthening of economic and social cohesion and through the establishment of economic and monetary union, ultimately including a single currency in accordance with the provisions of this Treaty,
- to assert its identity on the international scene, in particular through the implementation of a common foreign and security policy including the progressive framing of a common defence policy, which might lead to a common defence, in accordance with the provisions of Article 17,
- to strengthen the protection of the rights and interests of the nationals of its Member States through the introduction of a citizenship of the Union,
- to maintain and develop the Union as an area of freedom, security and justice, in which the free movement of persons is assured in conjunction with appropriate measures with respect to external border controls, asylum, immigration and the prevention and combating of crime,
- to maintain in full the *acquis communautaire* and build on it with a view to considering to what extent the policies and forms of cooperation introduced by this Treaty may need to be revised with the aim of ensuring the effectiveness of the mechanisms and the institutions of the Community.

The objectives of the Union shall be achieved as provided in this Treaty and in accordance with the conditions and the timetable set out therein while respecting the principle of subsidiarity as defined in Article 5 of the Treaty establishing the European Community.

1.2. Extracts from the Treaty establishing the European Community

PART ONE

PRINCIPLES

Article 2

The Community shall have as its task, by establishing a common market and an economic and monetary union and by implementing common policies or activities referred to in Articles 3 and 4, to promote throughout the Community a harmonious, balanced and sustainable development of economic activities, a high level of employment and of social protection, equality between men and women, sustainable and non-inflationary growth, a high degree of competitiveness and convergence of economic performance, a high level of protection and improvement of the quality of the environment, the raising of the standard of living and quality of life, and economic and social cohesion and solidarity among Member States.

Article 4

1. For the purposes set out in Article 2, the activities of the Member States and the Community shall include, as provided in this Treaty and in accordance with the timetable set out therein, the adoption of an economic policy which is based on the close coordination of Member States' economic policies, on the internal market and on the definition of common objectives, and conducted in accordance with the principle of an open market economy with free competition.
2. Concurrently with the foregoing, and as provided in this Treaty and in accordance with the timetable and the procedures set out therein, these activities shall include the irrevocable fixing of exchange rates leading to the introduction of a single currency, the ecu, and the definition and conduct of a single monetary policy and exchange rate policy the primary objective of both of which shall be to maintain price stability and, without prejudice to this objective, to support the general economic policies in the Community, in accordance with the principle of an open market economy with free competition.
3. These activities of the Member States and the Community shall entail compliance with the following guiding principles: stable prices, sound public finances and monetary conditions and a sustainable balance of payments.

Article 8

A European system of central banks (hereinafter referred to as 'ESCB') and a European Central Bank (hereinafter referred to as 'ECB') shall be established in accordance with the procedures laid down in this Treaty; they shall act within the limits of the powers conferred upon them by this Treaty and by the Statute of the ESCB and of the ECB (hereinafter referred to as 'Statute of the ESCB') annexed thereto.

PART THREE
COMMUNITY POLICIES

TITLE VII
ECONOMIC AND MONETARY POLICY

CHAPTER 1
ECONOMIC POLICY

Article 98

Member States shall conduct their economic policies with a view to contributing to the achievement of the objectives of the Community, as defined in Article 2, and in the context of the broad guidelines referred to in Article 99(2). The Member States and the Community shall act in accordance with the principle of an open market economy with free competition, favouring an efficient allocation of resources, and in compliance with the principles set out in Article 4.

Article 99

1. Member States shall regard their economic policies as a matter of common concern and shall coordinate them within the Council, in accordance with the provisions of Article 98.
2. The Council shall, acting by a qualified majority on a recommendation from the Commission, formulate a draft for the broad guidelines of the economic policies of the Member States and of the Community, and shall report its findings to the European Council.

The European Council shall, acting on the basis of the report from the Council, discuss a conclusion on the broad guidelines of the economic policies of the Member States and of the Community.

On the basis of this conclusion, the Council shall, acting by a qualified majority, adopt a recommendation setting out these broad guidelines. The Council shall inform the European Parliament of its recommendation.

3. In order to ensure closer coordination of economic policies and sustained convergence of the economic performances of the Member States, the Council shall, on the basis of reports submitted by the Commission, monitor economic developments in each of the Member States and in the Community as well as the consistency of economic policies with the broad guidelines referred to in paragraph 2, and regularly carry out an overall assessment.

For the purpose of this multilateral surveillance, Member States shall forward information to the Commission about important measures taken by them in the field of their economic policy and such other information as they deem necessary.

4. Where it is established, under the procedure referred to in paragraph 3, that the economic policies of a Member State are not consistent with the broad guidelines referred to in paragraph 2 or that they risk jeopardising the proper functioning of economic and monetary union, the Council may, acting by a qualified majority on a recommendation from the Commission, make the necessary recommendations to the Member State concerned. The Council may, acting by a qualified majority on a proposal from the Commission, decide to make its recommendations public.

The President of the Council and the Commission shall report to the European Parliament on the results of multilateral surveillance. The President of the Council may be invited to appear before the competent committee of the European Parliament if the Council has made its recommendations public.

5. The Council, acting in accordance with the procedure referred to in Article 252, may adopt detailed rules for the multilateral surveillance procedure referred to in paragraphs 3 and 4 of this Article.

Article 100

1. Without prejudice to any other procedures provided for in this Treaty, the Council, acting by a qualified majority on a proposal from the Commission, may decide upon the measures appropriate to the economic situation, in particular if severe difficulties arise in the supply of certain products.

2. Where a Member State is in difficulties or is seriously threatened with severe difficulties caused by natural disasters or exceptional occurrences beyond its control, the Council, acting by a qualified majority on a proposal from the Commission, may grant, under certain conditions, Community financial

1. Primary law

assistance to the Member State concerned. The President of the Council shall inform the European Parliament of the decision taken.

Article 101

1. Overdraft facilities or any other type of credit facility with the ECB or with the central banks of the Member States (hereinafter referred to as 'national central banks') in favour of Community institutions or bodies, central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of Member States shall be prohibited, as shall the purchase directly from them by the ECB or national central banks of debt instruments.
2. Paragraph 1 shall not apply to publicly owned credit institutions which, in the context of the supply of reserves by central banks, shall be given the same treatment by national central banks and the ECB as private credit institutions.

Article 102

1. Any measure, not based on prudential considerations, establishing privileged access by Community institutions or bodies, central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of Member States to financial institutions, shall be prohibited.
2. The Council, acting in accordance with the procedure referred to in Article 252, shall, before 1 January 1994, specify definitions for the application of the prohibition referred to in paragraph 1.

Article 103

1. The Community shall not be liable for or assume the commitments of central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of any Member State, without prejudice to mutual financial guarantees for the joint execution of a specific project. A Member State shall not be liable for or assume the commitments of central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of another Member State, without prejudice to mutual financial guarantees for the joint execution of a specific project.

2. If necessary, the Council, acting in accordance with the procedure referred to in Article 252, may specify definitions for the application of the prohibition referred to in Article 101 and in this Article.

Article 104

1. Member States shall avoid excessive government deficits.
2. The Commission shall monitor the development of the budgetary situation and of the stock of government debt in the Member States with a view to identifying gross errors. In particular it shall examine compliance with budgetary discipline on the basis of the following two criteria:
 - (a) whether the ratio of the planned or actual government deficit to gross domestic product exceeds a reference value, unless:
 - either the ratio has declined substantially and continuously and reached a level that comes close to the reference value,
 - or, alternatively, the excess over the reference value is only exceptional and temporary and the ratio remains close to the reference value;
 - (b) whether the ratio of government debt to gross domestic product exceeds a reference value, unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace.

The reference values are specified in the Protocol on the excessive deficit procedure annexed to this Treaty.

3. If a Member State does not fulfil the requirements under one or both of these criteria, the Commission shall prepare a report. The report of the Commission shall also take into account whether the government deficit exceeds government investment expenditure and take into account all other relevant factors, including the medium-term economic and budgetary position of the Member State.

The Commission may also prepare a report if, notwithstanding the fulfilment of the requirements under the criteria, it is of the opinion that there is a risk of an excessive deficit in a Member State.

4. The Committee provided for in Article 114 shall formulate an opinion on the report of the Commission.
5. If the Commission considers that an excessive deficit in a Member State exists or may occur, the Commission shall address an opinion to the Council.
6. The Council shall, acting by a qualified majority on a recommendation from the Commission, and having considered any observations which the Member

1. Primary law

State concerned may wish to make, decide after an overall assessment whether an excessive deficit exists.

7. Where the existence of an excessive deficit is decided according to paragraph 6, the Council shall make recommendations to the Member State concerned with a view to bringing that situation to an end within a given period. Subject to the provisions of paragraph 8, these recommendations shall not be made public.

8. Where it establishes that there has been no effective action in response to its recommendations within the period laid down, the Council may make its recommendations public.

9. If a Member State persists in failing to put into practice the recommendations of the Council, the Council may decide to give notice to the Member State to take, within a specified time limit, measures for the deficit reduction which is judged necessary by the Council in order to remedy the situation.

In such a case, the Council may request the Member State concerned to submit reports in accordance with a specific timetable in order to examine the adjustment efforts of that Member State.

10. The rights to bring actions provided for in Articles 226 and 227 may not be exercised within the framework of paragraphs 1 to 9 of this Article.

11. As long as a Member State fails to comply with a decision taken in accordance with paragraph 9, the Council may decide to apply or, as the case may be, intensify one or more of the following measures:

- to require the Member State concerned to publish additional information, to be specified by the Council, before issuing bonds and securities,
- to invite the European Investment Bank to reconsider its lending policy towards the Member State concerned,
- to require the Member State concerned to make a non-interest-bearing deposit of an appropriate size with the Community until the excessive deficit has, in the view of the Council, been corrected,
- to impose fines of an appropriate size.

The President of the Council shall inform the European Parliament of the decisions taken.

12. The Council shall abrogate some or all of its decisions referred to in paragraphs 6 to 9 and 11 to the extent that the excessive deficit in the Member State concerned has, in the view of the Council, been corrected. If the Council has previously made public recommendations, it shall, as soon as the decision under paragraph 8 has been abrogated, make a public statement that an excessive deficit in the Member State concerned no longer exists.

13. When taking the decisions referred to in paragraphs 7 to 9, 11 and 12, the Council shall act on a recommendation from the Commission by a majority of two thirds of the votes of its members weighted in accordance with Article 205(2), excluding the votes of the representative of the Member State concerned.

14. Further provisions relating to the implementation of the procedure described in this article are set out in the Protocol on the excessive deficit procedure annexed to this Treaty.

The Council shall, acting unanimously on a proposal from the Commission and after consulting the European Parliament and the ECB, adopt the appropriate provisions which shall then replace the said Protocol.

Subject to the other provisions of this paragraph, the Council shall, before 1 January 1994, acting by a qualified majority on a proposal from the Commission and after consulting the European Parliament, lay down detailed rules and definitions for the application of the provisions of the said Protocol.

CHAPTER 2 MONETARY POLICY

Article 105

1. The primary objective of the ESCB shall be to maintain price stability. Without prejudice to the objective of price stability, the ESCB shall support the general economic policies in the Community with a view to contributing to the achievement of the objectives of the Community as laid down in Article 2. The ESCB shall act in accordance with the principle of an open market economy with free competition, favouring an efficient allocation of resources, and in compliance with the principles set out in Article 4.

2. The basic tasks to be carried out through the ESCB shall be:

- to define and implement the monetary policy of the Community,
- to conduct foreign-exchange operations consistent with the provisions of Article 111,
- to hold and manage the official foreign reserves of the Member States,
- to promote the smooth operation of payment systems.

3. The third indent of paragraph 2 shall be without prejudice to the holding and management by the Governments of Member States of foreign-exchange working balances.

1. Primary law

4. The ECB shall be consulted:

- on any proposed Community act in its fields of competence,
- by national authorities regarding any draft legislative provision in its fields of competence, but within the limits and under the conditions set out by the Council in accordance with the procedure laid down in Article 107(6).

The ECB may submit opinions to the appropriate Community institutions or bodies or to national authorities on matters in its fields of competence.

5. The ESCB shall contribute to the smooth conduct of policies pursued by the competent authorities relating to the prudential supervision of credit institutions and the stability of the financial system.

6. The Council may, acting unanimously on a proposal from the Commission and after consulting the ECB and after receiving the assent of the European Parliament, confer upon the ECB specific tasks concerning policies relating to the prudential supervision of credit institutions and other financial institutions with the exception of insurance undertakings.

Article 106

1. The ECB shall have the exclusive right to authorise the issue of banknotes within the Community. The ECB and the national central banks may issue such notes. The banknotes issued by the ECB and the national central banks shall be the only such notes to have the status of legal tender within the Community.

2. Member States may issue coins subject to approval by the ECB of the volume of the issue. The Council may, acting in accordance with the procedure referred to in Article 252 and after consulting the ECB, adopt measures to harmonise the denominations and technical specifications of all coins intended for circulation to the extent necessary to permit their smooth circulation within the Community.

Article 107

1. The ESCB shall be composed of the ECB and of the national central banks.

2. The ECB shall have legal personality.

3. The ESCB shall be governed by the decision-making bodies of the ECB which shall be the Governing Council and the Executive Board.

4. The Statute of the ESCB is laid down in a Protocol annexed to this Treaty.

5. Articles 5.1, 5.2, 5.3, 17, 18, 19.1, 22, 23, 24, 26, 32.2, 32.3, 32.4, 32.6, 33.1(a) and 36 of the Statute of the ESCB may be amended by the Council, acting either by a qualified majority on a recommendation from the ECB and after consult-

ing the Commission or unanimously on a proposal from the Commission and after consulting the ECB. In either case, the assent of the European Parliament shall be required.

6. The Council, acting by a qualified majority either on a proposal from the Commission and after consulting the European Parliament and the ECB or on a recommendation from the ECB and after consulting the European Parliament and the Commission, shall adopt the provisions referred to in Articles 4, 5.4, 19.2, 20, 28.1, 29.2, 30.4 and 34.3 of the Statute of the ESCB.

Article 108

When exercising the powers and carrying out the tasks and duties conferred upon them by this Treaty and the Statute of the ESCB, neither the ECB, nor a national central bank, nor any member of their decision-making bodies shall seek or take instructions from Community institutions or bodies, from any Government of a Member State or from any other body. The Community institutions and bodies and the Governments of the Member States undertake to respect this principle and not to seek to influence the members of the decision-making bodies of the ECB or of the national central banks in the performance of their tasks.

Article 109

Each Member State shall ensure, at the latest at the date of the establishment of the ESCB, that its national legislation including the statutes of its national central bank is compatible with this Treaty and the Statute of the ESCB.

Article 110

1. In order to carry out the tasks entrusted to the ESCB, the ECB shall, in accordance with the provisions of this Treaty and under the conditions laid down in the Statute of the ESCB:

- make regulations to the extent necessary to implement the tasks defined in Article 3.1, first indent, Articles 19.1, 22 and 25.2 of the Statute of the ESCB and in cases which shall be laid down in the acts of the Council referred to in Article 107(6),
- take decisions necessary for carrying out the tasks entrusted to the ESCB under this Treaty and the Statute of the ESCB,
- make recommendations and deliver opinions.

1. Primary law

2. A regulation shall have general application. It shall be binding in its entirety and directly applicable in all Member States.

Recommendations and opinions shall have no binding force.

A decision shall be binding in its entirety upon those to whom it is addressed.

Articles 253, 254 and 256 shall apply to regulations and decisions adopted by the ECB.

The ECB may decide to publish its decisions, recommendations and opinions.

3. Within the limits and under the conditions adopted by the Council under the procedure laid down in Article 107(6), the ECB shall be entitled to impose fines or periodic penalty payments on undertakings for failure to comply with obligations under its regulations and decisions.

Article 111

1. By way of derogation from Article 300, the Council may, acting unanimously on a recommendation from the ECB or from the Commission, and after consulting the ECB in an endeavour to reach a consensus consistent with the objective of price stability, after consulting the European Parliament, in accordance with the procedure in paragraph 3 for determining the arrangements, conclude formal agreements on an exchange rate system for the ecu in relation to non-Community currencies. The Council may, acting by a qualified majority on a recommendation from the ECB or from the Commission, and after consulting the ECB in an endeavour to reach a consensus consistent with the objective of price stability, adopt, adjust or abandon the central rates of the ecu within the exchange rate system. The President of the Council shall inform the European Parliament of the adoption, adjustment or abandonment of the ecu central rates.

2. In the absence of an exchange rate system in relation to one or more non-Community currencies as referred to in paragraph 1, the Council, acting by a qualified majority either on a recommendation from the Commission and after consulting the ECB or on a recommendation from the ECB, may formulate general orientations for exchange rate policy in relation to these currencies. These general orientations shall be without prejudice to the primary objective of the ESCB to maintain price stability.

3. By way of derogation from Article 300, where agreements concerning monetary or foreign-exchange regime matters need to be negotiated by the Community with one or more States or international organisations, the Council, acting by a qualified majority on a recommendation from the Commission and after consulting the ECB, shall decide the arrangements for the negotiation and for the conclusion of such agreements. These arrangements shall ensure

that the Community expresses a single position. The Commission shall be fully associated with the negotiations.

Agreements concluded in accordance with this paragraph shall be binding on the institutions of the Community, on the ECB and on Member States.

4. Subject to paragraph 1, the Council, acting by a qualified majority on a proposal from the Commission and after consulting the ECB, shall decide on the position of the Community at international level as regards issues of particular relevance to economic and monetary union and on its representation, in compliance with the allocation of powers laid down in Articles 99 and 105.

5. Without prejudice to Community competence and Community agreements as regards economic and monetary union, Member States may negotiate in international bodies and conclude international agreements.

CHAPTER 3 INSTITUTIONAL PROVISIONS

Article 112

1. The Governing Council of the ECB shall comprise the members of the Executive Board of the ECB and the Governors of the national central banks.

2. (a) The Executive Board shall comprise the President, the Vice-President and four other members.

(b) The President, the Vice-President and the other members of the Executive Board shall be appointed from among persons of recognised standing and professional experience in monetary or banking matters by common accord of the Governments of the Member States at the level of Heads of State or Government, on a recommendation from the Council, after it has consulted the European Parliament and the Governing Council of the ECB.

Their term of office shall be eight years and shall not be renewable.

Only nationals of Member States may be members of the Executive Board.

Article 113

1. The President of the Council and a member of the Commission may participate, without having the right to vote, in meetings of the Governing Council of the ECB.

1. Primary law

The President of the Council may submit a motion for deliberation to the Governing Council of the ECB.

2. The President of the ECB shall be invited to participate in Council meetings when the Council is discussing matters relating to the objectives and tasks of the ESCB.

3. The ECB shall address an annual report on the activities of the ESCB and on the monetary policy of both the previous and current year to the European Parliament, the Council and the Commission, and also to the European Council. The President of the ECB shall present this report to the Council and to the European Parliament, which may hold a general debate on that basis.

The President of the ECB and the other members of the Executive Board may, at the request of the European Parliament or on their own initiative, be heard by the competent committees of the European Parliament.

Article 114

1. In order to promote coordination of the policies of Member States to the full extent needed for the functioning of the internal market, a Monetary Committee with advisory status is hereby set up.

It shall have the following tasks:

- to keep under review the monetary and financial situation of the Member States and of the Community and the general payments system of the Member States and to report regularly thereon to the Council and to the Commission,
- to deliver opinions at the request of the Council or of the Commission, or on its own initiative for submission to those institutions,
- without prejudice to Article 207, to contribute to the preparation of the work of the Council referred to in Articles 59, 60, 99(2), (3), (4) and (5), 100, 102, 103, 104, 116(2), 117(6), 119, 120, 121(2) and 122(1),
- to examine, at least once a year, the situation regarding the movement of capital and the freedom of payments, as they result from the application of this Treaty and of measures adopted by the Council; the examination shall cover all measures relating to capital movements and payments; the Committee shall report to the Commission and to the Council on the outcome of this examination.

The Member States and the Commission shall each appoint two members of the Monetary Committee.

2. At the start of the third stage, an Economic and Financial Committee shall be set up. The Monetary Committee provided for in paragraph 1 shall be dissolved.

The Economic and Financial Committee shall have the following tasks:

- to deliver opinions at the request of the Council or of the Commission, or on its own initiative for submission to those institutions,
- to keep under review the economic and financial situation of the Member States and of the Community and to report regularly thereon to the Council and to the Commission, in particular on financial relations with third countries and international institutions,
- without prejudice to Article 207, to contribute to the preparation of the work of the Council referred to in Articles 59, 60, 99(2), (3), (4) and (5), 100, 102, 103, 104, 105(6), 106(2), 107(5) and (6), 111, 119, 120(2) and (3), 122(2), 123(4) and (5), and to carry out other advisory and preparatory tasks assigned to it by the Council,
- to examine, at least once a year, the situation regarding the movement of capital and the freedom of payments, as they result from the application of this Treaty and of measures adopted by the Council; the examination shall cover all measures relating to capital movements and payments; the Committee shall report to the Commission and to the Council on the outcome of this examination.

The Member States, the Commission and the ECB shall each appoint no more than two members of the Committee.

3. The Council shall, acting by a qualified majority on a proposal from the Commission and after consulting the ECB and the Committee referred to in this Article, lay down detailed provisions concerning the composition of the Economic and Financial Committee. The President of the Council shall inform the European Parliament of such a decision.

4. In addition to the tasks set out in paragraph 2, if and as long as there are Member States with a derogation as referred to in Articles 122 and 123, the Committee shall keep under review the monetary and financial situation and the general payments system of those Member States and report regularly thereon to the Council and to the Commission.

Article 115

For matters within the scope of Articles 99(4), 104 with the exception of paragraph 14, 111, 121, 122 and 123(4) and (5), the Council or a Member State may request the Commission to make a recommendation or a proposal, as appro-

priate. The Commission shall examine this request and submit its conclusions to the Council without delay.

CHAPTER 4 TRANSITIONAL PROVISIONS

Article 116

1. The second stage for achieving economic and monetary union shall begin on 1 January 1994.
2. Before that date:
 - (a) each Member State shall:
 - adopt, where necessary, appropriate measures to comply with the prohibitions laid down in Article 56 and in Articles 101 and 102(1),
 - adopt, if necessary, with a view to permitting the assessment provided for in subparagraph (b), multiannual programmes intended to ensure the lasting convergence necessary for the achievement of economic and monetary union, in particular with regard to price stability and sound public finances;
 - (b) the Council shall, on the basis of a report from the Commission, assess the progress made with regard to economic and monetary convergence, in particular with regard to price stability and sound public finances, and the progress made with the implementation of Community law concerning the internal market.
3. The provisions of Articles 101, 102(1), 103(1) and 104 with the exception of paragraphs 1, 9, 11 and 14 shall apply from the beginning of the second stage.
The provisions of Articles 100(2), 104(1), (9) and (11), 105, 106, 108, 111, 112, 113 and 114(2) and (4) shall apply from the beginning of the third stage.
4. In the second stage, Member States shall endeavour to avoid excessive government deficits.
5. During the second stage, each Member State shall, as appropriate, start the process leading to the independence of its central bank, in accordance with Article 109.

Article 117

1. At the start of the second stage, a European Monetary Institute (hereinafter referred to as 'EMI') shall be established and take up its duties; it shall have legal personality and be directed and managed by a Council, consisting of a

President and the Governors of the national central banks, one of whom shall be Vice-President.

The President shall be appointed by common accord of the Governments of the Member States at the level of Heads of State or Government, on a recommendation from the Council of the EMI, and after consulting the European Parliament and the Council. The President shall be selected from among persons of recognised standing and professional experience in monetary or banking matters. Only nationals of Member States may be President of the EMI. The Council of the EMI shall appoint the Vice-President.

The Statute of the EMI is laid down in a Protocol annexed to this Treaty.

2. The EMI shall:

- strengthen cooperation between the national central banks,
- strengthen the coordination of the monetary policies of the Member States, with the aim of ensuring price stability,
- monitor the functioning of the European Monetary System,
- hold consultations concerning issues falling within the competence of the national central banks and affecting the stability of financial institutions and markets,
- take over the tasks of the European Monetary Cooperation Fund, which shall be dissolved; the modalities of dissolution are laid down in the Statute of the EMI,
- facilitate the use of the ecu and oversee its development, including the smooth functioning of the ecu clearing system.

3. For the preparation of the third stage, the EMI shall:

- prepare the instruments and the procedures necessary for carrying out a single monetary policy in the third stage,
- promote the harmonisation, where necessary, of the rules and practices governing the collection, compilation and distribution of statistics in the areas within its field of competence,
- prepare the rules for operations to be undertaken by the national central banks within the framework of the ESCB,
- promote the efficiency of cross-border payments,
- supervise the technical preparation of ecu banknotes.

At the latest by 31 December 1996, the EMI shall specify the regulatory, organisational and logistical framework necessary for the ESCB to perform its tasks in the third stage. This framework shall be submitted for decision to the ECB at the date of its establishment.

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4. The EMI, acting by a majority of two thirds of the members of its Council, may:
 - formulate opinions or recommendations on the overall orientation of monetary policy and exchange rate policy as well as on related measures introduced in each Member State,
 - submit opinions or recommendations to governments and to the Council on policies which might affect the internal or external monetary situation in the Community and, in particular, the functioning of the European Monetary System,
 - make recommendations to the monetary authorities of the Member States concerning the conduct of their monetary policy.
5. The EMI, acting unanimously, may decide to publish its opinions and its recommendations.
6. The EMI shall be consulted by the Council regarding any proposed Community act within its field of competence.

Within the limits and under the conditions set out by the Council, acting by a qualified majority on a proposal from the Commission and after consulting the European Parliament and the EMI, the EMI shall be consulted by the authorities of the Member States on any draft legislative provision within its field of competence.
7. The Council may, acting unanimously on a proposal from the Commission and after consulting the European Parliament and the EMI, confer upon the EMI other tasks for the preparation of the third stage.
8. Where this Treaty provides for a consultative role for the ECB, references to the ECB shall be read as referring to the EMI before the establishment of the ECB.
9. During the second stage, the term 'ECB' used in Articles 230, 232, 233, 234, 237 and 288 shall be read as referring to the EMI.

Article 118

The currency composition of the ecu basket shall not be changed.

From the start of the third stage, the value of the ecu shall be irrevocably fixed in accordance with Article 123(4).

Article 119

1. Where a Member State is in difficulties or is seriously threatened with difficulties as regards its balance of payments either as a result of an overall disequilibrium in its balance of payments, or as a result of the type of currency at its disposal, and where such difficulties are liable in particular to jeopardise the functioning of the common market or the progressive implementation of the common commercial policy, the Commission shall immediately investigate the position of the State in question and the action which, making use of all the means at its disposal, that State has taken or may take in accordance with the provisions of this Treaty. The Commission shall state what measures it recommends the State concerned to take.

If the action taken by a Member State and the measures suggested by the Commission do not prove sufficient to overcome the difficulties which have arisen or which threaten, the Commission shall, after consulting the Committee referred to in Article 114, recommend to the Council the granting of mutual assistance and appropriate methods therefor.

The Commission shall keep the Council regularly informed of the situation and of how it is developing.

2. The Council, acting by a qualified majority, shall grant such mutual assistance; it shall adopt directives or decisions laying down the conditions and details of such assistance, which may take such forms as:

- (a) a concerted approach to or within any other international organisations to which Member States may have recourse;
- (b) measures needed to avoid deflection of trade where the State which is in difficulties maintains or reintroduces quantitative restrictions against third countries;
- (c) the granting of limited credits by other Member States, subject to their agreement.

3. If the mutual assistance recommended by the Commission is not granted by the Council or if the mutual assistance granted and the measures taken are insufficient, the Commission shall authorise the State which is in difficulties to take protective measures, the conditions and details of which the Commission shall determine.

Such authorisation may be revoked and such conditions and details may be changed by the Council acting by a qualified majority.

4. Subject to Article 122(6), this article shall cease to apply from the beginning of the third stage.

Article 120

1. Where a sudden crisis in the balance of payments occurs and a decision within the meaning of Article 119(2) is not immediately taken, the Member State concerned may, as a precaution, take the necessary protective measures. Such measures must cause the least possible disturbance in the functioning of the common market and must not be wider in scope than is strictly necessary to remedy the sudden difficulties which have arisen.
2. The Commission and the other Member States shall be informed of such protective measures not later than when they enter into force. The Commission may recommend to the Council the granting of mutual assistance under Article 119.
3. After the Commission has delivered an opinion and the Committee referred to in Article 114 has been consulted, the Council may, acting by a qualified majority, decide that the State concerned shall amend, suspend or abolish the protective measures referred to above.
4. Subject to Article 122(6), this Article shall cease to apply from the beginning of the third stage.

Article 121

1. The Commission and the EMI shall report to the Council on the progress made in the fulfilment by the Member States of their obligations regarding the achievement of economic and monetary union. These reports shall include an examination of the compatibility between each Member State's national legislation, including the statutes of its national central bank, and Articles 108 and 109 of this Treaty and the Statute of the ESCB. The reports shall also examine the achievement of a high degree of sustainable convergence by reference to the fulfilment by each Member State of the following criteria:
 - the achievement of a high degree of price stability; this will be apparent from a rate of inflation which is close to that of, at most, the three best performing Member States in terms of price stability,
 - the sustainability of the government financial position; this will be apparent from having achieved a government budgetary position without a deficit that is excessive as determined in accordance with Article 104(6),
 - the observance of the normal fluctuation margins provided for by the exchange rate mechanism of the European Monetary System, for at least two years, without devaluing against the currency of any other Member State,

- the durability of convergence achieved by the Member State and of its participation in the exchange rate mechanism of the European Monetary System being reflected in the long-term interest-rate levels.

The four criteria mentioned in this paragraph and the relevant periods over which they are to be respected are developed further in a Protocol annexed to this Treaty. The reports of the Commission and the EMI shall also take account of the development of the ecu, the results of the integration of markets, the situation and development of the balances of payments on current account and an examination of the development of unit labour costs and other price indices.

2. On the basis of these reports, the Council, acting by a qualified majority on a recommendation from the Commission, shall assess:

- for each Member State, whether it fulfils the necessary conditions for the adoption of a single currency;
- whether a majority of the Member States fulfils the necessary conditions for the adoption of a single currency,

and recommend its findings to the Council, meeting in the composition of the Heads of State or Government. The European Parliament shall be consulted and forward its opinion to the Council, meeting in the composition of the Heads of State or Government.

3. Taking due account of the reports referred to in paragraph 1 and the opinion of the European Parliament referred to in paragraph 2, the Council, meeting in the composition of the Heads of State or Government, shall, acting by a qualified majority, not later than 31 December 1996:

- decide, on the basis of the recommendations of the Council referred to in paragraph 2, whether a majority of the Member States fulfils the necessary conditions for the adoption of a single currency,
- decide whether it is appropriate for the Community to enter the third stage,

and if so:

- set the date for the beginning of the third stage.

4. If, by the end of 1997, the date for the beginning of the third stage has not been set, the third stage shall start on 1 January 1999. Before 1 July 1998, the Council, meeting in the composition of the Heads of State or Government, after a repetition of the procedure provided for in paragraphs 1 and 2, with the exception of the second indent of paragraph 2, taking into account the reports referred to in paragraph 1 and the opinion of the European Parliament, shall, acting by a qualified majority and on the basis of the recommendations of the

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Council referred to in paragraph 2, confirm which Member States fulfil the necessary conditions for the adoption of a single currency.

Article 122

1. If the decision has been taken to set the date in accordance with Article 121(3), the Council shall, on the basis of its recommendations referred to in Article 121(2), acting by a qualified majority on a recommendation from the Commission, decide whether any, and if so which, Member States shall have a derogation as defined in paragraph 3 of this Article. Such Member States shall in this Treaty be referred to as ‘Member States with a derogation’.

If the Council has confirmed which Member States fulfil the necessary conditions for the adoption of a single currency, in accordance with Article 121(4), those Member States which do not fulfil the conditions shall have a derogation as defined in paragraph 3 of this Article. Such Member States shall in this Treaty be referred to as ‘Member States with a derogation’.

2. At least once every two years, or at the request of a Member State with a derogation, the Commission and the ECB shall report to the Council in accordance with the procedure laid down in Article 121(1). After consulting the European Parliament and after discussion in the Council, meeting in the composition of the Heads of State or Government, the Council shall, acting by a qualified majority on a proposal from the Commission, decide which Member States with a derogation fulfil the necessary conditions on the basis of the criteria set out in Article 121(1), and abrogate the derogations of the Member States concerned.

3. A derogation referred to in paragraph 1 shall entail that the following articles do not apply to the Member State concerned: Articles 104(9) and (11), 105(1), (2), (3) and (5), 106, 110, 111, and 112(2)(b). The exclusion of such a Member State and its national central bank from rights and obligations within the ESCB is laid down in Chapter IX of the Statute of the ESCB.

4. In Articles 105(1), (2) and (3), 106, 110, 111 and 112(2)(b), ‘Member States’ shall be read as ‘Member States without a derogation’.

5. The voting rights of Member States with a derogation shall be suspended for the Council decisions referred to in the articles of this Treaty mentioned in paragraph 3. In that case, by way of derogation from Articles 205 and 250(1), a qualified majority shall be defined as two thirds of the votes of the representatives of the Member States without a derogation weighted in accordance with Article 205(2), and unanimity of those Member States shall be required for an act requiring unanimity.

6. Articles 119 and 120 shall continue to apply to a Member State with a derogation.

Article 123

1. Immediately after the decision on the date for the beginning of the third stage has been taken in accordance with Article 121(3), or, as the case may be, immediately after 1 July 1998:

- the Council shall adopt the provisions referred to in Article 107(6),
- the Governments of the Member States without a derogation shall appoint, in accordance with the procedure set out in Article 50 of the Statute of the ESCB, the President, the Vice-President and the other members of the Executive Board of the ECB. If there are Member States with a derogation, the number of members of the Executive Board may be smaller than provided for in Article 11.1 of the Statute of the ESCB, but in no circumstances shall it be less than four.

As soon as the Executive Board is appointed, the ESCB and the ECB shall be established and shall prepare for their full operation as described in this Treaty and the Statute of the ESCB. The full exercise of their powers shall start from the first day of the third stage.

2. As soon as the ECB is established, it shall, if necessary, take over tasks of the EMI. The EMI shall go into liquidation upon the establishment of the ECB; the modalities of liquidation are laid down in the Statute of the EMI.

3. If and as long as there are Member States with a derogation, and without prejudice to Article 107(3) of this Treaty, the General Council of the ECB referred to in Article 45 of the Statute of the ESCB shall be constituted as a third decision-making body of the ECB.

4. At the starting date of the third stage, the Council shall, acting with the unanimity of the Member States without a derogation, on a proposal from the Commission and after consulting the ECB, adopt the conversion rates at which their currencies shall be irrevocably fixed and at which irrevocably fixed rate the ecu shall be substituted for these currencies, and the ecu will become a currency in its own right. This measure shall by itself not modify the external value of the ecu. The Council, acting by a qualified majority of the said Member States, on a proposal from the Commission and after consulting the ECB, shall take the other measures necessary for the rapid introduction of the ecu as the single currency of those Member States. The second sentence of Article 122(5) shall apply.

5. If it is decided, according to the procedure set out in Article 122(2), to abrogate a derogation, the Council shall, acting with the unanimity of the Member States without a derogation and the Member State concerned, on a proposal from the Commission and after consulting the ECB, adopt the rate at which the ecu shall be substituted for the currency of the Member State concerned, and take the other measures necessary for the introduction of the ecu as the single currency in the Member State concerned.

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Article 124

1. Until the beginning of the third stage, each Member State shall treat its exchange rate policy as a matter of common interest. In so doing, Member States shall take account of the experience acquired in cooperation within the framework of the European Monetary System (EMS) and in developing the ecu, and shall respect existing powers in this field.
2. From the beginning of the third stage and for as long as a Member State has a derogation, paragraph 1 shall apply by analogy to the exchange rate policy of that Member State.

1.3. Protocols annexed to the Treaty establishing the European Community

Protocol (No 18) on the Statute of the European System of Central Banks and of the European Central Bank (1992) (*)

THE HIGH CONTRACTING PARTIES,

DESIRING to lay down the Statute of the European System of Central Banks and of the European Central Bank provided for in Article 8 of the Treaty establishing the European Community,

HAVE AGREED upon the following provisions, which shall be annexed to the Treaty establishing the European Community.

CHAPTER I CONSTITUTION OF THE ESCB

Article 1

The European System of Central Banks

1.1. The European System of Central Banks (ESCB) and the European Central Bank (ECB) shall be established in accordance with Article 8 of this Treaty; they shall perform their tasks and carry on their activities in accordance with the provisions of this Treaty and of this Statute.

1.2. In accordance with Article 107(1) of this Treaty, the ESCB shall be composed of the ECB and of the central banks of the Member States ('national central banks'). The Institut monétaire luxembourgeois will be the central bank of Luxembourg.

(*) In addition to amendments made by Treaties subsequent to the Treaty of Maastricht, this text incorporates the amendments made by Council Decision 2003/223/EC.

CHAPTER II OBJECTIVES AND TASKS OF THE ESCB

Article 2

Objectives

In accordance with Article 105(1) of this Treaty, the primary objective of the ESCB shall be to maintain price stability. Without prejudice to the objective of price stability, it shall support the general economic policies in the Community with a view to contributing to the achievement of the objectives of the Community as laid down in Article 2 of this Treaty. The ESCB shall act in accordance with the principle of an open market economy with free competition, favouring an efficient allocation of resources, and in compliance with the principles set out in Article 4 of this Treaty.

Article 3

Tasks

3.1. In accordance with Article 105(2) of this Treaty, the basic tasks to be carried out through the ESCB shall be:

- to define and implement the monetary policy of the Community;
- to conduct foreign-exchange operations consistent with the provisions of Article 111 of this Treaty;
- to hold and manage the official foreign reserves of the Member States;
- to promote the smooth operation of payment systems.

3.2. In accordance with Article 105(3) of this Treaty, the third indent of Article 3.1 shall be without prejudice to the holding and management by the Governments of Member States of foreign-exchange working balances.

3.3. In accordance with Article 105(5) of this Treaty, the ESCB shall contribute to the smooth conduct of policies pursued by the competent authorities relating to the prudential supervision of credit institutions and the stability of the financial system.

Article 4

Advisory functions

In accordance with Article 105(4) of this Treaty:

(a) the ECB shall be consulted:

- on any proposed Community act in its fields of competence;
- by national authorities regarding any draft legislative provision in its fields of competence, but within the limits and under the conditions set out by the Council in accordance with the procedure laid down in Article 42;

(b) the ECB may submit opinions to the appropriate Community institutions or bodies or to national authorities on matters in its fields of competence.

Article 5

Collection of statistical information

5.1. In order to undertake the tasks of the ESCB, the ECB, assisted by the national central banks, shall collect the necessary statistical information either from the competent national authorities or directly from economic agents. For these purposes it shall cooperate with the Community institutions or bodies and with the competent authorities of the Member States or third countries and with international organisations.

5.2. The national central banks shall carry out, to the extent possible, the tasks described in Article 5.1.

5.3. The ECB shall contribute to the harmonisation, where necessary, of the rules and practices governing the collection, compilation and distribution of statistics in the areas within its fields of competence.

5.4. The Council, in accordance with the procedure laid down in Article 42, shall define the natural and legal persons subject to reporting requirements, the confidentiality regime and the appropriate provisions for enforcement.

Article 6

International cooperation

6.1. In the field of international cooperation involving the tasks entrusted to the ESCB, the ECB shall decide how the ESCB shall be represented.

6.2. The ECB and, subject to its approval, the national central banks may participate in international monetary institutions.

6.3. Articles 6.1 and 6.2 shall be without prejudice to Article 111(4) of this Treaty.

CHAPTER III ORGANISATION OF THE ESCB

Article 7

Independence

In accordance with Article 108 of this Treaty, when exercising the powers and carrying out the tasks and duties conferred upon them by this Treaty and this Statute, neither the ECB, nor a national central bank, nor any member of their decision-making bodies shall seek or take instructions from Community institutions or bodies, from any Government of a Member State or from any other body. The Community institutions and bodies and the Governments of the Member States undertake to respect this principle and not to seek to influence the members of the decision-making bodies of the ECB or of the national central banks in the performance of their tasks.

Article 8

General principle

The ESCB shall be governed by the decision-making bodies of the ECB.

Article 9

The European Central Bank

9.1. The ECB which, in accordance with Article 107(2) of this Treaty, shall have legal personality, shall enjoy in each of the Member States the most extensive legal capacity accorded to legal persons under its law; it may, in particular, acquire or dispose of movable and immovable property and may be a party to legal proceedings.

9.2. The ECB shall ensure that the tasks conferred upon the ESCB under Article 105(2), (3) and (5) of this Treaty are implemented either by its own activities pursuant to this Statute or through the national central banks pursuant to Articles 12.1 and 14.

9.3. In accordance with Article 107(3) of this Treaty, the decision-making bodies of the ECB shall be the Governing Council and the Executive Board.

Article 10

The Governing Council

10.1. In accordance with Article 112(1) of this Treaty, the Governing Council shall comprise the members of the Executive Board of the ECB and the governors of the national central banks.

10.2. Each member of the Governing Council shall have one vote. As from the date on which the number of members of the Governing Council exceeds 21, each member of the Executive Board shall have one vote and the number of governors with a voting right shall be 15. The latter voting rights shall be assigned and shall rotate as follows:

- as from the date on which the number of governors exceeds 15, until it reaches 22, the governors shall be allocated to two groups, according to a ranking of the size of the share of their national central bank's Member State in the aggregate gross domestic product at market prices and in the total aggregated balance sheet of the monetary financial institutions of the Member States which have adopted the euro. The shares in the aggregate gross domestic product at market prices and in the total aggregated balance sheet of the monetary financial institutions shall be assigned weights of 5/6 and 1/6, respectively. The first group shall be composed of five governors and the second group of the remaining governors. The frequency of voting rights of the governors allocated to the first group shall not be lower than the frequency of voting rights of those of the second group. Subject to the previous sentence, the first group shall be assigned four voting rights and the second group 11 voting rights;
- as from the date on which the number of governors reaches 22, the governors shall be allocated to three groups according to a ranking based on the above criteria. The first group shall be composed of five governors and shall be assigned four voting rights. The second group shall be composed of half of the total number of governors, with any fraction rounded up to the nearest integer, and shall be assigned eight voting rights. The third group shall be composed of the remaining governors and shall be assigned three voting rights;
- within each group, the governors shall have their voting rights for equal amounts of time;
- for the calculation of the shares in the aggregate gross domestic product at market prices Article 29.2 shall apply. The total aggregated balance sheet of the monetary financial institutions shall be calculated in accordance with the statistical framework applying in the European Community at the time of the calculation;

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- whenever the aggregate gross domestic product at market prices is adjusted in accordance with Article 29.3, or whenever the number of governors increases, the size and/or composition of the groups shall be adjusted in accordance with the above principles;
- the Governing Council, acting by a two-thirds majority of all its members, with and without a voting right, shall take all measures necessary for the implementation of the above principles and may decide to postpone the start of the rotation system until the date on which the number of governors exceeds 18.

The right to vote shall be exercised in person. By way of derogation from this rule, the Rules of Procedure referred to in Article 12.3 may lay down that members of the Governing Council may cast their vote by means of teleconferencing. These rules shall also provide that a member of the Governing Council who is prevented from attending meetings of the Governing Council for a prolonged period may appoint an alternate as a member of the Governing Council.

The provisions of the previous paragraphs are without prejudice to the voting rights of all members of the Governing Council, with and without a voting right, under Articles 10.3, 10.6 and 41.2.

Save as otherwise provided for in this Statute, the Governing Council shall act by a simple majority of the members having a voting right. In the event of a tie, the President shall have the casting vote.

In order for the Governing Council to vote, there shall be a quorum of two thirds of the members having a voting right. If the quorum is not met, the President may convene an extraordinary meeting at which decisions may be taken without regard to the quorum.

10.3. For any decisions to be taken under Articles 28, 29, 30, 32, 33 and 51, the votes in the Governing Council shall be weighted according to the national central banks' shares in the subscribed capital of the ECB. The weights of the votes of the members of the Executive Board shall be zero. A decision requiring a qualified majority shall be adopted if the votes cast in favour represent at least two thirds of the subscribed capital of the ECB and represent at least half of the shareholders. If a Governor is unable to be present, he may nominate an alternate to cast his weighted vote.

10.4. The proceedings of the meetings shall be confidential. The Governing Council may decide to make the outcome of its deliberations public.

10.5. The Governing Council shall meet at least 10 times a year.

10.6. Article 10.2 may be amended by the Council meeting in the composition of the Heads of State or Government, acting unanimously either on a recommendation from the ECB and after consulting the European Parliament and the Commission, or on a recommendation from the Commission and after

consulting the European Parliament and the ECB. The Council shall recommend such amendments to the Member States for adoption. These amendments shall enter into force after having been ratified by all the Member States in accordance with their respective constitutional requirements.

A recommendation made by the ECB under this paragraph shall require a decision by the Governing Council acting unanimously.

Article 11

The Executive Board

11.1. In accordance with Article 112(2)(a) of this Treaty, the Executive Board shall comprise the President, the Vice-President and four other members.

The members shall perform their duties on a full-time basis. No member shall engage in any occupation, whether gainful or not, unless exemption is exceptionally granted by the Governing Council.

11.2. In accordance with Article 112(2)(b) of this Treaty, the President, the Vice-President and the other members of the Executive Board shall be appointed from among persons of recognised standing and professional experience in monetary or banking matters by common accord of the Governments of the Member States at the level of the Heads of State or Government, on a recommendation from the Council after it has consulted the European Parliament and the Governing Council.

Their term of office shall be eight years and shall not be renewable.

Only nationals of Member States may be members of the Executive Board.

11.3. The terms and conditions of employment of the members of the Executive Board, in particular their salaries, pensions and other social security benefits shall be the subject of contracts with the ECB and shall be fixed by the Governing Council on a proposal from a Committee comprising three members appointed by the Governing Council and three members appointed by the Council. The members of the Executive Board shall not have the right to vote on matters referred to in this paragraph.

11.4. If a member of the Executive Board no longer fulfils the conditions required for the performance of his duties or if he has been guilty of serious misconduct, the Court of Justice may, on application by the Governing Council or the Executive Board, compulsorily retire him.

11.5. Each member of the Executive Board present in person shall have the right to vote and shall have, for that purpose, one vote. Save as otherwise provided, the Executive Board shall act by a simple majority of the votes cast. In

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the event of a tie, the President shall have the casting vote. The voting arrangements shall be specified in the Rules of Procedure referred to in Article 12.3.

11.6. The Executive Board shall be responsible for the current business of the ECB.

11.7. Any vacancy on the Executive Board shall be filled by the appointment of a new member in accordance with Article 11.2.

Article 12

Responsibilities of the decision-making bodies

12.1. The Governing Council shall adopt the guidelines and take the decisions necessary to ensure the performance of the tasks entrusted to the ESCB under this Treaty and this Statute. The Governing Council shall formulate the monetary policy of the Community including, as appropriate, decisions relating to intermediate monetary objectives, key interest rates and the supply of reserves in the ESCB, and shall establish the necessary guidelines for their implementation.

The Executive Board shall implement monetary policy in accordance with the guidelines and decisions laid down by the Governing Council. In doing so the Executive Board shall give the necessary instructions to national central banks. In addition the Executive Board may have certain powers delegated to it where the Governing Council so decides.

To the extent deemed possible and appropriate and without prejudice to the provisions of this Article, the ECB shall have recourse to the national central banks to carry out operations which form part of the tasks of the ESCB.

12.2. The Executive Board shall have responsibility for the preparation of meetings of the Governing Council.

12.3. The Governing Council shall adopt Rules of Procedure which determine the internal organisation of the ECB and its decision-making bodies.

12.4. The Governing Council shall exercise the advisory functions referred to in Article 4.

12.5. The Governing Council shall take the decisions referred to in Article 6.

Article 13

The President

13.1. The President or, in his absence, the Vice-President shall chair the Governing Council and the Executive Board of the ECB.

13.2. Without prejudice to Article 39, the President or his nominee shall represent the ECB externally.

Article 14

National central banks

14.1. In accordance with Article 109 of this Treaty, each Member State shall ensure, at the latest at the date of the establishment of the ESCB, that its national legislation, including the statutes of its national central bank, is compatible with this Treaty and this Statute.

14.2. The statutes of the national central banks shall, in particular, provide that the term of office of a Governor of a national central bank shall be no less than five years.

A Governor may be relieved from office only if he no longer fulfils the conditions required for the performance of his duties or if he has been guilty of serious misconduct. A decision to this effect may be referred to the Court of Justice by the Governor concerned or the Governing Council on grounds of infringement of this Treaty or of any rule of law relating to its application. Such proceedings shall be instituted within two months of the publication of the decision or of its notification to the plaintiff or, in the absence thereof, of the day on which it came to the knowledge of the latter, as the case may be.

14.3. The national central banks are an integral part of the ESCB and shall act in accordance with the guidelines and instructions of the ECB. The Governing Council shall take the necessary steps to ensure compliance with the guidelines and instructions of the ECB, and shall require that any necessary information be given to it.

14.4. National central banks may perform functions other than those specified in this Statute unless the Governing Council finds, by a majority of two thirds of the votes cast, that these interfere with the objectives and tasks of the ESCB. Such functions shall be performed on the responsibility and liability of national central banks and shall not be regarded as being part of the functions of the ESCB.

Article 15

Reporting commitments

15.1. The ECB shall draw up and publish reports on the activities of the ESCB at least quarterly.

15.2. A consolidated financial statement of the ESCB shall be published each week.

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15.3. In accordance with Article 113(3) of this Treaty, the ECB shall address an annual report on the activities of the ESCB and on the monetary policy of both the previous and the current year to the European Parliament, the Council and the Commission, and also to the European Council.

15.4. The reports and statements referred to in this Article shall be made available to interested parties free of charge.

Article 16

Banknotes

In accordance with Article 106(1) of this Treaty, the Governing Council shall have the exclusive right to authorise the issue of banknotes within the Community. The ECB and the national central banks may issue such notes. The banknotes issued by the ECB and the national central banks shall be the only such notes to have the status of legal tender within the Community.

The ECB shall respect as far as possible existing practices regarding the issue and design of banknotes.

CHAPTER IV

MONETARY FUNCTIONS AND OPERATIONS OF THE ESCB

Article 17

Accounts with the ECB and the national central banks

In order to conduct their operations, the ECB and the national central banks may open accounts for credit institutions, public entities and other market participants and accept assets, including book entry securities, as collateral.

Article 18

Open market and credit operations

18.1. In order to achieve the objectives of the ESCB and to carry out its tasks, the ECB and the national central banks may:

- operate in the financial markets by buying and selling outright (spot and forward) or under repurchase agreement and by lending or borrowing claims and marketable instruments, whether in Community or in non-Community currencies, as well as precious metals;

- conduct credit operations with credit institutions and other market participants, with lending being based on adequate collateral.

18.2. The ECB shall establish general principles for open market and credit operations carried out by itself or the national central banks, including for the announcement of conditions under which they stand ready to enter into such transactions.

Article 19

Minimum reserves

19.1. Subject to Article 2, the ECB may require credit institutions established in Member States to hold minimum reserve on accounts with the ECB and national central banks in pursuance of monetary policy objectives. Regulations concerning the calculation and determination of the required minimum reserves may be established by the Governing Council. In cases of non-compliance the ECB shall be entitled to levy penalty interest and to impose other sanctions with comparable effect.

19.2. For the application of this Article, the Council shall, in accordance with the procedure laid down in Article 42, define the basis for minimum reserves and the maximum permissible ratios between those reserves and their basis, as well as the appropriate sanctions in cases of non-compliance.

Article 20

Other instruments of monetary control

The Governing Council may, by a majority of two thirds of the votes cast, decide upon the use of such other operational methods of monetary control as it sees fit, respecting Article 2.

The Council shall, in accordance with the procedure laid down in Article 42, define the scope of such methods if they impose obligations on third parties.

Article 21

Operations with public entities

21.1. In accordance with Article 101 of this Treaty, overdrafts or any other type of credit facility with the ECB or with the national central banks in favour of Community institutions or bodies, central governments, regional, local or other public authorities, other bodies governed by public law, or public under-

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takings of Member States shall be prohibited, as shall the purchase directly from them by the ECB or national central banks of debt instruments.

21.2. The ECB and national central banks may act as fiscal agents for the entities referred to in Article 21.1.

21.3. The provisions of this Article shall not apply to publicly owned credit institutions which, in the context of the supply of reserves by central banks, shall be given the same treatment by national central banks and the ECB as private credit institutions.

Article 22

Clearing and payment systems

The ECB and national central banks may provide facilities, and the ECB may make regulations, to ensure efficient and sound clearing and payment systems within the Community and with other countries.

Article 23

External operations

The ECB and national central banks may:

- establish relations with central banks and financial institutions in other countries and, where appropriate, with international organisations;
- acquire and sell spot and forward all types of foreign exchange assets and precious metals; the term ‘foreign exchange asset’ shall include securities and all other assets in the currency of any country or units of account and in whatever form held;
- hold and manage the assets referred to in this Article;
- conduct all types of banking transactions in relations with third countries and international organisations, including borrowing and lending operations.

Article 24

Other operations

In addition to operations arising from their tasks, the ECB and national central banks may enter into operations for their administrative purposes or for their staff.

CHAPTER V PRUDENTIAL SUPERVISION

Article 25

Prudential supervision

25.1. The ECB may offer advice to and be consulted by the Council, the Commission and the competent authorities of the Member States on the scope and implementation of Community legislation relating to the prudential supervision of credit institutions and to the stability of the financial system.

25.2. In accordance with any decision of the Council under Article 105(6) of this Treaty, the ECB may perform specific tasks concerning policies relating to the prudential supervision of credit institutions and other financial institutions with the exception of insurance undertakings.

CHAPTER VI FINANCIAL PROVISIONS OF THE ESCB

Article 26

Financial accounts

26.1. The financial year of the ECB and national central banks shall begin on the first day of January and end on the last day of December.

26.2. The annual accounts of the ECB shall be drawn up by the Executive Board, in accordance with the principles established by the Governing Council. The accounts shall be approved by the Governing Council and shall thereafter be published.

26.3. For analytical and operational purposes, the Executive Board shall draw up a consolidated balance sheet of the ESCB, comprising those assets and liabilities of the national central banks that fall within the ESCB.

26.4. For the application of this Article, the Governing Council shall establish the necessary rules for standardising the accounting and reporting of operations undertaken by the national central banks.

Article 27

Auditing

27.1. The accounts of the ECB and national central banks shall be audited by independent external auditors recommended by the Governing Council and

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approved by the Council. The auditors shall have full power to examine all books and accounts of the ECB and national central banks and obtain full information about their transactions.

27.2. The provisions of Article 248 of this Treaty shall only apply to an examination of the operational efficiency of the management of the ECB.

Article 28

Capital of the ECB

28.1. The capital of the ECB, which shall become operational upon its establishment, shall be ECU 5 000 million. The capital may be increased by such amounts as may be decided by the Governing Council acting by the qualified majority provided for in Article 10.3, within the limits and under the conditions set by the Council under the procedure laid down in Article 42.

28.2. The national central banks shall be the sole subscribers to and holders of the capital of the ECB. The subscription of capital shall be according to the key established in accordance with Article 29.

28.3. The Governing Council, acting by the qualified majority provided for in Article 10.3, shall determine the extent to which and the form in which the capital shall be paid up.

28.4. Subject to Article 28.5, the shares of the national central banks in the subscribed capital of the ECB may not be transferred, pledged or attached.

28.5. If the key referred to in Article 29 is adjusted, the national central banks shall transfer among themselves capital shares to the extent necessary to ensure that the distribution of capital shares corresponds to the adjusted key. The Governing Council shall determine the terms and conditions of such transfers.

Article 29

Key for capital subscription

29.1. When in accordance with the procedure referred to in Article 123(1) of this Treaty the ESCB and the ECB have been established, the key for subscription of the ECB's capital shall be established. Each national central bank shall be assigned a weighting in this key which shall be equal to the sum of:

- 50 % of the share of its respective Member State in the population of the Community in the penultimate year preceding the establishment of the ESCB;

- 50 % of the share of its respective Member State in the gross domestic product at market prices of the Community as recorded in the last five years preceding the penultimate year before the establishment of the ESCB.

The percentages shall be rounded up to the nearest multiple of 0.05 percentage points.

29.2. The statistical data to be used for the application of this Article shall be provided by the Commission in accordance with the rules adopted by the Council under the procedure provided for in Article 42.

29.3. The weightings assigned to the national central banks shall be adjusted every five years after the establishment of the ESCB by analogy with the provisions laid down in Article 29.1. The adjusted key shall apply with effect from the first day of the following year.

29.4. The Governing Council shall take all other measures necessary for the application of this Article.

Article 30

Transfer of foreign reserve assets to the ECB

30.1. Without prejudice to Article 28, the ECB shall be provided by the national central banks with foreign reserve assets, other than Member States' currencies, ecus, IMF reserve positions and SDRs, up to an amount equivalent to ECU 50 000 million. The Governing Council shall decide upon the proportion to be called up by the ECB following its establishment and the amounts called up at later dates. The ECB shall have the full right to hold and manage the foreign reserves that are transferred to it and to use them for the purposes set out in this Statute.

30.2. The contributions of each national central bank shall be fixed in proportion to its share in the subscribed capital of the ECB.

30.3. Each national central bank shall be credited by the ECB with a claim equivalent to its contribution. The Governing Council shall determine the denomination and remuneration of such claims.

30.4. Further calls of foreign reserve assets beyond the limit set in Article 30.1 may be effected by the ECB, in accordance with Article 30.2, within the limits and under the conditions set by the Council in accordance with the procedure laid down in Article 42.

30.5. The ECB may hold and manage IMF reserve positions and SDRs and provide for the pooling of such assets.

30.6. The Governing Council shall take all other measures necessary for the application of this Article.

Article 31

Foreign reserve assets held by national central banks

31.1. The national central banks shall be allowed to perform transactions in fulfilment of their obligations towards international organisations in accordance with Article 23.

31.2. All other operations in foreign reserve assets remaining with the national central banks after the transfers referred to in Article 30, and Members States' transactions with their foreign exchange working balances shall, above a certain limit to be established within the framework of Article 31.3, be subject to approval by the ECB in order to ensure consistency with the exchange rate and monetary policies of the Community.

31.3. The Governing Council shall issue guidelines with a view to facilitating such operations.

Article 32

Allocation of monetary income of national central banks

32.1. The income accruing to the national central banks in the performance of the ESCB's monetary policy function (hereinafter referred to as 'monetary income') shall be allocated at the end of each financial year in accordance with the provisions of this Article.

32.2. Subject to Article 32.3, the amount of each national central bank's monetary income shall be equal to its annual income derived from its assets held against notes in circulation and deposit liabilities to credit institutions. These assets shall be earmarked by national central banks in accordance with guidelines to be established by the Governing Council.

32.3. If, after the start of the third stage, the balance sheet structures of the national central banks do not, in the judgment of the Governing Council, permit the application of Article 32.2, the Governing Council, acting by a qualified majority, may decide that, by way of derogation from Article 32.2, monetary income shall be measured according to an alternative method for a period of not more than five years.

32.4. The amount of each national central bank's monetary income shall be reduced by an amount equivalent to any interest paid by that central bank on its deposit liabilities to credit institutions in accordance with Article 19.

The Governing Council may decide that national central banks shall be indemnified against costs incurred in connection with the issue of banknotes or in exceptional circumstances for specific losses arising from monetary policy operations undertaken for the ESCB. Indemnification shall be in a form

deemed appropriate in the judgment of the Governing Council; these amounts may be offset against the national central banks' monetary income.

32.5. The sum of the national central banks' monetary income shall be allocated to the national central banks in proportion to their paid up shares in the capital of the ECB, subject to any decision taken by the Governing Council pursuant to Article 33.2.

32.6. The clearing and settlement of the balances arising from the allocation of monetary income shall be carried out by the ECB in accordance with guidelines established by the Governing Council.

32.7. The Governing Council shall take all other measures necessary for the application of this Article.

Article 33

Allocation of net profits and losses of the ECB

33.1. The net profit of the ECB shall be transferred in the following order:

- (a) an amount to be determined by the Governing Council, which may not exceed 20 % of the net profit, shall be transferred to the general reserve fund subject to a limit equal to 100 % of the capital;
- (b) the remaining net profit shall be distributed to the shareholders of the ECB in proportion to their paid-up shares.

33.2. In the event of a loss incurred by the ECB, the shortfall may be offset against the general reserve fund of the ECB and, if necessary, following a decision by the Governing Council, against the monetary income of the relevant financial year in proportion and up to the amounts allocated to the national central banks in accordance with Article 32.5.

CHAPTER VII GENERAL PROVISIONS

Article 34

Legal acts

34.1. In accordance with Article 110 of this Treaty, the ECB shall:

- make regulations to the extent necessary to implement the tasks defined in Article 3.1, first indent, Articles 19.1, 22 or 25.2 and in cases which shall be laid down in the acts of the Council referred to in Article 42;

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- take decisions necessary for carrying out the tasks entrusted to the ESCB under this Treaty and this Statute;
- make recommendations and deliver opinions.

34.2. A regulation shall have general application. It shall be binding in its entirety and directly applicable in all Member States.

Recommendations and opinions shall have no binding force.

A decision shall be binding in its entirety upon those to whom it is addressed.

Articles 253, 254 and 256 of this Treaty shall apply to regulations and decisions adopted by the ECB.

The ECB may decide to publish its decisions, recommendations and opinions.

34.3. Within the limits and under the conditions adopted by the Council under the procedure laid down in Article 42, the ECB shall be entitled to impose fines or periodic penalty payments on undertakings for failure to comply with obligations under its regulations and decisions.

Article 35

Judicial control and related matters

35.1. The acts or omissions of the ECB shall be open to review or interpretation by the Court of Justice in the cases and under the conditions laid down in this Treaty. The ECB may institute proceedings in the cases and under the conditions laid down in this Treaty.

35.2. Disputes between the ECB, on the one hand, and its creditors, debtors or any other person, on the other, shall be decided by the competent national courts, save where jurisdiction has been conferred upon the Court of Justice.

35.3. The ECB shall be subject to the liability regime provided for in Article 288 of this Treaty. The national central banks shall be liable according to their respective national laws.

35.4. The Court of Justice shall have jurisdiction to give judgment pursuant to any arbitration clause contained in a contract concluded by or on behalf of the ECB, whether that contract be governed by public or private law.

35.5. A decision of the ECB to bring an action before the Court of Justice shall be taken by the Governing Council.

35.6. The Court of Justice shall have jurisdiction in disputes concerning the fulfilment by a national central bank of obligations under this Statute. If the ECB considers that a national central bank has failed to fulfil an obligation under this Statute, it shall deliver a reasoned opinion on the matter after giving the national central bank concerned the opportunity to submit its observations. If

the national central bank concerned does not comply with the opinion within the period laid down by the ECB, the latter may bring the matter before the Court of Justice.

Article 36

Staff

36.1. The Governing Council, on a proposal from the Executive Board, shall lay down the conditions of employment of the staff of the ECB.

36.2. The Court of Justice shall have jurisdiction in any dispute between the ECB and its servants within the limits and under the conditions laid down in the conditions of employment.

Article 37

Seat

Before the end of 1992, the decision as to where the seat of the ECB will be established shall be taken by common accord of the Governments of the Member States at the level of Heads of State or Government.

Article 38

Professional secrecy

38.1. Members of the governing bodies and the staff of the ECB and the national central banks shall be required, even after their duties have ceased, not to disclose information of the kind covered by the obligation of professional secrecy.

38.2. Persons having access to data covered by Community legislation imposing an obligation of secrecy shall be subject to such legislation.

Article 39

Signatories

The ECB shall be legally committed to third parties by the President or by two members of the Executive Board or by the signatures of two members of the staff of the ECB who have been duly authorised by the President to sign on behalf of the ECB.

Article 40

Privileges and immunities

The ECB shall enjoy in the territories of the Member States such privileges and immunities as are necessary for the performance of its tasks, under the conditions laid down in the Protocol on the privileges and immunities of the European Communities.

CHAPTER VIII

**AMENDMENT OF THE STATUTE
AND COMPLEMENTARY LEGISLATION**

Article 41

Simplified amendment procedure

41.1. In accordance with Article 107(5) of this Treaty, Articles 5.1, 5.2, 5.3, 17, 18, 19.1, 22, 23, 24, 26, 32.2, 32.3, 32.4, 32.6, 33.1(a) and 36 of this Statute may be amended by the Council, acting either by a qualified majority on a recommendation from the ECB and after consulting the Commission, or unanimously on a proposal from the Commission and after consulting the ECB. In either case the assent of the European Parliament shall be required.

41.2. A recommendation made by the ECB under this Article shall require a unanimous decision by the Governing Council.

Article 42

Complementary legislation

In accordance with Article 107(6) of this Treaty, immediately after the decision on the date for the beginning of the third stage, the Council, acting by a qualified majority either on a proposal from the Commission and after consulting the European Parliament and the ECB or on a recommendation from the ECB and after consulting the European Parliament and the Commission, shall adopt the provisions referred to in Articles 4, 5.4, 19.2, 20, 28.1, 29.2, 30.4 and 34.3 of this Statute.

CHAPTER IX
TRANSITIONAL AND OTHER PROVISIONS FOR THE ESCB

Article 43

General provisions

43.1. A derogation as referred to in Article 122(1) of this Treaty shall entail that the following Articles of this Statute shall not confer any rights or impose any obligations on the Member State concerned: 3, 6, 9.2, 12.1, 14.3, 16, 18, 19, 20, 22, 23, 26.2, 27, 30, 31, 32, 33, 34, 50 and 52.

43.2. The central banks of Member States with a derogation as specified in Article 122(1) of this Treaty shall retain their powers in the field of monetary policy according to national law.

43.3. In accordance with Article 122(4) of this Treaty, ‘Member States’ shall be read as ‘Member States without a derogation’ in the following Articles of this Statute: 3, 11.2, 19, 34.2 and 50.

43.4. ‘National central banks’ shall be read as ‘central banks of Member States without a derogation’ in the following Articles of this Statute: 9.2, 10.1, 10.3, 12.1, 16, 17, 18, 22, 23, 27, 30, 31, 32, 33.2 and 52.

43.5. ‘Shareholders’ shall be read as ‘central banks of Member States without a derogation’ in Articles 10.3 and 33.1.

43.6. ‘Subscribed capital of the ECB’ shall be read as ‘capital of the ECB subscribed by the central banks of Member States without a derogation’ in Articles 10.3 and 30.2.

Article 44

Transitional tasks of the ECB

The ECB shall take over those tasks of the EMI which, because of the derogations of one or more Member States, still have to be performed in the third stage.

The ECB shall give advice in the preparations for the abrogation of the derogations specified in Article 122 of this Treaty.

Article 45

The General Council of the ECB

45.1. Without prejudice to Article 107(3) of this Treaty, the General Council shall be constituted as a third decision-making body of the ECB.

45.2. The General Council shall comprise the President and Vice-President of the ECB and the Governors of the national central banks. The other members of the Executive Board may participate, without having the right to vote, in meetings of the General Council.

45.3. The responsibilities of the General Council are listed in full in Article 47 of this Statute.

Article 46

Rules of Procedure of the General Council

46.1. The President or, in his absence, the Vice-President of the ECB shall chair the General Council of the ECB.

46.2. The President of the Council and a Member of the Commission may participate, without having the right to vote, in meetings of the General Council.

46.3. The President shall prepare the meetings of the General Council.

46.4. By way of derogation from Article 12.3, the General Council shall adopt its Rules of Procedure.

46.5. The Secretariat of the General Council shall be provided by the ECB.

Article 47

Responsibilities of the General Council

47.1. The General Council shall:

- perform the tasks referred to in Article 44;
- contribute to the advisory functions referred to in Articles 4 and 25.1.

47.2. The General Council shall contribute to:

- the collection of statistical information as referred to in Article 5;
- the reporting activities of the ECB as referred to in Article 15;
- the establishment of the necessary rules for the application of Article 26 as referred to in Article 26.4;

- the taking of all other measures necessary for the application of Article 29 as referred to in Article 29.4;
- the laying down of the conditions of employment of the staff of the ECB as referred to in Article 36.

47.3. The General Council shall contribute to the necessary preparations for irrevocably fixing the exchange rates of the currencies of Member States with a derogation against the currencies, or the single currency, of the Member States without a derogation, as referred to in Article 123(5) of this Treaty.

47.4. The General Council shall be informed by the President of the ECB of decisions of the Governing Council.

Article 48

Transitional provisions for the capital of the ECB

In accordance with Article 29.1 each national central bank shall be assigned a weighting in the key for subscription of the ECB's capital. By way of derogation from Article 28.3, central banks of Member States with a derogation shall not pay up their subscribed capital unless the General Council, acting by a majority representing at least two thirds of the subscribed capital of the ECB and at least half of the shareholders, decides that a minimal percentage has to be paid up as a contribution to the operational costs of the ECB.

Article 49

Deferred payment of capital, reserves and provisions of the ECB

49.1. The central bank of a Member State whose derogation has been abrogated shall pay up its subscribed share of the capital of the ECB to the same extent as the central banks of other Member States without a derogation, and shall transfer to the ECB foreign reserve assets in accordance with Article 30.1. The sum to be transferred shall be determined by multiplying the ecu value at current exchange rates of the foreign reserve assets which have already been transferred to the ECB in accordance with Article 30.1, by the ratio between the number of shares subscribed by the national central bank concerned and the number of shares already paid up by the other national central banks.

49.2. In addition to the payment to be made in accordance with Article 49.1, the central bank concerned shall contribute to the reserves of the ECB, to those provisions equivalent to reserves, and to the amount still to be appropriated to the reserves and provisions corresponding to the balance of the profit and loss account as at 31 December of the year prior to the abrogation of the derogation. The sum to be contributed shall be determined by multiplying the amount of

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the reserves, as defined above and as stated in the approved balance sheet of the ECB, by the ratio between the number of shares subscribed by the central bank concerned and the number of shares already paid up by the other central banks.

49.3⁽¹⁾. Upon one or more countries becoming Member States and their respective national central banks becoming part of the ESCB, the subscribed capital of the ECB and the limit on the amount of foreign reserve assets that may be transferred to the ECB shall be automatically increased. The increase shall be determined by multiplying the respective amounts then prevailing by the ratio, within the expanded capital key, between the weighting of the entering national central banks concerned and the weighting of the national central banks already members of the ESCB. Each national central bank's weighting in the capital key shall be calculated by analogy with Article 29.1 and in compliance with Article 29.2. The reference periods to be used for the statistical data shall be identical to those applied for the latest quinquennial adjustment of the weightings under Article 29.3.

Article 50

Initial appointment of the members of the Executive Board

When the Executive Board of the ECB is being established, the President, the Vice-President and the other members of the Executive Board shall be appointed by common accord of the Governments of the Member States at the level of Heads of State or Government, on a recommendation from the Council and after consulting the European Parliament and the Council of the EMI. The President of the Executive Board shall be appointed for eight years. By way of derogation from Article 11.2, the Vice-President shall be appointed for four years and the other members of the Executive Board for terms of office of between five and eight years. No term of office shall be renewable. The number of members of the Executive Board may be smaller than provided for in Article 11.1, but in no circumstance shall it be less than four.

Article 51

Derogation from Article 32

51.1. If, after the start of the third stage, the Governing Council decides that the application of Article 32 results in significant changes in national central banks' relative income positions, the amount of income to be allocated pursuant to Article 32 shall be reduced by a uniform percentage which shall not exceed

⁽¹⁾ Paragraph added by the 2003 Act of Accession.

60 % in the first financial year after the start of the third stage and which shall decrease by at least 12 percentage points in each subsequent financial year.

51.2. Article 51.1 shall be applicable for not more than five financial years after the start of the third stage.

Article 52

Exchange of banknotes in Community currencies

Following the irrevocable fixing of exchange rates, the Governing Council shall take the necessary measures to ensure that banknotes denominated in currencies with irrevocably fixed exchange rates are exchanged by the national central banks at their respective par values.

Article 53

Applicability of the transitional provisions

If and as long as there are Member States with a derogation Articles 43 to 48 shall be applicable.

Protocol (No 20) on the excessive deficit procedure (1992)

THE HIGH CONTRACTING PARTIES,

DESIRING to lay down the details of the excessive deficit procedure referred to in Article 104 of the Treaty establishing the European Community,

HAVE AGREED upon the following provisions, which shall be annexed to the Treaty establishing the European Community:

Article 1

The reference values referred to in Article 104(2) of this Treaty are:

- 3 % for the ratio of the planned or actual government deficit to gross domestic product at market prices;
- 60 % for the ratio of government debt to gross domestic product at market prices.

Article 2

In Article 104 of this Treaty and in this Protocol:

- government means general government, that is central government, regional or local government and social security funds, to the exclusion of commercial operations, as defined in the European System of Integrated Economic Accounts;
- deficit means net borrowing as defined in the European System of Integrated Economic Accounts;
- investment means gross fixed capital formation as defined in the European System of Integrated Economic Accounts;
- debt means total gross debt at nominal value outstanding at the end of the year and consolidated between and within the sectors of general government as defined in the first indent.

Article 3

In order to ensure the effectiveness of the excessive deficit procedure, the Governments of the Member States shall be responsible under this procedure for the deficits of general government as defined in the first indent of Article 2.

The Member States shall ensure that national procedures in the budgetary area enable them to meet their obligations in this area deriving from this Treaty. The Member States shall report their planned and actual deficits and the levels of their debt promptly and regularly to the Commission.

Article 4

The statistical data to be used for the application of this Protocol shall be provided by the Commission.

**Protocol (No 21)
on the convergence criteria referred to in Article 121
of the Treaty establishing the European Community (1992)**

THE HIGH CONTRACTING PARTIES,

DESIRING to lay down the details of the convergence criteria which shall guide the Community in taking decisions on the passage to the third stage of economic and monetary union, referred to in Article 121(1) of this Treaty,

HAVE AGREED upon the following provisions, which shall be annexed to the Treaty establishing the European Community:

Article 1

The criterion on price stability referred to in the first indent of Article 121(1) of this Treaty shall mean that a Member State has a price performance that is sustainable and an average rate of inflation, observed over a period of one year before the examination, that does not exceed by more than 1 1/2 percentage points that of, at most, the three best performing Member States in terms of price stability. Inflation shall be measured by means of the consumer price index on a comparable basis, taking into account differences in national definitions.

Article 2

The criterion on the government budgetary position referred to in the second indent of Article 121(1) of this Treaty shall mean that at the time of the examination the Member State is not the subject of a Council decision under Article 104(6) of this Treaty that an excessive deficit exists.

Article 3

The criterion on participation in the Exchange Rate Mechanism of the European Monetary System referred to in the third indent of Article 121(1) of this Treaty shall mean that a Member State has respected the normal fluctuation margins provided for by the exchange rate mechanism of the European Monetary System without severe tensions for at least the last two years before the examination. In particular, the Member State shall not have devalued its currency's bilateral central rate against any other Member State's currency on its own initiative for the same period.

Article 4

The criterion on the convergence of interest rates referred to in the fourth indent of Article 121(1) of this Treaty shall mean that, observed over a period of one year before the examination, a Member State has had an average nominal long-term interest rate that does not exceed by more than 2 percentage points that of, at most, the three best performing Member States in terms of price stability. Interest rates shall be measured on the basis of long-term government bonds or comparable securities, taking into account differences in national definitions.

Article 5

The statistical data to be used for the application of this Protocol shall be provided by the Commission.

Article 6

The Council shall, acting unanimously on a proposal from the Commission and after consulting the European Parliament, the EMI or the ECB as the case may be, and the Committee referred to in Article 114, adopt appropriate provisions to lay down the details of the convergence criteria referred to in Article 121 this Treaty, which shall then replace this Protocol.

**Protocol (No 25)
on certain provisions relating to the United Kingdom
of Great Britain and Northern Ireland (1992)**

THE HIGH CONTRACTING PARTIES,

RECOGNISING that the United Kingdom shall not be obliged or committed to move to the third stage of economic and monetary union without a separate decision to do so by its Government and parliament,

NOTING the practice of the Government of the United Kingdom to fund its borrowing requirement by the sale of debt to the private sector,

HAVE AGREED the following provisions, which shall be annexed to the Treaty establishing the European Community:

1. The United Kingdom shall notify the Council whether it intends to move to the third stage before the Council makes its assessment under Article 121(2) of this Treaty.

Unless the United Kingdom notifies the Council that it intends to move to the third stage, it shall be under no obligation to do so.

If no date is set for the beginning of the third stage under Article 121(3) of this Treaty, the United Kingdom may notify its intention to move to the third stage before 1 January 1998.

2. Paragraphs 3 to 9 shall have effect if the United Kingdom notifies the Council that it does not intend to move to the third stage.

3. The United Kingdom shall not be included among the majority of Member States which fulfil the necessary conditions referred to in the second indent of Article 121(2) and the first indent of Article 121(3) of this Treaty.

4. The United Kingdom shall retain its powers in the field of monetary policy according to national law.

5. Articles 4(2), 104(1), (9) and (11), 105(1) to (5), 106, 108, 109, 110, 111, 112(1) and (2)(b) and 123(4) and (5) of this Treaty shall not apply to the United Kingdom. In these provisions references to the Community or the Member States shall not include the United Kingdom and references to national central banks shall not include the Bank of England.

6. Articles 116(4) and 119 and 120 of this Treaty shall continue to apply to the United Kingdom. Articles 114(4) and 124 shall apply to the United Kingdom as if it had a derogation.

7. The voting rights of the United Kingdom shall be suspended in respect of acts of the Council referred to in the Articles listed in paragraph 5. For this

purpose the weighted votes of the United Kingdom shall be excluded from any calculation of a qualified majority under Article 122(5) of this Treaty.

The United Kingdom shall also have no right to participate in the appointment of the President, the Vice-President and the other members of the Executive Board of the ECB under Articles 112(2)(b) and 123(1) of this Treaty.

8. Articles 3, 4, 6, 7, 9.2, 10.1, 10.3, 11.2, 12.1, 14, 16, 18 to 20, 22, 23, 26, 27, 30 to 34, 50 and 52 of the Protocol on the Statute of the European System of Central Banks and of the European Central Bank ('the Statute') shall not apply to the United Kingdom.

In those Articles, references to the Community or the Member States shall not include the United Kingdom and references to national central banks or shareholders shall not include the Bank of England.

References in Articles 10.3 and 30.2 of the Statute to 'subscribed capital of the ECB' shall not include capital subscribed by the Bank of England.

9. Article 123(3) of this Treaty and Articles 44 to 48 of the Statute shall have effect, whether or not there is any Member State with a derogation, subject to the following amendments:

- (a) References in Article 44 to the tasks of the ECB and the EMI shall include those tasks that still need to be performed in the third stage owing to any decision of the United Kingdom not to move to that stage.
- (b) In addition to the tasks referred to in Article 47 the ECB shall also give advice in relation to and contribute to the preparation of any decision of the Council with regard to the United Kingdom taken in accordance with paragraphs 10(a) and 10(c).
- (c) The Bank of England shall pay up its subscription to the capital of the ECB as a contribution to its operational costs on the same basis as national central banks of Member States with a derogation.

10. If the United Kingdom does not move to the third stage, it may change its notification at any time after the beginning of that stage. In that event:

- (a) The United Kingdom shall have the right to move to the third stage provided only that it satisfies the necessary conditions. The Council, acting at the request of the United Kingdom and under the conditions and in accordance with the procedure laid down in Article 122(2) of this Treaty, shall decide whether it fulfils the necessary conditions.
- (b) The Bank of England shall pay up its subscribed capital, transfer to the ECB foreign reserve assets and contribute to its reserves on the same basis as the national central bank of a Member State whose derogation has been abrogated.

1. Primary law

(c) The Council, acting under the conditions and in accordance with the procedure laid down in Article 123(5) of this Treaty, shall take all other necessary decisions to enable the United Kingdom to move to the third stage.

If the United Kingdom moves to the third stage pursuant to the provisions of this Protocol, paragraphs 3 to 9 shall cease to have effect.

11. Notwithstanding Articles 101 and 116(3) of this Treaty and Article 21.1 of the Statute, the Government of the United Kingdom may maintain its 'ways and means' facility with the Bank of England if and so long as the United Kingdom does not move to the third stage.

Protocol (No 26) on certain provisions relating to Denmark (1992)

THE HIGH CONTRACTING PARTIES,

DESIRING to settle, in accordance with the general objectives of the Treaty establishing the European Community, certain particular problems existing at the present time,

TAKING INTO ACCOUNT that the Danish Constitution contains provisions which may imply a referendum in Denmark prior to Danish participation in the third stage of economic and monetary union,

HAVE AGREED on the following provisions, which shall be annexed to the Treaty establishing the European Community:

1. The Danish Government shall notify the Council of its position concerning participation in the third stage before the Council makes its assessment under Article 121(2) of this Treaty.
2. In the event of a notification that Denmark will not participate in the third stage, Denmark shall have an exemption. The effect of the exemption shall be that all Articles and provisions of this Treaty and the Statute of the ESCB referring to a derogation shall be applicable to Denmark.
3. In such case, Denmark shall not be included among the majority of Member States which fulfil the necessary conditions referred to in the second indent of Article 121(2) and the first indent of Article 121(3) of this Treaty.
4. As for the abrogation of the exemption, the procedure referred to in Article 122(2) shall only be initiated at the request of Denmark.
5. In the event of abrogation of the exemption status, the provisions of this Protocol shall cease to apply.

1.4. Extracts from acts of accession

**Act
concerning the conditions of accession of the Czech
Republic, the Republic of Estonia, the Republic
of Cyprus, the Republic of Latvia, the Republic of
Lithuania, the Republic of Hungary, the Republic of
Malta, the Republic of Poland, the Republic of Slovenia
and the Slovak Republic, and the adjustments to the Treaties
on which the European Union is founded (2003)**

PART ONE

PRINCIPLES

Article 4

Each of the new Member States shall participate in economic and monetary union from the date of accession as a Member State with a derogation within the meaning of Article 122 of the EC Treaty.

**Act
concerning the conditions of accession of the Republic
of Bulgaria and Romania and the adjustments
to the Treaties on which the European Union
is founded (2005)**

PART ONE

PRINCIPLES

Article 5

Bulgaria and Romania shall participate in economic and monetary union from the date of accession as Member States with a derogation within the meaning of Article 122 of the EC Treaty.

2. Economic policy coordination

2.1. General framework

Resolution of the European Council on growth and employment Amsterdam, 16 June 1997 ⁽²⁾

THE EUROPEAN COUNCIL,

RECALLING the conclusions of the Essen European Council, the Commission's initiative for 'Action on Employment: A Confidence Pact' and the Dublin Declaration on Employment,

HAS ADOPTED THE FOLLOWING GUIDELINES:

INTRODUCTION

1. It is imperative to give a new impulse for keeping employment firmly at the top of the political agenda of the European Union. Economic and monetary union and the Stability and Growth Pact will enhance the internal market and will foster a non-inflationary macroeconomic environment with low interest rates, thereby strengthening conditions for economic growth and employment opportunities. In addition, we will need to strengthen the links between a successful and sustainable economic and monetary union, a well functioning internal market and employment. To that end, it should be a priority aim to develop a skilled, trained and adaptable workforce and to make labour markets responsive to economic change. Structural reforms need to be comprehensive in scope, as opposed to limited or occasional measures, so as to address in a coherent manner the complex issue of incentives in creating and taking up a job.

Economic and social policies are mutually reinforcing. Social protection systems should be modernised so as to strengthen their functioning in order to contribute to competitiveness, employment and growth, establishing a durable basis for social cohesion.

This approach, coupled with stability based policies, provides the basis for an economy founded on principles of inclusion, solidarity, justice and a sustainable environment, and capable of benefiting all its citizens. Economic efficiency and social inclusion are complementary aspects of the more cohesive European society that we all seek.

⁽²⁾ OJ C 236, 2.8.1997, pp. 3 and 4.

Taking account of this statement of principles, the European Council calls upon all the social and economic agents, including the national, regional and local authorities and the social partners, to face fully their responsibilities within their respective sphere of activity.

DEVELOPING THE ECONOMIC PILLAR

2. The Treaty establishing the European Community, in particular Articles 102a and 103, provides for close coordination of the Member States' economic policies referred to in Article 3a of the Treaty. While primary responsibility in the fight against unemployment rests with the Member States, we should recognise the need both to enhance the effectiveness and to broaden the content of this coordination, focusing in particular on policies for employment. To this end, several steps are necessary.

3. The broad guidelines of the economic policies will be enhanced and developed into an effective instrument for ensuring sustained convergence of the economic performances of the Member States. Within the framework of sound and sustainable macroeconomic policies and on the basis of an evaluation of the economic situation in the European Union and in each Member State, more attention will be given to improving European competitiveness as a prerequisite for growth and employment, so as, among other objectives, to bring more jobs within the reach of the citizens of Europe. In this context, special attention should be given to labour and product market efficiency, technological innovation and the potential for small and medium-sized enterprises to create jobs. Full attention should also be given to training and education systems including life-long learning, work incentives in the tax and benefit systems and reducing non-wage labour costs, in order to increase employability.

4. Taxation and social protection systems should be made more employment friendly thus improving the functioning of labour markets. The European Council stresses the importance for the Member States of creating a tax environment that stimulates enterprise and the creation of jobs. These and other policies for employment will become an essential part of the broad guidelines, taking into account national employment policies and good practices arising from these policies.

5. The Council is therefore called upon to take the multiannual employment programmes, as envisaged in the Essen procedure, into account when formulating the broad guidelines, in order to strengthen their employment focus. The Council may make the necessary recommendations to the Member States, in accordance with Article 103(4) of the Treaty.

6. This enhanced coordination of economic policies will complement the procedure as envisaged in the new Title on Employment in the Treaty, which pro-

2. Economic policy coordination

vides for the creation of an Employment Committee, which is asked to work together closely with the Economic Policy Committee. The Council should seek to make those provisions immediately effective. In both procedures the European Council will play its integrating and guiding role, in accordance with the Treaty.

7. The European Union should complement national measures by systematically examining all relevant existing Community policies, including trans-European networks and research and development programmes, to ensure that they are geared towards job creation and economic growth, while respecting the financial perspectives and the Interinstitutional Agreement.

8. The European Council has agreed on concrete action for making maximum progress with the final completion of the internal market: making the rules more effective, dealing with the key remaining market distortions, avoiding harmful tax competition, removing the sectoral obstacles to market integration and delivering an internal market for the benefit of all citizens.

9. Whereas the task of the European Investment Bank, as stated in Article 198e of the Treaty, is to contribute, by having recourse to the capital market and utilising its own resources, to the balanced and steady development of the common market in the interest of the Community, we recognise the important role of the European Investment Bank and the European Investment Fund in creating employment through investment opportunities in Europe. We urge the European Investment Bank to step up its activities in this respect, promoting investment projects consistent with sound banking principles and practices, and more particular:

- to examine the establishment of a facility for the financing of high-technology projects of small and medium-sized enterprises in cooperation with the European Investment Fund, possibly making use of venture capital with involvement of the private banking sector,
- to examine its scope of intervention in the areas of education, health, urban environment and environmental protection,
- to step up its interventions in the area of large infrastructure networks by examining the possibility of granting very long-terms loans, primarily for the large priority projects adopted in Essen.

10. The Commission is invited to make the appropriate proposals in order to ensure that, upon expiration of the Treaty establishing the European Coal and Steel Community in 2002, the revenues of outstanding reserves are used for a research fund for sectors related to the coal and steel industry.

11. This overall strategy will maximise our efforts to promote employment and social inclusion and to combat unemployment. In doing so, job promotion, worker protection and security will be combined with the need for improving

the functioning of labour markets. This also contributes to the good functioning of economic and monetary union.

RENEWED COMMITMENT

12. The European Council invites all parties, namely the Member States, the Council and the Commission, to implement these provisions with vigour and commitment.

The possibilities offered to social partners by the Social Chapter, which has been integrated into the new Treaty, should serve to underpin the Council's work on employment. The European Council recommends social dialogue and the full use of present Community law concerning the consultation of social partners, including, where relevant, in processes of restructuring, and taking into account national practices.

13. Together, these policies allow the Member States to build on the strengths of the European construction to coordinate their economic policies effectively within the Council so as to create more jobs and pave the way for a successful and sustainable stage three of economic and monetary union in accordance with the Treaty. The European Council asks social partners to fully face their responsibilities within their respective sphere of activity.

**Resolution of the European Council of 13 December 1997
on economic policy coordination in Stage III of EMU
and on Treaty Articles 109 and 109b of the EC Treaty ⁽³⁾**

THE EUROPEAN COUNCIL, meeting in Luxembourg on 13 December 1997,

Having regard to the Treaty establishing the European Community,

Recalling the conclusions of the Amsterdam European Council, notably on improving economic coordination and on effective ways of implementing Articles 109 and 109b of the Treaty,

Recalling the Amsterdam European Council Resolution on the Stability and Growth Pact,

Recalling the Amsterdam European Council Resolution on Growth and Employment, and

Taking note of the report of the Council of 1 December 1997,

HAS RESOLVED AS FOLLOWS:

⁽³⁾ OJ C 35, 2.2.1998, pp. 1-4.

I. Coordination of economic policies in Stage III of economic and monetary union (EMU)

1. EMU will link the economies of the euro-area Member States more closely together. They will share a single monetary policy and a single exchange rate. Cyclical developments are likely to converge further. Economic policies, and wage determination, however, remain a national responsibility, subject to the provisions of Article 104c of the Treaty and the Stability and Growth Pact. To the extent that national economic developments have an impact on inflation prospects in the euro area, they will influence monetary conditions in that area. It is for this basic reason that the move to a single currency will require closer Community surveillance and coordination of economic policies among euro area Member States.

2. Economic and monetary interdependence with non-participating Member States will also be strong; they all participate in the single market. The need to ensure further convergence and a smooth functioning of the single market therefore requires all Member States to be included in the coordination of economic policies. Moreover, interdependence will be especially strong if non euro-area Member States participate in the new exchange rate mechanism, as countries with a derogation are expected to.

3. Enhanced economic policy coordination should give full attention to national economic developments and policies which have the potential to influence monetary and financial conditions throughout the euro area or the smooth functioning of the internal market. This includes:

- close monitoring of macroeconomic developments in Member States to ensure sustained convergence, and of exchange rate developments of the euro,
- surveillance of budgetary positions and policies in accordance with the Treaty and the Stability and Growth Pact,
- monitoring of Member States' structural policies in labour, product and services markets, as well as of cost and price trends, particularly insofar as they affect the chances of achieving sustained non-inflationary growth and job creation, and
- the fostering of tax reform to raise efficiency and the discouragement of harmful tax competition.

Enhanced economic policy coordination must adhere to the Treaty principle of subsidiarity, respect the prerogatives of national governments in determining their structural and budgetary policies subject to the provisions of the Treaty and the Stability and Growth Pact, respect the independence of the European

2. Economic policy coordination

System of Central Banks (ESCB) in pursuing its primary objective of price stability and the role of the Ecofin Council as the central decision-making body for economic coordination, and respect national traditions and the competences and responsibilities of the social partners in the wage formation process.

4. To ensure the smooth functioning of EMU, the Council, the Commission and the Member States are called upon to apply the Treaty instruments for economic policy coordination fully and effectively.

To this end, the broad economic policy guidelines adopted in accordance with Article 103(2) of the Treaty should be developed into an effective instrument for ensuring sustained convergence of Member States. They should provide more concrete and country-specific guidelines and focus more on measures to improve Member States' growth potential, thus increasing employment. Therefore, more attention should henceforth be paid in them to improving competitiveness, labour-, product- and services-market efficiency, education and training, and to making taxation and social protection systems more employment-friendly.

Enhanced coordination should be aimed at securing consistency of national economic policies and their implementation with the broad economic policy guidelines and the proper functioning of EMU. Economic policies and development in each Member State and in the Community should be monitored in the framework of multilateral surveillance according to Article 103(3) of the Treaty. Particular attention should be paid to giving early warning, not only of threatening budgetary situations in accordance with the Stability and Growth Pact, but also of other developments which, if allowed to persist, might threaten stability, competitiveness and future job creation. To this end, the Council is expected to be more ready to make the necessary recommendations in accordance with Article 103(4) of the Treaty to a Member State whenever its economic policies are not consistent with the broad economic policy guidelines. For its part, the Member State concerned should commit itself to take timely and efficient measures which it deems necessary to respond to the Council's recommendations. Moreover, the Member States should commit themselves to a comprehensive and speedy exchange of information on economic developments and policy intentions with a cross-border impact.

5. Monitoring of the economic situation and policy discussions should become a regular item on the agenda of informal Ecofin sessions. In order to stimulate an open and frank debate, the Ecofin Council should from time to time meet in restricted sessions (minister plus one), particularly when conducting multilateral surveillance.

6. Under the terms of the Treaty, the Ecofin Council ⁽⁴⁾ is the centre for the coordination of the Member States' economic policies and is empowered to act in the relevant areas. In particular, the Ecofin Council is the only body empowered to formulate and adopt the broad economic policy guidelines which constitute the main instrument of economic coordination.

The defining position of the Ecofin Council at the centre of the economic coordination and decision-making process affirms the unity and cohesion of the Community.

The Ministers of the States participating in the euro area may meet informally among themselves to discuss issues connected with their shared specific responsibilities for the single currency. The Commission, and the European Central Bank (ECB) when appropriate, will be invited to take part in the meetings.

Whenever matters of common interest are concerned they will be discussed by Ministers of all Member States.

Decisions will in all cases be taken by the Ecofin Council in accordance with the procedures determined by the Treaty.

II. Implementing the Treaty provisions on the exchange rate policy, external position and representation of the Community (Article 109 of the Treaty)

(See Chapter 5 of this publication — 'External representation of the Community')

III. Dialogue between the Council and the ECB

11. In the light of the allocation of responsibilities laid down in the Treaty, the harmonious economic development of the Community in Stage III of EMU will call for continuous and fruitful dialogue between the Council and the ECB, involving the Commission and respecting all aspects of the independence of the ESCB.

12. The Council should therefore play its full part in exploiting the channels of communication provided by the Treaty. The President of the Council, using his position under Article 109b of the Treaty, should report to the Governing Council of the ECB on the Council's assessment of the economic situation of

⁽⁴⁾ Declaration No 3 to the Treaty on European Union affirms that for the purpose of applying the provisions set out in Title VI on economic and monetary policy of the Treaty establishing the European Community, the usual practice, according to which the Council meets in the composition of Economic and Finance Ministers, shall be continued, without prejudice in Article 109j(2) to (4) and Article 109k(2) of the Treaty.

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the Union and on economic policies of the Member States and could discuss with the ECB the views of the Council on exchange rate developments and prospects. The Treaty provides in turn for the ECB President to attend Council meetings whenever the Council is discussing matters relating to the objectives and tasks of the ESCB, for instance when the broad economic policy guidelines are being developed. Importance also attaches to the annual reports which the ECB will make to the European Parliament, the Council and the Commission, as well as to the European Council.

The Economic and Financial Committee, which will bring together senior officials from the national central banks and the ECB as well as from finance ministries, will provide the framework within which the dialogue can be prepared and continued at the level of senior officials.

Presidency conclusions Lisbon European Council 23 and 24 March 2000 (extract)

The European Council held a special meeting on 23 and 24 March 2000 in Lisbon to agree a new strategic goal for the Union in order to strengthen employment, economic reform and social cohesion as part of a knowledge-based economy. At the start of proceedings, an exchange of views was conducted with the President of the European Parliament, Mrs Nicole Fontaine, on the main topics for discussion.

I. EMPLOYMENT, ECONOMIC REFORM AND SOCIAL COHESION

A STRATEGIC GOAL FOR THE NEXT DECADE

The new challenge

1. The European Union is confronted with a quantum shift resulting from globalisation and the challenges of a new knowledge-driven economy. These changes are affecting every aspect of people's lives and require a radical transformation of the European economy. The Union must shape these changes in a manner consistent with its values and concepts of society and also with a view to the forthcoming enlargement.
2. The rapid and accelerating pace of change means it is urgent for the Union to act now to harness the full benefits of the opportunities presented. Hence the need for the Union to set a clear strategic goal and agree a challenging programme for building knowledge infrastructures, enhancing innovation and economic reform, and modernising social welfare and education systems.

The Union's strengths and weaknesses

3. The Union is experiencing its best macroeconomic outlook for a generation. As a result of stability-oriented monetary policy supported by sound fiscal policies in a context of wage moderation, inflation and interest rates are low, public sector deficits have been reduced remarkably and the EU's balance of payments is healthy. The euro has been successfully introduced and is delivering the expected benefits for the European economy. The internal market is largely complete and is yielding tangible benefits for consumers and businesses alike. The forthcoming enlargement will create new opportunities for growth and employment. The Union possesses a generally well-educated workforce as well as social protection systems able to provide, beyond their intrinsic value, the stable framework required for managing the structural changes involved in moving towards a knowledge-based society. Growth and job creation have resumed.

2. Economic policy coordination

4. These strengths should not distract our attention from a number of weaknesses. More than 15 million Europeans are still out of work. The employment rate is too low and is characterised by insufficient participation in the labour market by women and older workers. Long-term structural unemployment and marked regional unemployment imbalances remain endemic in parts of the Union. The services sector is underdeveloped, particularly in the areas of telecommunications and the Internet. There is a widening skills gap, especially in information technology where increasing numbers of jobs remain unfilled. With the current improved economic situation, the time is right to undertake both economic and social reforms as part of a positive strategy which combines competitiveness and social cohesion.

The way forward

5. The Union has today set itself a new strategic goal for the next decade: to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion. Achieving this goal requires an overall strategy aimed at:

- preparing the transition to a knowledge-based economy and society by better policies for the information society and R & D, as well as by stepping up the process of structural reform for competitiveness and innovation and by completing the internal market;
- modernising the European social model, investing in people and combating social exclusion;
- sustaining the healthy economic outlook and favourable growth prospects by applying an appropriate macroeconomic policy mix.

6. This strategy is designed to enable the Union to regain the conditions for full employment, and to strengthen regional cohesion in the European Union. The European Council needs to set a goal for full employment in Europe in an emerging new society which is more adapted to the personal choices of women and men. If the measures set out below are implemented against a sound macroeconomic background, an average economic growth rate of around 3 % should be a realistic prospect for the coming years.

7. Implementing this strategy will be achieved by improving the existing processes, introducing a new open method of coordination at all levels, coupled with a stronger guiding and coordinating role for the European Council to ensure more coherent strategic direction and effective monitoring of progress. A meeting of the European Council to be held every spring will define the relevant mandates and ensure that they are followed up.

PREPARING THE TRANSITION TO A COMPETITIVE, DYNAMIC AND KNOWLEDGE-BASED ECONOMY

An information society for all

8. The shift to a digital, knowledge-based economy, prompted by new goods and services, will be a powerful engine for growth, competitiveness and jobs. In addition, it will be capable of improving citizens' quality of life and the environment. To make the most of this opportunity, the Council and the Commission are invited to draw up a comprehensive eEurope Action Plan to be presented to the European Council in June this year, using an open method of coordination based on the benchmarking of national initiatives, combined with the Commission's recent eEurope initiative as well as its communication 'Strategies for jobs in the Information Society'.

9. Businesses and citizens must have access to an inexpensive, world-class communications infrastructure and a wide range of services. Every citizen must be equipped with the skills needed to live and work in this new information society. Different means of access must prevent info-exclusion. The combat against illiteracy must be reinforced. Special attention must be given to disabled people. Information technologies can be used to renew urban and regional development and promote environmentally sound technologies. Content industries create added value by exploiting and networking European cultural diversity. Real efforts must be made by public administrations at all levels to exploit new technologies to make information as accessible as possible.

10. Realising Europe's full e-potential depends on creating the conditions for electronic commerce and the Internet to flourish, so that the Union can catch up with its competitors by hooking up many more businesses and homes to the Internet via fast connections. The rules for electronic commerce must be predictable and inspire business and consumer confidence. Steps must be taken to ensure that Europe maintains its lead in key technology areas such as mobile communications. The speed of technological change may require new and more flexible regulatory approaches in the future.

11. The European Council calls in particular on:

- the Council, along with the European Parliament where appropriate, to adopt as rapidly as possible during 2000 pending legislation on the legal framework for electronic commerce, on copyright and related rights, on e-money, on the distance selling of financial services, on jurisdiction and the enforcement of judgments, and the dual-use export control regime; the Commission and the Council to consider how to promote consumer confidence in electronic commerce, in particular through alternative dispute resolution systems;
- the Council and the European Parliament to conclude as early as possible in 2001 work on the legislative proposals announced by the Commission

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following its 1999 review of the telecoms regulatory framework; the Member States and, where appropriate, the Community to ensure that the frequency requirements for future mobile communications systems are met in a timely and efficient manner. Fully integrated and liberalised telecommunications markets should be completed by the end of 2001;

- the Member States, together with the Commission, to work towards introducing greater competition in local access networks before the end of 2000 and unbundling the local loop in order to help bring about a substantial reduction in the costs of using the Internet;
- the Member States to ensure that all schools in the Union have access to the Internet and multimedia resources by the end of 2001, and that all the teachers needed are skilled in the use of the Internet and multimedia resources by the end of 2002;
- the Member States to ensure generalised electronic access to main basic public services by 2003;
- the Community and the Member States, with the support of the EIB, to make available in all European countries low cost, high-speed interconnected networks for Internet access and foster the development of state-of-the-art information technology and other telecom networks as well as the content for those networks. Specific targets should be defined in the eEurope Action Plan.

Establishing a European area of research and innovation

12. Given the significant role played by research and development in generating economic growth, employment and social cohesion, the Union must work towards the objectives set out in the Commission's communication 'Towards a European research area'. Research activities at national and Union level must be better integrated and coordinated to make them as efficient and innovative as possible, and to ensure that Europe offers attractive prospects to its best brains. The instruments under the Treaty and all other appropriate means, including voluntary arrangements, must be fully exploited to achieve this objective in a flexible, decentralised and non-bureaucratic manner. At the same time, innovation and ideas must be adequately rewarded within the new knowledge-based economy, particularly through patent protection.

13. The European Council asks the Council and the Commission, together with the Member States where appropriate, to take the necessary steps as part of the establishment of a European research area to:

- develop appropriate mechanisms for networking national and joint research programmes on a voluntary basis around freely chosen objectives, in order to take greater advantage of the concerted resources devoted to R & D in the Member States, and ensure regular reporting to the Council

- on the progress achieved; to map by 2001 research and development excellence in all Member States in order to foster the dissemination of excellence;
- improve the environment for private research investment, R & D partnerships and high technology start-ups, by using tax policies, venture capital and EIB support;
 - encourage the development of an open method of coordination for benchmarking national research and development policies and identify, by June 2000, indicators for assessing performance in different fields, in particular with regard to the development of human resources; introduce by June 2001 a European innovation scoreboard;
 - facilitate the creation by the end of 2001 of a very high-speed trans-European network for electronic scientific communications, with EIB support, linking research institutions and universities, as well as scientific libraries, scientific centres and, progressively, schools;
 - take steps to remove obstacles to the mobility of researchers in Europe by 2002 and to attract and retain high-quality research talent in Europe;
 - ensure that a Community patent is available by the end of 2001, including the utility model, so that Community-wide patent protection in the Union is as simple and inexpensive to obtain and as comprehensive in its scope as the protection granted by key competitors.

Creating a friendly environment for starting up and developing innovative businesses, especially SMEs

14. The competitiveness and dynamism of businesses are directly dependent on a regulatory climate conducive to investment, innovation, and entrepreneurship. Further efforts are required to lower the costs of doing business and remove unnecessary red tape, both of which are particularly burdensome for SMEs. The European institutions, national governments and regional and local authorities must continue to pay particular attention to the impact and compliance costs of proposed regulations, and should pursue their dialogue with business and citizens with this aim in mind. Specific action is also needed to encourage the key interfaces in innovation networks, i.e. interfaces between companies and financial markets, R & D and training institutions, advisory services and technological markets.

15. The European Council considers that an open method of coordination should be applied in this area and consequently asks:

- the Council and the Commission to launch, by June 2000, a benchmarking exercise on issues such as the length of time and the costs involved in setting up a company, the amount of risk capital invested, the numbers

2. Economic policy coordination

of business and scientific graduates and training opportunities. The first results of this exercise should be presented by December 2000;

- the Commission to present shortly a communication on an entrepreneurial, innovative and open Europe together with the multiannual programme in favour of enterprise and entrepreneurship for 2001-2005 which will play an important role as catalyst for this exercise;
- the Council and the Commission to draw up a European Charter for small companies to be endorsed in June 2000 which should commit Member States to focus in the abovementioned instruments on small companies as the main engines for job-creation in Europe, and to respond specifically to their needs;
- the Council and the Commission to report by the end of 2000 on the ongoing review of EIB and EIF financial instruments in order to redirect funding towards support for business start-ups, high-tech firms and micro-enterprises, as well as other risk-capital initiatives proposed by the EIB.

Economic reforms for a complete and fully operational internal market

16. Rapid work is required in order to complete the internal market in certain sectors and to improve under-performance in others in order to ensure the interests of business and consumers. An effective framework for ongoing review and improvement, based on the Internal Market Strategy endorsed by the Helsinki European Council, is also essential if the full benefits of market liberalisation are to be reaped. Moreover, fair and uniformly applied competition and state aid rules are essential for ensuring that businesses can thrive and operate effectively on a level playing field in the internal market.

17. The European Council accordingly asks the Commission, the Council and the Member States, each in accordance with their respective powers:

- to set out by the end of 2000 a strategy for the removal of barriers to services;
- to speed up liberalisation in areas such as gas, electricity, postal services and transport. Similarly, regarding the use and management of airspace, the Council asks the Commission to put forward its proposals as soon as possible. The aim is to achieve a fully operational internal market in these areas; the European Council will assess progress achieved when it meets next spring on the basis of a Commission report and appropriate proposals;
- to conclude work in good time on the forthcoming proposals to update public procurement rules, in particular to make them accessible to SMEs, in order to allow the new rules to enter into force by 2002;

- to take the necessary steps to ensure that it is possible by 2003 for Community and government procurement to take place online;
- to set out by 2001 a strategy for further coordinated action to simplify the regulatory environment, including the performance of public administration, at both national and Community level. This should include identifying areas where further action is required by Member States to rationalise the transposition of Community legislation into national law;
- to further their efforts to promote competition and reduce the general level of state aids, shifting the emphasis from supporting individual companies or sectors towards tackling horizontal objectives of Community interest, such as employment, regional development, environment and training or research.

18. Comprehensive structural improvements are essential to meet ambitious targets for growth, employment and social inclusion. Key areas have already been identified by the Council to be reinforced in the Cardiff process. The European Council accordingly invites the Council to step up work on structural performance indicators and to report by the end of 2000.

19. The European Council considers it essential that, in the framework of the internal market and of a knowledge-based economy, full account is taken of the Treaty provisions relating to services of general economic interest, and to the undertakings entrusted with operating such services. It asks the Commission to update its 1996 communication based on the Treaty.

Efficient and integrated financial markets

20. Efficient and transparent financial markets foster growth and employment by better allocation of capital and reducing its cost. They therefore play an essential role in fuelling new ideas, supporting entrepreneurial culture and promoting access to and use of new technologies. It is essential to exploit the potential of the euro to push forward the integration of EU financial markets. Furthermore, efficient risk capital markets play a major role in innovative high-growth SMEs and the creation of new and sustainable jobs.

21. To accelerate completion of the internal market for financial services, steps should be taken:

- to set a tight timetable so that the Financial Services Action Plan is implemented by 2005, taking into account priority action areas such as: facilitating the widest possible access to investment capital on an EU-wide basis, including for SMEs, by means of a ‘single passport’ for issuers; facilitating the successful participation of all investors in an integrated market eliminating barriers to investment in pension funds; promoting further integra-

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tion and better functioning of government bond markets through greater consultation and transparency on debt issuing calendars, techniques and instruments, and improved functioning of cross-border sale and repurchase ('repo') markets; enhancing the comparability of companies' financial statements; and more intensive cooperation by EU financial market regulators;

- to ensure full implementation of the Risk Capital Action Plan by 2003;
- to make rapid progress on the long-standing proposals on takeover bids and on the restructuring and winding-up of credit institutions and insurance companies in order to improve the functioning and stability of the European financial market;
- to conclude, in line with the Helsinki European Council conclusions, the pending tax package.

Coordinating macroeconomic policies: fiscal consolidation, quality and sustainability of public finances

22. As well as preserving macroeconomic stability and stimulating growth and employment, macroeconomic policies should foster the transition towards a knowledge-based economy, which implies an enhanced role for structural policies. The macroeconomic dialogue under the Cologne process must create a relationship of trust between all the actors involved in order to have a proper understanding of each other's positions and constraints. The opportunity provided by growth must be used to pursue fiscal consolidation more actively and to improve the quality and sustainability of public finances.

23. The European Council requests the Council and the Commission, using the existing procedures, to present a report by spring 2001 assessing the contribution of public finances to growth and employment, and assessing, on the basis of comparable data and indicators, whether adequate concrete measures are being taken in order to:

- alleviate the tax pressure on labour and especially on the relatively unskilled and low-paid, improve the employment and training incentive effects of tax and benefit systems;
- redirect public expenditure towards increasing the relative importance of capital accumulation – both physical and human – and support research and development, innovation and information technologies;
- ensure the long-term sustainability of public finances, examining the different dimensions involved, including the impact of ageing populations, in the light of the report to be prepared by the High Level Working Party on Social Protection.

MODERNISING THE EUROPEAN SOCIAL MODEL BY INVESTING IN PEOPLE AND BUILDING AN ACTIVE WELFARE STATE

24. People are Europe's main asset and should be the focal point of the Union's policies. Investing in people and developing an active and dynamic welfare state will be crucial both to Europe's place in the knowledge economy and for ensuring that the emergence of this new economy does not compound the existing social problems of unemployment, social exclusion and poverty.

Education and training for living and working in the knowledge society

25. Europe's education and training systems need to adapt both to the demands of the knowledge society and to the need for an improved level and quality of employment. They will have to offer learning and training opportunities tailored to target groups at different stages of their lives: young people, unemployed adults and those in employment who are at risk of seeing their skills overtaken by rapid change. This new approach should have three main components: the development of local learning centres, the promotion of new basic skills, in particular in the information technologies, and increased transparency of qualifications.

26. The European Council accordingly calls upon the Member States, in line with their constitutional rules, the Council and the Commission to take the necessary steps within their areas of competence to meet the following targets:

- a substantial annual increase in per capita investment in human resources;
- the number of 18 to 24 year olds with only lower-secondary level education who are not in further education and training should be halved by 2010;
- schools and training centres, all linked to the Internet, should be developed into multi-purpose local learning centres accessible to all, using the most appropriate methods to address a wide range of target groups; learning partnerships should be established between schools, training centres, firms and research facilities for their mutual benefit;
- a European framework should define the new basic skills to be provided through lifelong learning: IT skills, foreign languages, technological culture, entrepreneurship and social skills; a European diploma for basic IT skills, with decentralised certification procedures, should be established in order to promote digital literacy throughout the Union;
- define, by the end of 2000, the means for fostering the mobility of students, teachers and training and research staff both through making the best use of existing Community programmes (Socrates, Leonardo, Youth), by removing obstacles and through greater transparency in the recognition of qualifications and periods of study and training; to take steps to remove

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obstacles to teachers' mobility by 2002 and to attract high-quality teachers.

- a common European format should be developed for curricula vitae, to be used on a voluntary basis, in order to facilitate mobility by helping the assessment of knowledge acquired, both by education and training establishments and by employers.

27. The European Council asks the Council (Education) to undertake a general reflection on the concrete future objectives of education systems, focusing on common concerns and priorities while respecting national diversity, with a view to contributing to the Luxembourg and Cardiff processes and presenting a broader report to the European Council in the spring of 2001.

More and better jobs for Europe: developing an active employment policy

28. The Luxembourg process, based on drawing up employment guidelines at Community level and translating them into National Employment Action Plans, has enabled Europe to substantially reduce unemployment. The mid-term review should give a new impetus to this process by enriching the guidelines and giving them more concrete targets by establishing closer links with other relevant policy areas and by defining more effective procedures for involving the different actors. The social partners need to be more closely involved in drawing up, implementing and following up the appropriate guidelines.

29. In this context, the Council and the Commission are invited to address the following four key areas:

- improving employability and reducing skills gaps, in particular by providing employment services with a Europe-wide data base on jobs and learning opportunities; promoting special programmes to enable unemployed people to fill skill gaps;
- giving higher priority to lifelong learning as a basic component of the European social model, including by encouraging agreements between the social partners on innovation and lifelong learning; by exploiting the complementarity between lifelong learning and adaptability through flexible management of working time and job rotation; and by introducing a European award for particularly progressive firms. Progress towards these goals should be benchmarked;
- increasing employment in services, including personal services, where there are major shortages; private, public or third sector initiatives may be involved, with appropriate solutions for the least-favoured categories;
- furthering all aspects of equal opportunities, including reducing occupational segregation, and making it easier to reconcile working life and family

life, in particular by setting a new benchmark for improved childcare provision.

30. The European Council considers that the overall aim of these measures should be, on the basis of the available statistics, to raise the employment rate from an average of 61 % today to as close as possible to 70 % by 2010 and to increase the number of women in employment from an average of 51 % today to more than 60 % by 2010. Recognising their different starting points, Member States should consider setting national targets for an increased employment rate. This, by enlarging the labour force, will reinforce the sustainability of social protection systems.

Modernising social protection

31. The European social model, with its developed systems of social protection, must underpin the transformation to the knowledge economy. However, these systems need to be adapted as part of an active welfare state to ensure that work pays, to secure their long-term sustainability in the face of an ageing population, to promote social inclusion and gender equality, and to provide quality health services. Conscious that the challenge can be better addressed as part of a cooperative effort, the European Council invites the Council to:

- strengthen cooperation between Member States by exchanging experiences and best practice on the basis of improved information networks which are the basic tools in this field;
- mandate the High Level Working Party on Social Protection, taking into consideration the work being done by the Economic Policy Committee, to support this cooperation and, as its first priority, to prepare, on the basis of a Commission communication, a study on the future evolution of social protection from a long-term point of view, giving particular attention to the sustainability of pensions systems in different time frameworks up to 2020 and beyond, where necessary. A progress report should be available by December 2000.

Promoting social inclusion

32. The number of people living below the poverty line and in social exclusion in the Union is unacceptable. Steps must be taken to make a decisive impact on the eradication of poverty by setting adequate targets to be agreed by the Council by the end of the year. The High Level Working Party on Social Protection will be involved in this work. The new knowledge-based society offers tremendous potential for reducing social exclusion, both by creating the economic conditions for greater prosperity through higher levels of growth and employment, and by opening up new ways of participating in society. At the same time, it brings a risk of an ever-widening gap between those who have access to the new knowledge, and those who are excluded. To avoid this risk

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and maximise this new potential, efforts must be made to improve skills, promote wider access to knowledge and opportunity and fight unemployment: the best safeguard against social exclusion is a job. Policies for combating social exclusion should be based on an open method of coordination combining national action plans and a Commission initiative for cooperation in this field to be presented by June 2000.

33. In particular, the European Council invites the Council and the Commission to:

- promote a better understanding of social exclusion through continued dialogue and exchanges of information and best practice, on the basis of commonly agreed indicators; the High Level Working Party on Social Protection will be involved in establishing these indicators;
- mainstream the promotion of inclusion in Member States' employment, education and training, health and housing policies, this being complemented at Community level by action under the Structural Funds within the present budgetary framework;
- develop priority actions addressed to specific target groups (for example minority groups, children, the elderly and the disabled), with Member States choosing amongst those actions according to their particular situations and reporting subsequently on their implementation.

34. Taking account of the present conclusions, the Council will pursue its reflection on the future direction of social policy on the basis of a Commission communication, with a view to reaching agreement on a European Social Agenda at the Nice European Council in December, including the initiatives of the different partners involved.

PUTTING DECISIONS INTO PRACTICE: A MORE COHERENT AND SYSTEMATIC APPROACH

Improving the existing processes

35. No new process is needed. The existing Broad Economic Policy Guidelines and the Luxembourg, Cardiff and Cologne processes offer the necessary instruments, provided they are simplified and better coordinated, in particular through other Council formations contributing to the preparation by the Ecofin Council of the Broad Economic Policy Guidelines. Moreover, the Broad Economic Policy Guidelines should focus increasingly on the medium- and long-term implications of structural policies and on reforms aimed at promoting economic growth potential, employment and social cohesion, as well as on the transition towards a knowledge-based economy. The Cardiff and Lux-

embourg processes will make it possible to deal with their respective subject matters in greater detail.

36. These improvements will be underpinned by the European Council taking on a pre-eminent guiding and coordinating role to ensure overall coherence and the effective monitoring of progress towards the new strategic goal. The European Council will accordingly hold a meeting every spring devoted to economic and social questions. Work should consequently be organised both upstream and downstream from that meeting. The European Council invites the Commission to draw up an annual synthesis report on progress on the basis of structural indicators to be agreed relating to employment, innovation, economic reform and social cohesion.

Implementing a new open method of coordination

37. Implementation of the strategic goal will be facilitated by applying a new open method of coordination as the means of spreading best practice and achieving greater convergence towards the main EU goals. This method, which is designed to help Member States to progressively develop their own policies, involves:

- fixing guidelines for the Union combined with specific timetables for achieving the goals which they set in the short, medium and long terms;
- establishing, where appropriate, quantitative and qualitative indicators and benchmarks against the best in the world and tailored to the needs of different Member States and sectors as a means of comparing best practice;
- translating these European guidelines into national and regional policies by setting specific targets and adopting measures, taking into account national and regional differences;
- periodic monitoring, evaluation and peer review organised as mutual learning processes.

38. A fully decentralised approach will be applied in line with the principle of subsidiarity in which the Union, the Member States, the regional and local levels, as well as the social partners and civil society, will be actively involved, using variable forms of partnership. A method of benchmarking best practices on managing change will be devised by the European Commission networking with different providers and users, namely the social partners, companies and NGOs.

39. The European Council makes a special appeal to companies' corporate sense of social responsibility regarding best practices on lifelong learning, work organisation, equal opportunities, social inclusion and sustainable development.

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40. A High Level Forum, bringing together the Union institutions and bodies and the social partners, will be held in June to take stock of the Luxembourg, Cardiff and Cologne processes and of the contributions of the various actors to enhancing the content of the European Employment Pact.

Mobilising the necessary means

41. Achieving the new strategic goal will rely primarily on the private sector, as well as on public-private partnerships. It will depend on mobilising the resources available on the markets, as well as on efforts by Member States. The Union's role is to act as a catalyst in this process, by establishing an effective framework for mobilising all available resources for the transition to the knowledge-based economy and by adding its own contribution to this effort under existing Community policies while respecting Agenda 2000. Furthermore, the European Council welcomes the contribution that the EIB stands ready to make in the areas of human capital formation, SMEs and entrepreneurship, R & D, networks in the information technology and telecom sectors, and innovation. With the 'Innovation 2000 Initiative', the EIB should go ahead with its plans to make another billion euro available for venture capital operations for SMEs and its dedicated lending programme of 12 to 15 billion euro over the next three years for the priority areas.

**European Council Brussels
22 and 23 March 2005
Presidency conclusions (extract)**

II. RELAUNCHING THE LISBON STRATEGY:

A PARTNERSHIP FOR GROWTH AND EMPLOYMENT

A. A STRATEGY FOR TODAY'S WORLD

4. Five years after the launch of the Lisbon Strategy, the results are mixed. Alongside undeniable progress, there are shortcomings and obvious delays. Given the challenges to be met, there is a high price to pay for delayed or incomplete reforms, as is borne out by the gulf between Europe's growth potential and that of its economic partners. Urgent action is therefore called for.

5. To that end, it is essential to relaunch the Lisbon Strategy without delay and refocus priorities on growth and employment. Europe must renew the basis of its competitiveness, increase its growth potential and its productivity and strengthen social cohesion, placing the main emphasis on knowledge, innovation and the optimisation of human capital.

6. To achieve these objectives, the Union must mobilise to a greater degree all appropriate national and Community resources – including the cohesion policy – in the Strategy's three dimensions (economic, social and environmental) so as better to tap into their synergies in a general context of sustainable development. Alongside the governments, all the other players concerned – parliaments, regional and local bodies, social partners and civil society – should be stakeholders in the Strategy and take an active part in attaining its objectives.

7. At the same time, the financial perspective for 2007-2013 will have to provide the Union with adequate funds to carry through the Union's policies in general, including the policies that contribute to the achievement of the Lisbon priorities. Sound macroeconomic conditions are essential to underpin the efforts in favour of growth and employment. The amendments to the Stability and Growth Pact will contribute to this and at the same time enable Member States to play a full role in relaunching long-term growth.

8. The European Council welcomes the Commission communication 'Working together for growth and jobs – A new start for the Lisbon Strategy' submitted for the mid-term review. It welcomes the important contributions in this context by the European Parliament, the Committee of the Regions, the Economic and Social Committee and the social partners. In the light of these proposals, the European Council asks the Commission, Council and Member States to relaunch the Strategy without delay on the basis of the following elements centred on growth and employment.

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9. The European Council welcomes the commitment expressed by the social partners at the Tripartite Summit on 22 March. It calls on the social partners to submit a common work programme for growth and employment in the context of their respective areas of competence.

In addition, it urges the European Economic and Social Committee to set up with Member States' economic and social committees and other partner organisations an interactive network of civil society initiatives aimed at promoting the implementation of the strategy.

B. VITAL STRANDS OF THE RELAUNCH

Knowledge and innovation – engines of sustainable growth

10. The European area of knowledge should enable undertakings to build new competitive factors, consumers to benefit from new goods and services and workers to acquire new skills. With that in mind, it is important to develop research, education and all forms of innovation in so far as they make it possible to turn knowledge into an added value and create more and better jobs. Moreover, in the years to come, a genuine dialogue must be encouraged among those directly involved in the knowledge-based society in the public and private sectors.

11. In the field of R & D, the overall objective of 3 % investment is maintained, with an adequate split between private and public investment. Specific intermediate levels need to be set out at national level. This objective will be obtained, *inter alia*, by tax incentives for private investment, a better leverage effect of public investment and by a modernised management of research institutions and universities.

12. The seventh framework programme for research and development will lend fresh impetus to a European research area for the benefit of all Member States by enhancing European cooperation, mobilising private investment in areas crucial to competitiveness and helping to fill the technology gap. The programme should act as a lever on national research budgets. The attraction which Europe holds for researchers should be enhanced by an effective improvement in the conditions under which they move and practise their profession. The creation of a European Research Council to support cutting-edge research and basic research would be significant in this context. Work on the European space programme will make it possible to exploit the capacity for innovation and the considerable potential in this sector.

13. Member States should develop their innovation policies in the light of their specific characteristics and, *inter alia*, with the following objectives: establishing support mechanisms for innovative SMEs, including high-tech start-ups, promoting joint research between undertakings and universities, improving

access to risk capital, refocusing public procurement on innovative products and services, developing partnerships for innovation and innovation centres at regional and local level.

14. The new Community competitiveness and innovation programme should, for its part, lend great impetus to innovation throughout the European Union by establishing a new mechanism for financing innovative SMEs with a high growth potential, by streamlining and strengthening the technical support network for innovation in undertakings, and by supporting the development of regional centres and European networks for innovation.

15. The European Council notes the Commission's intention to submit a proposal on the establishment of a European Technology Institute.

16. Europe needs a solid industrial fabric throughout its territory. The necessary pursuit of an active industrial policy means strengthening the competitive advantages of the industrial base while ensuring the complementarity of the action at national, trans-national and European level. This objective will be pursued, *inter alia*, by means of technological initiatives based on public-private partnerships and the organisation of technological platforms aimed at setting long-term research agendas. The Commission will report back on its preparatory work on the subject by June.

17. The European Investment Bank will have to extend its Structured Finance Facility to R & D projects and, together with the Commission, explore new ways of using Community funds as levers for EIB loans.

18. It is essential to build a fully inclusive information society, based on widespread use of information and communication technologies (ICTs) in public services, SMEs and households. To that end, the i2010 initiative will focus on ICT research and innovation, content industry development, the security of networks and information, as well as convergence and interoperability in order to establish a seamless information area.

19. The European Council reiterates the important contribution of environment policy to growth and employment, and also to the quality of life, in particular through the development of eco-innovation and eco-technology as well as the sustainable management of natural resources, which lead to the creation of new outlets and new jobs. It emphasises the importance of energy efficiency as a factor in competitiveness and sustainable development and welcomes the Commission's intention of producing a European initiative on energy efficiency and a Green Paper in 2005. Eco-innovation and environmental technology should be strongly encouraged, particularly in energy and transport, with particular attention paid to SMEs and to promoting eco-technology in public procurement. In addition to its growth in the internal market, this sector has considerable export potential. The European Council invites the Commission and the Member States to implement the action plan for eco-technology as a

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matter of urgency, including by specific actions on a time scale agreed with economic operators. The European Council reaffirms the importance of the objective of halting the loss of biological diversity between now and 2010, in particular by incorporating this requirement into other policies, given the importance of biodiversity for certain economic sectors.

An attractive area in which to invest and work

20. In order to encourage investment and provide an attractive setting for business and work, the European Union must complete its internal market and make its regulatory environment more business-friendly, while business must in turn develop its sense of social responsibility. There is also a need for efficient infrastructure aimed, *inter alia*, at the problem of missing links, high-standard, affordable general-interest services and a healthy environment based on sustainable consumption and production and a high quality of life.

21. The European Council calls on Member States to spare no effort in honouring the commitments given in Barcelona in March 2002 as regards – among other things – the transposition of Directives.

22. For the completion of the internal market, the European Council has identified the following priority areas.

In order to promote growth and employment and to strengthen competitiveness, the internal market of services has to be fully operational while preserving the European social model. In the light of this ongoing debate which shows that the directive as it is currently drafted does not fully meet these requirements, the European Council requests all efforts to be undertaken within the legislative process in order to secure a broad consensus that meets all these objectives.

The European Council notes that effective services of general economic interest have an important role to play in a competitive and dynamic economy.

Any agreement on REACH must reconcile environmental and health protection concerns with the need to promote the competitiveness of European industry, while paying particular attention to SMEs and their ability to innovate.

23. In addition to an active competition policy, the European Council calls on Member States to continue working towards a reduction in the general level of state aid, while making allowance for any market failures. This movement must be accompanied by a redeployment of aid in favour of support for certain horizontal objectives such as research and innovation and the optimisation of human capital. The reform of regional aid should also foster a high level of investment and ensure a reduction in disparities in accordance with the Lisbon objectives.

24. The European Council reiterates the importance it attaches to improving the regulatory environment and urges that work press ahead – as envisaged by, among other things, the initiative of the six Presidencies and the Operational Programme of the Council for 2005 – in preparation for an overall assessment at one of its forthcoming meetings. It notes the communication submitted by the Commission and stresses the need for firm action along these lines at both European and national level. The European Council requests the Commission and the Council to consider a common methodology for measuring administrative burdens with the aim of reaching an agreement by the end of 2005. That agreement should take advantage of the results of the Commission's pilot projects which are due in the course of 2005. It calls on the Commission to develop its impact-analysis system in accordance with its communication, to work together with the Council to ensure faster progress in the context of simplification and, lastly, to take initiatives to encourage the participation of all players directly concerned by this process. It stresses that initiatives taken in the context of improving the regulatory environment must not themselves turn into administrative burdens.

25. Small and medium-sized enterprises play a key role for growth and employment and participate in developing the industrial fabric. Member States should therefore continue with their policies to cut red tape, introduce one-stop contact points and provide access to credit, micro-loans, other forms of financing and accompanying services. Access by SMEs to Community programmes is also of major importance. The Commission and Member States are also called on to make best use of support networks for SMEs; to this end, they should swiftly identify, with national and regional social partners and, as far as possible, with chambers of commerce, the rationalisation and cooperation measures required.

26. The European Council would urge the European Investment Fund to diversify its activities, in particular towards the financing of innovative SMEs through individual-investor (business-angel) and technology-transfer networks. Flexible funding suited to such activities should be found, together with the Commission. This action should also be supported by the new Community competitiveness and innovation programme.

27. The single market must in addition be based on a physical internal market free of interoperability and logistical constraints. Deployment of high-speed networks in poorly served regions is a prerequisite for the development of a knowledge-based economy. In general, infrastructure investment will boost growth and bring greater economic, social and environmental convergence. Under the growth initiative and quick-start programmes, the European Council emphasises the importance of carrying out the priority projects in the field of transport and energy networks and calls on the Union and the Member States to keep up their investment efforts and to encourage public-private partnerships.

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28. The open global economy offers new opportunities for stimulating growth, competitiveness and redeployment in Europe's economy. The European Council recognises the importance of reaching an ambitious, balanced agreement in the Doha negotiations and the value of developing bilateral and regional free-trade agreements; pursuit of that objective must be accompanied by a sustained effort to ensure international convergence of standards, including as regards respect for intellectual property rights.

Growth and employment making for social cohesion

29. The European Council welcomes the Commission communication on the social agenda, which will help to achieve the Lisbon Strategy objectives by reinforcing the European social model based on the quest for full employment and greater social cohesion.

30. Raising employment rates and extending working life, coupled with reform of social protection systems, provide the best way of maintaining the present level of social protection.

The Commission will reflect in the context of its ongoing work on the relaunch of Lisbon on issues arising about how to ensure sustainable funding of our social model and will report to the European Council in the autumn.

31. The objectives of full employment, job quality, labour productivity and social cohesion must be reflected in clear and measurable priorities: making work a real option for everyone, attracting more people into the labour market, improving adaptability, investing in human capital, modernising social protection, promoting equal opportunities, inter alia, between men and women, and fostering social inclusion.

32. It is essential to attract more people into the labour market. This aim will be achieved by following the course of an active employment policy, of making work pay and of measures to reconcile working life and family life, including the improvement of childcare facilities; priority must also be given to equal opportunities, active ageing strategies, encouraging social integration and converting undeclared work into lawful employment. New sources of jobs must also be developed in services to individuals and businesses, in the social economy, in town and country planning and environmental protection and in new industrial occupations, partly through promotion of local growth and employment partnerships.

33. New forms of work organisation and greater diversity of contractual arrangements for workers and businesses, better combining flexibility with security, will contribute to adaptability. Emphasis should also be placed on better anticipation and management of economic change.

34. Human capital is Europe's most important asset. Member States should step up their efforts to raise the general standard of education and reduce the

number of early school-leavers, in particular by continuing with the education and training 2010 work programme. Lifelong learning is a *sine qua non* if the Lisbon objectives are to be achieved, taking into account the desirability of high quality at all levels. The European Council calls on Member States to make lifelong learning an opportunity open to all in schools, businesses and households. Particular attention should be paid to the availability of lifelong learning facilities for low-skilled workers and for the staff of small and medium-sized enterprises. The European Council therefore calls for the early adoption of the programme which the Commission will shortly be submitting in this connection. Availability should also be facilitated by means of working time organisation, family support services, vocational guidance and new forms of cost-sharing.

35. The European education area should be developed by encouraging geographical and occupational mobility. The European Council would point to the importance of disseminating the Europass and of adopting the Directive on recognition of professional qualifications in 2005 and a European qualifications framework in 2006.

36. Social inclusion policy should be pursued by the Union and by Member States, with its multifaceted approach, focusing on target groups such as children in poverty.

37. A return to sustained and sustainable growth requires greater demographic dynamism, improved social and vocational integration and fuller utilisation of the human potential embodied by European youth. To this end, the European Council has adopted the European Youth Pact set out in Annex I as one of the instruments contributing to the achievement of the Lisbon objectives.

C. IMPROVING GOVERNANCE

38. It is important that EU and Member States' action should make a bigger and more practical contribution to growth and employment. Accordingly, a simplified arrangement will be introduced. Its aim is threefold: to facilitate the identification of priorities while maintaining the overall balance of the strategy and the synergy between its various components; to improve the implementation of those priorities on the ground by increasing the Member States' involvement; and to streamline the monitoring procedure so as to give a clearer picture of national implementation of the strategy.

39. This new approach, based on a three-year cycle which starts this year and will have to be renewed in 2008, will comprise the following steps:

- (a) The starting-point of the cycle will be the Commission's synoptic document ('strategic report'). This report will be examined in the relevant Council configurations and discussed at the spring European Council meeting,

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which will establish political guidelines for the economic, social and environmental strands of the strategy.

- (b) In accordance with the procedures laid down in Articles 99 and 128 of the Treaty and on the basis of the European Council conclusions, the Council will adopt a set of 'integrated guidelines' consisting of two elements: broad economic policy guidelines (BEPGs) and employment guidelines (EGs). As a general instrument for coordinating economic policies, the BEPGs should continue to embrace the whole range of macroeconomic and microeconomic policies, as well as employment policy insofar as this interacts with those policies; the BEPGs will ensure general economic consistency between the three strands of the strategy.
- (c) On the basis of the 'integrated guidelines':
- Member States will draw up, on their own responsibility, 'national reform programmes' geared to their own needs and specific situation. Consultations on these programmes will be held with all stakeholders at regional and national level, including parliamentary bodies in accordance with each Member State's specific procedures. The programmes will make allowance for national policy cycles and may be revised in the event of changes in the situation. Member States will enhance their internal coordination, where appropriate by appointing a Lisbon national coordinator;
 - on its side, the Commission will present, as a counterpart to the national programmes, a 'Community Lisbon programme' covering all action to be undertaken at Community level in the interests of growth and employment, taking account of the need for policy convergence.
- (d) The reports on follow-up to the Lisbon Strategy sent to the Commission by Member States each year – including the application of the open method of coordination – will now be grouped in a single document clearly distinguishing between the different areas of action and setting out all measures taken during the previous twelve months to implement the national programmes; the first such document will be submitted in the autumn of 2006.
- (e) The Commission will report on the implementation of the three strands of the strategy each year. On the basis of the Commission's assessment, the European Council will review progress every spring and decide on any necessary adjustments to the integrated guidelines.

(f) For the BEPGs, the existing multilateral surveillance arrangements will apply.

40. At the end of the third year of each cycle, the integrated guidelines, the national reform programmes and the Community Lisbon programme will be renewed in accordance with the procedure described above, taking as the starting-point a strategic report by the Commission, based on an overall assessment of progress during the previous three years.

41. In 2005 the cycle will begin in April, with the Commission submitting integrated guidelines drawn up on the basis of these conclusions. Member States are asked to draw up their national reform programmes in autumn 2005.

2.2. The Stability and Growth Pact

Resolution of the European Council on the Stability and Growth Pact Amsterdam, 17 June 1997 ⁽⁵⁾

I. Meeting in Madrid in December 1995, the European Council confirmed the crucial importance of securing budgetary discipline in Stage III of economic and monetary union (EMU). In Florence, six months later, the European Council reiterated this view and in Dublin, in December 1996, it reached an agreement on the main elements of the Stability and Growth Pact. In Stage III of EMU, Member States shall avoid excessive general government deficits: this is a clear Treaty obligation ⁽⁶⁾. The European Council underlines the importance of safeguarding sound government finances as a means to strengthening the conditions for price stability and for strong sustainable growth conducive to employment creation. It is also necessary to ensure that national budgetary policies support stability-oriented monetary policies. Adherence to the objective of sound budgetary positions close to balance or in surplus will allow all Member States to deal with normal cyclical fluctuations while keeping the government deficit within the reference value of 3 % of GDP.

II. Meeting in Dublin in December 1996, the European Council requested the preparation of a Stability and Growth Pact to be achieved in accordance with the principles and procedures of the Treaty. This Stability and Growth Pact in no way changes the requirements for participation in Stage III of EMU, either in the first group or at a later date. Member States remain responsible for their national budgetary policies, subject to the provisions of the Treaty; they will take the necessary measures in order to meet their responsibilities in accordance with those provisions.

III. The Stability and Growth Pact, which provides both for prevention and deterrence, consists of this Resolution and two Council Regulations, one on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies and another on speeding up and clarifying the implementation of the excessive deficit procedure.

IV. The European Council solemnly invites all parties, namely the Member States, the Council of the European Union and the Commission of the European Communities, to implement the Treaty and the Stability and Growth Pact

⁽⁵⁾ OJ C 236, 2.8.1997, pp. 1 and 2.

⁽⁶⁾ Under Article 5 of Protocol 11, this obligation does not apply to the United Kingdom unless it moves to the third stage; the obligation under Article 109e(4) of the Treaty establishing the European Community to endeavour to avoid excessive deficits shall continue to apply to the United Kingdom.

in a strict and timely manner. This Resolution provides firm political guidance to the parties who will implement the Stability and Growth Pact. To this end, the European Council has agreed upon the following guidelines.

THE MEMBER STATES

1. commit themselves to respect the medium-term budgetary objective of positions close to balance or in surplus set out in their stability or convergence programmes and to take the corrective budgetary action they deem necessary to meet the objectives of their stability or convergence programmes, whenever they have information indicating actual or expected significant divergence from those objectives;
2. are invited to make public, on their own initiative, the Council recommendations made to them in accordance with Article 103(4);
3. commit themselves to take the corrective budgetary action they deem necessary to meet the objectives of their stability or convergence programmes once they receive an early warning in the form of a Council recommendation issued under Article 103(4);
4. will launch the corrective budgetary adjustments they deem necessary without delay on receiving information indicating the risk of an excessive deficit;
5. will correct excessive deficits as quickly as possible after their emergence; this correction should be completed no later than the year following the identification of the excessive deficit, unless there are special circumstances;
6. are invited to make public, on their own initiative, recommendations made in accordance with Article 104c(7);
7. commit themselves not to invoke the benefit of Article 2 (3) of the Council Regulation on speeding up and clarifying the excessive deficit procedure unless they are in severe recession; in evaluating whether the economic downturn is severe, the Member States will, as a rule, take as a reference point an annual fall in real GDP of at least 0.75 %.

THE COMMISSION

1. will exercise its right of initiative under the Treaty in a manner that facilitates the strict, timely and effective functioning of the Stability and Growth Pact;
2. will present, without delay, the necessary reports, opinions and recommendations to enable the Council to adopt decisions under Article 103 and Article 104c; this will facilitate the effective functioning of the early warning system and the rapid launch and strict application of the excessive deficit procedure;

2. Economic policy coordination

3. commits itself to prepare a report under Article 104c(3) whenever there is the risk of an excessive deficit or whenever the planned or actual government deficit exceeds the reference value of 3 % of GDP, thereby triggering the procedure under Article 104c(3);
4. commits itself, in the event that the Commission considers that a deficit exceeding 3 % of GDP is not excessive and this opinion differs from that of the Economic and Financial Committee, to present in writing to the Council the reasons for its position;
5. commits itself, following a request from the Council under Article 109d, to make, as a rule, a recommendation for a Council decision on whether an excessive deficit exists under Article 104c(6).

THE COUNCIL

1. is committed to a rigorous and timely implementation of all elements of the Stability and Growth Pact in its competence; it will take the necessary decisions under Article 103 and Article 104c as quickly as is practicable;
2. is urged to regard the deadlines for the application of the excessive deficit procedure as upper limits; in particular, the Council, acting under Article 104c(7), shall recommend that excessive deficits will be corrected as quickly as possible after their emergence, no later than the year following their identification, unless there are special circumstances;
3. is invited always to impose sanctions if a participating Member State fails to take the necessary steps to bring the excessive deficit situation to an end as recommended by the Council;
4. is urged always to require a non-interest bearing deposit, whenever the Council decides to impose sanctions on a participating Member State in accordance with Article 104c(11);
5. is urged always to convert a deposit into a fine after two years of the decision to impose sanctions in accordance with Article 104c(11), unless the excessive deficit has in the view of the Council been corrected;
6. is invited to always state in writing the reasons which justify a decision not to act if at any stage of the excessive deficit or surveillance of budgetary positions procedures the Council did not act on a Commission recommendation and, in such a case, to make public the votes cast by each Member State.

Declaration by the Council (Ecofin) and the ministers meeting in that Council issued on 1 May 1998 ⁽⁷⁾

1. On 1 January 1999, the euro will be a reality, marking the end of a process culminating in the fulfilment of the economic conditions necessary for its successful launch. The Council (Ecofin) and the ministers meeting in that Council welcome the significant progress that has been made in all Member States in achieving price stability and sounder public finances. The convergence process has contributed to a high degree of exchange rate stability and historically low interest rates, and thus to the improved economic conditions in our economies.
2. The move to the single currency enhances further the conditions for strong, sustained and non-inflationary growth conducive to more jobs and rising living standards. It eliminates the exchange rate risk among participating Member States, reduces transaction costs, creates a broader and more efficient financial market, and increases price transparency and competition. It thus provides the decisive step for a truly single market.
3. We, the ministers, are strongly committed to the actions necessary to realise the full benefits of economic and monetary union and the single market in the interest of all our citizens. These actions include closer coordination of economic policies. We are confident that the full implementation of the conclusions of the Dublin, Amsterdam and Luxembourg European Councils provides a sound basis for a permanently high degree of financial stability and the smooth functioning of EMU.
4. For the coming years, strong, sustained and non-inflationary growth will continue to be based in all Member States on economic convergence. Moreover, sound and sustainable public finances are prior conditions for growth and higher employment. The Stability and Growth Pact provides the means for securing this objective and for increasing the scope in national budgets to deal with future challenges.
5. In accordance with that Pact, we will start to implement the Regulation on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies ⁽⁸⁾ on 1 July 1998 in the following way.
 - we are committed to ensure that the national budget objectives set for 1998 are fully met, if necessary by taking timely corrective action,
 - the Council agrees to have an early consideration of Member States' budgetary intentions for 1999 in light of the framework and objectives of the Stability and Growth Pact.

⁽⁷⁾ OJ L 139, 11.5.1998, pp. 28 and 29.

⁽⁸⁾ Council Regulation (EC) No 1466/97 of 7 July 1997 (OJ L 209, 2.8.1997, p. 1).

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On these first two points, the ministers of the States participating in the euro area have decided to meet informally, in the course of the coming months, to start their monitoring work in accordance with the Luxembourg European Council Resolution,

- if economic conditions develop better than expected, Member States will use the opportunity to reinforce budgetary consolidation so as to reach the medium-term objective of government financial positions close to balance or in surplus, as embodied in the commitments of the Stability and Growth Pact,
- the higher the debt-to-GDP ratios of participating Member States, the greater must be their efforts to reduce them rapidly. To that end, in addition to maintaining appropriate levels of primary surpluses in compliance with the commitments and the objectives of the Stability and Growth Pact, other measures to reduce gross debt should be put in place. Furthermore, debt management strategies should reduce budgets' vulnerability,
- each of the ministers undertakes to submit, at the latest by the end of 1998, national stability or convergence programmes which will reflect these important elements.

6. The Council reiterates that the responsibility for budgetary consolidation lies and remains with the Member States and that, in accordance with the provisions of Article 104b(1) TEC, the Community in particular shall not be liable for or assume the commitments of Member States. Without prejudice to the objectives and provisions of the Treaty, it is agreed that economic and monetary union as such cannot be invoked to justify specific financial transfers.

7. Our work on budgetary consolidation will be complemented by increased efforts for improving the efficiency of our economies so as to enhance the favourable environment for growth, high employment and social cohesion. In this context, we look forward to our meeting shortly with the social partners on economic and monetary union. Together with the social partners and all other concerned parties, we will take all necessary initiatives to create the conditions for combating unemployment, particularly for young people, the long-term unemployed and the low skilled. In following up the conclusions of the Luxembourg meeting of the European Council, we commit ourselves to play our part in implementing rapidly the national employment action plans drawn up in the light of the employment policy guidelines. The Council (Ecofin) will consider these plans in contributing to the preparation of the Cardiff European Council and subsequent European Councils.

8. We will attach particular importance to increasing the degree to which growth can be translated into additional employment. We will thus put emphasis, *inter alia*, on the following structural reforms:

- making product, labour and capital markets more efficient,

- improving the adaptability of labour markets in order to better reflect wage and productivity developments,
 - ensuring that national education and training systems are effective and relevant to employment,
 - seeking to encourage entrepreneurship, notably by attacking the administrative obstacles which it faces,
 - enabling easier access to capital markets and to venture capital funds, particularly for small and medium-sized enterprises,
 - increasing tax efficiency and avoiding harmful tax competition,
 - addressing all aspects of social security systems in view of ageing populations.
9. The Council intends to establish a light procedure, fully respecting the subsidiarity principle, for monitoring progress on economic reform. From next year, the preparation of the broad economic policy guidelines will draw on short assessments of progress and plans by Member States and the Commission on product and capital markets, as well as on the employment action plans.

**European Council Brussels
22 and 23 March 2005
Presidency conclusions (extract)**

I. STABILITY AND GROWTH PACT

3. The European Council endorses the report of the Council (Ecofin) of 20 March 2005 (see Annex II) entitled 'Improving the implementation of the Stability and Growth Pact' and approves its findings and proposals. The report updates and complements the Stability and Growth Pact, which consists of the European Council Resolution of Amsterdam and Council Regulation (EC) No 1466/97 and (EC) No 1467/97. The Commission is invited to bring forward rapidly proposals for amending the Council Regulations.

ANNEX II

**Improving the implementation of the
Stability and Growth Pact
— Council Report to the European Council —**

This report presents proposals for strengthening and clarifying the implementation of the Stability and Growth Pact, with the aim of improving the coordination and monitoring of economic policies according to Article 99 of the Treaty and of avoiding excessive deficits as required by Article 104(1) of the Treaty.

The Council confirms that the Stability and Growth Pact, built on Treaty Articles 99 and 104, is an essential part of the macroeconomic framework of economic and monetary union. By requesting Member States to coordinate their budgetary policies and to avoid excessive deficits, it contributes to achieving macroeconomic stability in the EU and plays a key role in securing low inflation and low interest rates, which are essential contributions for delivering sustainable economic growth and job creation.

The Council recalls the Declaration on Article III-184 (annexed to the Final Act of the Constitution), which reaffirmed the European Council's commitment to the goals of the Lisbon Strategy — job creation, structural reforms, and social cohesion — and which stated on budgetary policy: 'The Union aims at achieving balanced economic growth and price stability. Economic and budgetary policies thus need to set the right priorities towards economic reforms, innovation, competitiveness and strengthening of private investment and consumption in phases of weak economic growth. This should be reflected in the orientations of budgetary decisions at the national and Union level in particular through restructuring of public revenue and expenditure while respecting

budgetary discipline in accordance with the Constitution and the Stability and Growth Pact’.

The two nominal anchors of the Pact — the 3 % of GDP reference value for the deficit ratio and the 60 % of GDP reference value for the debt ratio — have proven their value and continue to be the centrepiece of multilateral surveillance. However, the European Council noted in June 2004 the need to strengthen and to clarify the implementation of the Stability and Growth Pact, in order to foster transparency and national ownership of the EU fiscal framework and to improve enforcement of its rules and provisions.

The Pact has to be applied across countries in a fair and consistent way and be understood by public opinion. The Council reaffirms that a rules-based system is the best guarantee for commitments to be enforced and for all Member States to be treated equally. In strengthening and clarifying the Pact it is essential to secure a proper balance between the higher degree of economic judgement and policy discretion in the surveillance and coordination of budgetary policies and the need for keeping the rules-based framework simple, transparent and enforceable.

However, in a European Union of 25 countries, characterised by considerable heterogeneity and diversity and given the experience of five years in EMU, an enriched common framework with a stronger emphasis on the economic rationale of its rules would allow to better cater for differences in economic situations across the EU. The objective is therefore to enhance the economic underpinnings of the existing framework and thus strengthen credibility and enforcement. The aim is not to increase the rigidity or flexibility of current rules but rather to make them more effective.

On this basis, the reform aims at better responding to the shortcomings experienced so far through greater emphasis to economic developments and an increased focus on safeguarding the sustainability of public finances. Also, the instruments for EU economic governance need to be better interlinked in order to enhance the contribution of fiscal policy to economic growth and support progress towards realising the Lisbon strategy.

Following the Commission Communication of 3 September 2004 on ‘Strengthening economic governance and clarifying the implementation of the Stability and Growth Pact’, the Council has worked in order to make concrete proposals for a reform of the Stability and Growth Pact.

The Council, in reviewing the Stability and Growth Pact provisions, detected mainly five areas where improvements could be made:

- (i) enhance the economic rationale of the budgetary rules to improve their credibility and ownership;
- (ii) improve ‘ownership’ by national policy-makers;

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- (iii) use more effectively periods when economies are growing above trend for budgetary consolidation in order to avoid pro-cyclical policies;
- (iv) take better account in Council recommendations of periods when economies are growing below trend;
- (v) give sufficient attention in the surveillance of budgetary positions to debt and sustainability.

In making the proposals for a reform of the Stability and Growth Pact, the Council gave due consideration to enhance the governance and the national ownership of the fiscal framework, to strengthen the economic underpinnings and the effectiveness of the Pact, both in its preventive and corrective arms, to safeguard the sustainability of public finances in the long run, to promote growth and to avoid imposing excessive burdens on future generations.

In accordance with the Luxembourg Resolution on economic policy coordination, the Council confirms that enhanced coordination of fiscal policies must adhere to the Treaty principle of subsidiarity, respecting the prerogatives of national governments in determining their structural and budgetary policies, while complying with the provisions of the Treaty and the Stability and Growth Pact.

Ministers indicate in the present report the necessary legislative changes in order to make operational their views on the reform of the Stability and Growth Pact. They intend to keep changes to a minimum and look forward to proposals of the Commission to put their views into effect.

1. Improving governance

In order to increase the legitimacy of the EU fiscal framework and to strengthen support for its goals and institutional arrangements, the Council considers that Member States, the Commission and the Council, while avoiding any institutional shift, must deliver on their respective responsibilities, in particular:

- (1) The Commission and the Council respect the Member States' responsibility to implement the policies of their choice within the limits set by the Treaty, in particular by Articles 99 and 104, while the Member States have to comply with the recommendations of the Council;
- (2) The Commission has to exercise its right of initiative in a timely manner and apply the rules effectively, while the Council and the Member States respect the Commission's responsibility as guardian of the Treaty and its procedures;
- (3) The Council has to exercise responsibly its margin of discretion, while the Member States and the Commission respect the Council's responsibility

for the coordination of economic policies within the European Union and its role for the proper functioning of economic and monetary union;

- (4) The Member States, the Council and the Commission should reaffirm their commitment to implement the Treaty and the Stability and Growth Pact in an effective and timely manner, through peer support and peer pressure, and to act in close and constructive cooperation in the process of economic and fiscal surveillance, in order to guarantee certainty and effectiveness to the rules of the Pact.

The Council emphasises the importance of improving governance and strengthening national ownership of the fiscal framework through the proposals outlined hereafter.

1.1. Cooperation and communication

The Council, the Commission and the Member States should apply the Treaty and the Stability and Growth Pact in an effective and timely manner. Parties should act in close and constructive cooperation in the process of economic and fiscal surveillance in order to guarantee certainty and effectiveness to the rules of the Pact.

In the spirit of transparency and accountability, due consideration should be given to full and timely communication among institutions as well as with the general public. In particular, in order to foster a frank and confidential exchange of views, the Council, the Commission and the Member States should commit to exchange advance information on their intentions at all stages of the budgetary monitoring and excessive deficit procedure, without prejudice to their respective prerogatives.

1.2. Improving peer support and applying peer pressure

The Council agrees that increasing the effectiveness of peer support and peer pressure is an integral part of a reformed Stability and Growth Pact. The Council and the Commission should commit to motivate and to make public their positions and decisions at all appropriate stages of the procedure of the Pact.

Peer support and peer pressure at euro area level should be given in the framework of the coordination carried out in the Eurogroup and be based on a horizontal assessment of national budgetary developments and their implications for the euro area as a whole. Such an assessment should be done at least once a year before the summer.

1.3. Complementary national budgetary rules and institutions

The Council agrees that national budgetary rules should be complementary to the Member States' commitments under the Stability and Growth Pact. Conversely, at EU level, incentives should be given and disincentives removed for

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national rules to support the objectives of the Stability and Growth Pact. In this context, the Council points out disincentives stemming from the impact in the fiscal framework of certain ESA95 accounting and statistical rules.

The implementation of existing national rules (expenditure rules, etc.) could be discussed in stability and convergence programmes, with due caution and as far as they are relevant for the respect of EU budgetary rules, as Member States are committed at European level to respect the latter, and compliance with EU budgetary rules constitutes the focus of the assessment of the stability and convergence programmes.

The Council considers that domestic governance arrangements should complement the EU framework. National institutions could play a more prominent role in budgetary surveillance to strengthen national ownership, enhance enforcement through national public opinion and complement the economic and policy analysis at EU level.

1.4. A stability programme for the legislature

The Council invites Member States, when preparing the first update of their stability/convergence programme after a new government has taken office, to show continuity with respect to the budgetary targets endorsed by the Council on the basis of the previous update of the stability/convergence programme and — with an outlook for the whole legislature — to provide information on the means and instruments which it intends to employ to reach these targets by setting out its budgetary strategy.

1.5. Involvement of national Parliaments

The Council invites Member States' Governments to present stability/convergence programmes and the Council opinions thereon to their national Parliaments. National Parliaments may wish to discuss the follow-up to recommendations in the context of the early warning and the excessive deficit procedures.

1.6. Reliable macroeconomic forecasts

The Council recognises that it is important to base budgetary projections on realistic and cautious macroeconomic forecasts. It also recognises the important contribution that Commission forecasts can provide for the coordination of economic and fiscal policies.

In their macroeconomic and budgetary projections, Member States, in particular euro area Member States and Member States participating in ERM2, should use the 'common external assumptions' if provided by the Commission in due time. Member States are free to base their stability/convergence programmes on their own projections. However, divergences between the national and the

Commission forecasts should be explained in some detail. This explanation will serve as a reference when assessing a posteriori forecast errors.

Given the inevitability of forecast errors, greater emphasis should be placed in the stability/convergence programmes on conducting comprehensive sensitivity analyses and/or developing alternative scenarios, in order to enable the Commission and the Council to consider the complete range of possible fiscal outcomes.

1.7. Statistical governance

The Council agrees that the implementation of the fiscal framework and its credibility rely crucially on the quality, reliability and timeliness of fiscal statistics. Reliable and timely statistics are not only essential for the assessment of government budgetary positions; full transparency of such statistics will also allow the financial markets to better assess the creditworthiness of the different Member States, providing an important signalling function for policy errors.

The core issue remains to ensure adequate practices, resources and capabilities to produce high quality statistics at the national and European level with a view to ensuring the independence, integrity and accountability of both national statistical offices and Eurostat. Furthermore, the focus must be on developing the operational capacity, monitoring power, independence and accountability of Eurostat. The Commission and the Council in the course of 2005 are dealing with the issue of improving the governance of the European statistical system.

Member States and EU institutions should affirm their commitment to produce high quality and reliable budgetary statistics and to ensure mutual co-operation to achieve this goal. Imposing sanctions on a Member State should be considered when there is infringement of the obligations to duly report government data.

2. Strengthening the preventive arm

There is broad consensus that periods of growth above trend should be used for budgetary consolidation in order to avoid pro-cyclical policies. The past failure to reach the medium-term budgetary objective of ‘close to balance or in surplus’ calls for a strengthening of the preventive arm of the Stability and Growth Pact, through a renewed commitment by Member States to take the budgetary action necessary to converge towards this objective and respect it.

2.1. Definition of the medium-term budgetary objective

The Stability and Growth Pact lays down the obligation for Member States to adhere to the medium term objective (MTO) for their budgetary positions of ‘close to balance or in surplus’ (CTBOIS).

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In light of the increased economic and budgetary heterogeneity in the EU of 25 Member States, the Council agrees that the MTO should be differentiated for individual Member States to take into account the diversity of economic and budgetary positions and developments as well as of fiscal risk to the sustainability of public finances, also in the face of prospective demographic changes.

The Council therefore proposes developing medium-term objectives that, by taking account of the characteristics of the economy of each Member State, pursue a triple aim. They should firstly provide a safety margin with respect to the 3 % deficit limit. They should also ensure rapid progress towards sustainability. Taking this into account, they should allow room for budgetary manoeuvre, in particular taking into account the needs for public investment.

MTOs should be differentiated and may diverge from CTBOIS for individual Member States on the basis of their current debt ratio and potential growth, while preserving sufficient margin below the reference value of -3 % of GDP. The range for the country-specific MTOs for euro area and ERM2 Member States would thus be, in cyclically adjusted terms, net of one-off and temporary measures, between -1 % of GDP for low debt/high potential growth countries and balance or surplus for high debt/low potential growth countries.

The long-term sustainability of public finances would be supported by the convergence of debt ratios towards prudent levels.

Implicit liabilities (related to increasing expenditures in the light of ageing populations) should be taken into account, as soon as criteria and modalities for doing so are appropriately established and agreed by the Council. By the end of 2006, the Commission should report on progress achieved towards the methodology for completing the analysis by incorporating such implicit liabilities.

The Council stresses however that fiscal policy cannot be expected in the short term to cope with the full structural effects of demographic ageing and it invites Member States to pursue their efforts in implementing structural reforms in the areas related to the ageing of their populations as well as towards increasing employment and participation ratios.

Medium-term budgetary objectives could be revised when a major reform is implemented and in any case every four years, in order to reflect developments in government debt, potential growth and fiscal sustainability.

2.2. Adjustment path to the medium-term objective

The Council considers that a more symmetrical approach to fiscal policy over the cycle through enhanced budgetary discipline in periods of economic recovery should be achieved, with the objective to avoid pro-cyclical policies and to gradually reach the medium term objective, thus creating the necessary room to accommodate economic downturns and reduce government debt at a sat-

isfactory pace, thereby contributing to the long-term sustainability of public finances.

Member States should commit at a European level to actively consolidate public finances in good times. The presumption is to use unexpected extra revenues for deficit and debt reduction.

Member States that have not yet reached their MTO should take steps to achieve it over the cycle. Their adjustment effort should be higher in good times; it could be more limited in bad times. In order to reach their MTO, Member States of the euro zone or of ERM2 should pursue an annual adjustment in cyclically adjusted terms, net of one-offs and other temporary measures, of 0.5 % of GDP as a benchmark. 'Good times' should be identified as periods where output exceeds its potential level, taking into account tax elasticities.

Member States that do not follow the required adjustment path will explain the reasons for the deviation in the annual update of the stability/convergence programmes. The Commission will issue policy advice to encourage Member States to stick to their adjustment path. Such policy advice will be replaced by early warnings in accordance with the Constitution as soon as it becomes applicable.

2.3. Taking structural reforms into account

The Council agrees that, in order to enhance the growth oriented nature of the Pact, structural reforms will be taken into account when defining the adjustment path to the medium-term objective for countries that have not yet reached this objective and in allowing a temporary deviation from this objective for countries that have already reached it, with the clear understanding that a safety margin to ensure the respect of the 3 % of GDP reference value for the deficit has to be guaranteed and that the budgetary position would be expected to return to the MTO within the programme period.

Only major reforms which have direct long-term cost-saving effects, including by raising potential growth, and therefore a verifiable positive impact on the long-term sustainability of public finances, will be taken into account. A detailed cost-benefit analysis of those reforms from the budgetary point of view would need to be provided in the framework of the annual update of stability/convergence programmes.

These proposals should be introduced into Council Regulation (EC) No 1466/97.

Moreover, the Council is mindful that the respect of the budgetary targets of the Stability and Growth Pact should not hamper structural reforms that unequivocally improve the long-term sustainability of public finances. The Council acknowledges that special attention must be paid to pension reforms introducing a multi-pillar system that includes a mandatory, fully funded pil-

lar. Although these reforms entail a short-term deterioration of public finances during the implementation period, the long-term sustainability of public finances is clearly improved. The Council therefore agrees that Member States implementing such reforms should be allowed to deviate from the adjustment path towards the MTO, or from the MTO itself. The deviation from the MTO should reflect the net cost of the reform to the publicly managed pillar, provided the deviation remains temporary and an appropriate safety margin to the reference value is preserved.

3. Improving the implementation of the excessive deficit procedure

The excessive deficit procedure should remain simple, transparent and equitable. Nevertheless, the experience of recent years shows possible scope for improvement in its implementation.

The guiding principle for the application of the procedure is the prompt correction of an excessive deficit.

The Council underlines that the purpose of the excessive deficit procedure is to assist rather than to punish, and therefore to provide incentives for Member States to pursue budgetary discipline, through enhanced surveillance, peer support and peer pressure. Moreover, policy errors should be clearly distinguished from forecast errors in the implementation of the excessive deficit procedure. If nevertheless a Member State fails to comply with the recommendations addressed to it under the excessive deficit procedure, the Council has the power to apply the available sanctions.

3.1. *Preparing a Commission report under Article 104(3)*

In order to avoid excessive government deficits, as called for by Article 104(1) of the Treaty, the reports, prepared by the Commission according to Article 104(3) of the Treaty as a result of its monitoring, form the basis of the EFC opinion, the ensuing Commission assessment and ultimately the Council decision on the existence of an excessive deficit as well as on its recommendations, including on the deadlines for the correction of the deficit.

The Council and the Commission are resolved to clearly preserve and uphold the reference values of 3 % and 60 % of GDP as the anchors of the monitoring of the development of the budgetary situation and of the ratio of government debt to GDP in the Member States. The Commission will always prepare a report on the basis of Article 104(3) of the Treaty. The Commission shall examine in its report if one or more of the exceptions foreseen respectively in Article 104(2)(a) and (b) apply. The Council hereafter proposes revisions or clarifications to the scope of those exceptions.

As foreseen by the Treaty, the Commission shall moreover take into account in its report whether the Member State's government deficit exceeds govern-

ment investment expenditure and take into account all other relevant factors, including the medium-term economic and budgetary position of the Member State. The Council hereafter proposes clarifications to the concept of ‘all other relevant factors’.

3.2. An ‘exceptional and temporary’ excess of the deficit over the reference value

The Treaty provides, in Article 104(2)(a) second indent, for an exception if an excess over the reference value is only exceptional and temporary and if the ratio remains close to the reference value.

Whereas, in order to benefit from that exception, the ratio has always to remain close to the reference value, Regulation (EC) No 1467/97 gives definitions as to when an excess over the reference value, but still close to it, shall be considered exceptional and temporary: in order to be considered as exceptional, the excess has to result from an unusual event outside the control of the Member State and with a major impact on the financial position of the general government, or it has to result from a severe economic downturn. In order for the excess to be temporary, the Commission’s budgetary forecast must indicate that the deficit will fall below the reference value following the end of the unusual event or the severe economic downturn.

A severe economic downturn is presently defined — as a rule — as an annual fall of real GDP of at least 2 %. Moreover, in the case of an annual fall of real GDP of less than 2 %, Regulation (EC) No 1467/97 still allows the Council to decide that no excessive deficit exists, in the light of further evidence, in particular on the abruptness of the downturn or on the accumulated loss of output relative to past trends.

The Council considers that the current definition of ‘a severe economic downturn’ given in Article 2(2) of Regulation (EC) No 1467/97 is too restrictive. The Council considers that paragraphs (2) and (3) of Article 2 in Regulation (EC) No 1467/97 need to be adapted in order to allow both the Commission and the Council, when assessing and deciding upon the existence of an excessive deficit, according to paragraphs (3) to (6) of Article 104 of the Treaty, to consider as exceptional an excess over the reference value which results from a negative growth rate or from the accumulated loss of output during a protracted period of very low growth relative to potential growth.

3.3. ‘All other relevant factors’

Article 104(3) of the Treaty requests that, in preparing the report on the non-fulfilment of the criteria for compliance with budgetary discipline, the Commission ‘shall also take into account whether the government deficit exceeds government investment expenditure and take into account all other relevant factors, including the medium-term economic and budgetary position of the

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Member State'. A balanced overall assessment has to encompass all these factors.

The Council underlines that taking into account 'other relevant factors' in the steps leading to the decision on the existence of an excessive deficit (Article 104, paragraphs (4), (5) and (6)) must be fully conditional on the overarching principle that — before other relevant factors are taken into account — the excess over the reference value is temporary and the deficit remains close to the reference value.

The Council considers that the framework to take into account 'all other relevant factors' should be clarified. The Commission's report under Article 104(3) should appropriately reflect developments in the medium-term economic position (in particular potential growth, prevailing cyclical conditions, the implementation of policies in the context of the Lisbon agenda and policies to foster R & D and innovation) and developments in the medium-term budgetary position (in particular, fiscal consolidation efforts in 'good times', debt sustainability, public investment and the overall quality of public finances). Furthermore, due consideration will be given to any other factors, which in the opinion of the Member State concerned, are relevant in order to comprehensively assess in qualitative terms the excess over the reference value. In that context, special consideration will be given to budgetary efforts towards increasing or maintaining at a high level financial contributions to fostering international solidarity and to achieving European policy goals, notably the unification of Europe if it has a detrimental effect on the growth and fiscal burden of a Member State.

Clearly no redefinition of the Maastricht reference value for the deficit via the exclusion of particular budgetary items should be pursued.

If the Council has decided, on the basis of Article 104(6), that an excessive deficit exists in a Member State, the 'other relevant factors' will also be considered in the subsequent procedural steps of Article 104. However, they should not be taken into account under Article 104(12), i.e. in the decision of the Council as to whether a Member State has corrected its excessive deficit.

These proposals should be introduced into Regulation (EC) No 1467/97.

3.4. Taking into account systemic pension reforms

The Council agrees that an excess close to the reference value which reflects the implementation of pension reforms introducing a multi-pillar system that includes a mandatory, fully funded pillar should be considered carefully. Although the implementation of these reforms leads to a short-term deterioration of the budgetary position, the long-term sustainability of public finances clearly improves.

The Commission and the Council, in all budgetary assessments in the framework of the EDP, will give due consideration to the implementation of these reforms.

In particular, when assessing under Article 104(12) whether the excessive deficit has been corrected, the Commission and the Council will assess developments in EDP deficit figures while also considering the net cost of the reform to the publicly managed pillar. Consideration to the net cost of the reform will be given for the initial five years after a Member State has introduced a mandatory fully-funded system, or five years after 2004 for Member States that have already introduced such a system. Furthermore, it will also be regressive, i.e. during a period of five years, consideration will be given to 100, 80, 60, 40 and 20 % of the net cost of the reform to the publicly managed pillar.

3.5. Increasing the focus on debt and sustainability

In line with the provisions of the Treaty, the Commission has to examine compliance with budgetary discipline on the basis of both the deficit and the debt criterion. The Council agrees that there should be increased focus on debt and sustainability, and reaffirms the need to reduce government debt to below 60 % of GDP at a satisfactory pace, taking into account macroeconomic conditions. The higher the debt to GDP ratios of Member States, the greater must be their efforts to reduce them rapidly.

The Council considers that the debt surveillance framework should be strengthened by applying the concept of ‘sufficiently diminishing and approaching the reference value at a satisfactory pace’ for the debt ratio in qualitative terms, by taking into account macroeconomic conditions and debt dynamics, including the pursuit of appropriate levels of primary surpluses as well as other measures to reduce gross debt and debt management strategies. For countries above the reference value, the Council will formulate recommendations on the debt dynamics in its opinions on the stability and convergence programmes.

No change to the existing Regulations is required to that effect.

3.6. Extending deadlines for taking effective action and measures

The Council considers that the deadline for adoption of a decision under Article 104(6) establishing the existence of an excessive deficit should be extended from three to four months after the fiscal notification deadline. Moreover, the Council considers that the timing for taking effective action following a recommendation to correct the excessive deficit under Article 104(7) could be extended from four to six months, in order to allow the Member State to better frame the action within the national budgetary procedure and to develop a more articulated package of measures. This could facilitate the adoption of corrective packages of structural (as opposed to largely temporary) measures. Furthermore, with longer deadlines it would be possible to take an updated

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Commission forecast into account, so that measures taken and significant changes in growth conditions that could justify an extension of the deadlines would be assessed together. For the same reasons, the one-month deadline for the Council to take a decision to move from Article 104(8) to Article 104(9) should be extended to two months, and the two-month deadline under Article 104(9) should be extended to four months.

These proposals would require changes to the relevant Articles of Regulation (EC) No 1467/97.

3.7. Initial deadline for correcting the excessive deficit

The Council considers that, as a rule, the deadline for correcting an excessive deficit should be the year after its identification and thus, normally, the second year after its occurrence. The Council agrees however that the elements to be taken into account in setting the initial deadline for the correction of an excessive deficit should be better specified and should include, in particular, an overall assessment of all the factors mentioned in the report under Article 104(3).

As a benchmark, countries in excessive deficit will be required to achieve an annual minimum fiscal effort of at least 0.5 % of GDP in cyclically adjusted terms, net of one-off measures, and the initial deadline for the correction of the excessive deficit should be set taking into account this minimum fiscal effort. If this effort seems sufficient to correct the excessive deficit in the year following its identification, the initial deadline need not be set beyond that year.

However the Council agrees that in case of special circumstances, the initial deadline for correcting an excessive deficit could be set one year later, i.e. the second year after its identification and thus normally the third year after its occurrence. The determination of the existence of special circumstances will take into account a balanced overall assessment of the factors mentioned in the report under Article 104(3).

The initial deadline will be set without prejudice to the taking into account of systemic pension reforms and without prejudice to deadlines applying to new and future Member States.

3.8. Revising the deadlines for correcting the deficit

The Council agrees that deadlines for correcting the excessive deficit could be revised and extended if unexpected adverse economic events with major unfavourable budgetary effects occur during the excessive deficit procedure. Repetition of a recommendation under Article 104(7) or a notice under Article 104(9) of the Treaty is possible and should be used if effective action has been taken by the Member State concerned in compliance with the initial recommendation or notice. This should be specified in Regulation (EC) No 1467/97.

Member States would be required to give evidence of having taken effective action following recommendations. If effective action was taken in response to previous recommendations and unforeseeable growth developments justify a revision of the deadlines for correcting the excessive deficit, the procedure would not move to the next step. The growth forecast contained in the Council recommendation would be the reference against which unforeseeable growth developments would be assessed.

**Council Regulation (EC) No 3605/93 of 22 November 1993
on the application of the Protocol on the excessive deficit
procedure annexed to the Treaty establishing the European
Community ⁽⁹⁾**

Amended by:

- Council Regulation (EC) No 475/2000 of 28 February 2000 ⁽¹⁰⁾
- Commission Regulation (EC) No 351/2002 of 25 February 2002 ⁽¹¹⁾
- Council Regulation (EC) No 2103/2005 of 12 December 2005 ⁽¹²⁾

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular the third subparagraph of Article 104c(14) thereof,

Having regard to the proposal from the Commission ⁽¹³⁾,

Having regard to the opinion of the European Parliament ⁽¹⁴⁾,

Whereas the definitions of ‘government’, ‘deficit’ and ‘investment’ are laid down in the Protocol on the excessive deficit procedure by reference to the European system of integrated economic accounts (ESA) ⁽¹⁵⁾; whereas precise definitions referring to the classification codes of ESA are required; whereas these definitions may be subject to revision in the context of the necessary harmonisation of national statistics or for other reasons; whereas any revision of ESA will be decided by the Council in accordance with the rules on competence and procedure laid down in the Treaty;

Whereas the definition of ‘debt’ laid down in the Protocol on the excessive deficit procedure needs to be amplified by a reference to the classification codes of ESA;

Whereas Council Directive 89/130/EEC, Euratom of 13 February 1989 on the harmonisation of the compilation of gross national product at market prices ⁽¹⁶⁾ provides an adequate, detailed definition of gross domestic product at market prices;

⁽⁹⁾ OJ L 332, 31.12.1993, p. 7.

⁽¹⁰⁾ OJ L 58, 3.3.2000, p. 1.

⁽¹¹⁾ OJ L 55, 26.2.2002, p. 23.

⁽¹²⁾ OJ L 337, 22.12.2005, p. 1.

⁽¹³⁾ OJ C 324, 1.12.1993, p. 8; and OJ C 340, 17.12.1993, p. 8.

⁽¹⁴⁾ OJ C 329, 6.12.1993.

⁽¹⁵⁾ Statistical Office of the European Communities, *European System of Integrated Economic Accounts (ESA)*, second edition.

⁽¹⁶⁾ OJ L 49, 21.2.1989, p. 26.

Whereas, pursuant to the terms of the Protocol on the excessive deficit procedure, the Commission is required to provide the statistical data to be used in that procedure;

Whereas detailed rules are required to organise the prompt and regular reporting by the Member States to the Commission of their planned and actual deficits and of the levels of their debt;

Whereas, pursuant to Article 104c(2) and (3) of the Treaty, the Commission is to monitor the development of the budgetary situation and of the stock of government debt in the Member States and to examine compliance with budgetary discipline on the basis of criteria relating to government deficit and government debt; whereas, if a Member State does not fulfil the requirements under one or both criteria, the Commission must take into account all relevant factors; whereas the Commission has to examine whether there is a risk of an excessive deficit in a Member State,

HAS ADOPTED THIS REGULATION:

SECTION 1

DEFINITIONS

Article 1

1. For the purposes of the Protocol on the excessive deficit procedure and of this Regulation, the terms given in the following paragraphs are defined according to the European system of national and regional accounts in the Community (hereinafter referred to as 'ESA 95'), adopted by Regulation (EC) No 2223/96⁽¹⁷⁾. The codes in brackets refer to ESA 95.

2. 'Government' means the sector of 'general government' (S.13), that is 'central government' (S.1311), 'state government' (S.1312), 'local government' (S.1313) and 'social security funds' (S.1314), to the exclusion of commercial operations, as defined in ESA 95.

The exclusion of commercial operations means that the sector of 'general government' (S.13) comprises only institutional units producing non-market services as their main activity.

3. 'Government deficit (surplus)' means the net borrowing (net lending) of the sector of 'general government' (EDP B.9), as defined in ESA 95. The interest comprised in the government deficit is the interest (EDP D.41), as defined in ESA 95.

4. 'Government investment' means the gross fixed capital formation (P.51) of the sector of 'general government' (S.13), as defined in ESA 95.

⁽¹⁷⁾ Council Regulation (EC) No 2223/96 of 25 June 1996 on the European system of national and regional accounts in the Community (OJ L 310, 30.11.1996, p. 1).

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5. 'Government debt' means the total gross debt at nominal value outstanding at the end of the year of the sector of 'general government' (S.13), with the exception of those liabilities the corresponding financial assets of which are held by the sector of 'general government' (S.13).

Government debt is constituted by the liabilities of general government in the following categories: currency and deposits (AF.2); securities other than shares, excluding financial derivatives (AF.33) and loans (AF.4), as defined in ESA 95.

The nominal value of a liability outstanding at the end of the year is the face value.

The nominal value of an index-linked liability corresponds to its face value adjusted by the index-related change in the value of the principal accrued to the end of the year.

Liabilities denominated in a foreign currency, or exchanged from one foreign currency through contractual agreements to one or more other foreign currencies shall be converted into the other foreign currencies at the rate agreed on in those contracts and shall be converted into the national currency on the basis of the representative market exchange rate prevailing on the last working day of each year.

Liabilities denominated in the national currency and exchanged through contractual agreements to a foreign currency shall be converted into the foreign currency at the rate agreed on in those contracts and shall be converted into the national currency on the basis of the representative market exchange rate prevailing on the last working day of each year.

Liabilities denominated in a foreign currency and exchanged through contractual agreements to the national currency shall be converted into the national currency at the rate agreed on in those contracts.

Article 2

For the purposes of the Protocol on the excessive deficit procedure and of this Regulation, gross domestic product means gross domestic product at current market prices (GDP mp) (B.1*g), as defined in ESA 95.

Article 3

1. Planned government deficit and government debt level figures mean the figures established for the current year by the Member States. They shall be the most recent official forecasts, taking into account the most recent budgetary decisions and economic developments and prospects. They should be produced in as short a time as possible before the reporting deadline.

2. Actual government deficit and government debt level figures mean estimated, provisional, half-finalised or final results for a past year. The planned data together with the actual data must form a consistent time series as far as the definitions and concepts are concerned.

SECTION 2

RULES AND COVERAGE OF REPORTING

Article 4

1. As from the beginning of 1994, Member States shall report to the Commission their planned and actual government deficits and levels of government debt twice a year, the first time before 1 April of the current year (year *n*) and the second time before 1 October of year *n*.

Member States shall inform the Commission which national authorities are responsible for the excessive deficit procedure reporting.

2. Before 1 April of year *n*, Member States:

- shall report to the Commission their planned government deficit for year *n*, an up-to-date estimate of their actual government deficit for year *n*-1 and their actual government deficits for years *n*-2, *n*-3 and *n*-4,
- shall simultaneously provide the Commission with their planned data for year *n* and the actual data for years *n*-1, *n*-2, *n*-3 and *n*-4 of their corresponding public accounts budget deficits in accordance with the definition which is given most prominence nationally and with the figures which explain the transition between the public accounts budget deficit and their government deficit for the sub-sector S.1311,
- shall simultaneously provide the Commission with their actual data for years *n*-1, *n*-2, *n*-3 and *n*-4 of their corresponding working balances and with the figures which explain the transition between the working balances of each government sub-sector and their government deficit for the sub-sectors S.1312, S.1313 and S.1314,
- shall report to the Commission their planned level of government debt at the end of year *n* and their levels of actual government debt at the end of years *n*-1, *n*-2, *n*-3 and *n*-4,
- shall simultaneously provide the Commission, for years *n*-1, *n*-2, *n*-3 and *n*-4, with the figures which explain the contribution of the government deficit and other factors relevant to the variation in the level of their government debt by sub-sector.

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3. Before 1 October of year n , Member States shall report to the Commission:
 - their updated planned government deficit for year n and their actual government deficits for years $n-1$, $n-2$, $n-3$ and $n-4$ and shall comply with the requirements of the second and third indents of paragraph 2,
 - their updated planned level of government debt at the end of year n and their levels of actual government debt at the end of years $n-1$, $n-2$, $n-3$ and $n-4$, and shall comply with the requirements of the fifth indent of paragraph 2.
4. The figures for the planned government deficit reported to the Commission in accordance with paragraphs 2 and 3 shall be expressed in national currency and in budget years.

The figures for actual government deficit and actual government debt level reported to the Commission in accordance with paragraphs 2 and 3 shall be expressed in national currency and in calendar years, with the exception of the up-to-date estimates for year $n-1$, which may be expressed in budget years.

Where the budget year differs from the calendar year, Member States shall also report to the Commission their figures for actual government deficit and actual government debt level in budget years for the two budget years preceding the current budget year.

Article 5

Member States shall, in accordance with the procedure laid down in Article 4(1), (2) and (3), provide the Commission with the figures for their government investment expenditure and interest expenditure (consolidated).

Article 6

Member States shall provide the Commission with a forecast of their gross domestic product for year n and the actual amount of their gross domestic product for years $n-1$, $n-2$, $n-3$ and $n-4$, under the same timing conditions as those indicated in Article 4(1).

Article 7

1. Member States shall inform the Commission, as soon as it becomes available, of any major revision in their actual and planned government deficit and debt figures already reported.

2. Major revisions in the actual deficit and debt figures already reported shall be properly documented. In any case, revisions which result in the reference values as specified in the relevant Treaty Protocol being exceeded, or revisions which mean that a Member State's data no longer exceed the reference values, must be reported and properly documented.

Article 8

Member States shall make public the actual deficit and debt data and other data for past years reported to the Commission in accordance with Articles 4, 5, 6 and 7.

SECTION 2a

QUALITY OF DATA

Article 8a

1. The Commission (Eurostat) shall regularly assess the quality both of actual data reported by Member States and of the underlying government sector accounts compiled according to ESA 95 (hereinafter referred to as government accounts). Quality of actual data means compliance with accounting rules, completeness, reliability, timeliness, and consistency of the statistical data. The assessment will focus on areas specified in the inventories of Member States such as the delimitation of the government sector, the classification of government transactions and liabilities, and the time of recording.

2. Member States shall provide the Commission (Eurostat), as promptly as possible, with the relevant statistical information requested for the needs of the data quality assessment, without prejudice to the provisions relating to statistical confidentiality of Regulation (EC) No 322/97.

'Statistical information' referred to in the first subparagraph should be limited to the information strictly necessary to check the compliance to ESA rules. In particular, statistical information means:

- data from national accounts,
- inventories,
- EDP notification tables,
- additional questionnaires and clarification related to the notifications.

The questionnaires' format shall be defined by the Commission (Eurostat) after consultation of the Committee on Monetary, Financial and Balance of

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Payments Statistics (hereinafter referred to as CMFB) established by Council Decision 91/115/EEC ⁽¹⁸⁾.

3. The Commission (Eurostat) shall report regularly to the European Parliament and to the Council on the quality of the actual data reported by Member States. The report shall address the overall assessment of the actual data reported by Member States as regards to the compliance with accounting rules, completeness, reliability, timeliness, and consistency of the data.

Article 8b

1. Member States shall provide the Commission (Eurostat) with a detailed inventory of the methods, procedures and sources used to compile actual deficit and debt data and the underlying government accounts.
2. The inventories shall be prepared in accordance with guidelines adopted by the Commission (Eurostat) after consultation of CMFB.
3. The inventories shall be updated following revisions in the methods, procedures and sources adopted by Member States to compile their statistical data.
4. Member States shall make their inventories public.
5. The issues referred to in paragraphs 1, 2 and 3 may be addressed in the visits mentioned in Article 8d.

Article 8c

1. In the event of a doubt regarding the correct implementation of the ESA 95 accounting rules, the Member State concerned shall request clarification from the Commission (Eurostat). The Commission (Eurostat) shall promptly examine the issue and communicate its clarification to the Member State concerned and, when appropriate, to the CMFB.
2. For cases which are either complex or of general interest in the view of the Commission or the Member State concerned, the Commission (Eurostat) shall take a decision after consultation of the CMFB. The Commission (Eurostat) shall make decisions public, together with the opinion of the CMFB, without prejudice to the provisions relating to statistical confidentiality of Regulation (EC) No 322/97.

⁽¹⁸⁾ OJ L 59, 6.3.1991, p. 19.

Article 8d

The Commission (Eurostat) shall ensure a permanent dialogue with Member States' statistical authorities. To this end, the Commission (Eurostat) will carry out in all Member States regular dialogue visits, as well as possible methodological visits. The methodological visits should only be undertaken in cases where substantial risks or potential problems with the quality of the data are identified, especially as they relate to the methods, concepts and classification applied to the data, which Member States are obliged to report.

The dialogue visits are designed to review reported data, to examine methodological issues, to discuss statistical processes and sources described in the inventories, and to assess compliance with the accounting rules. The dialogue visits should be used to identify risks or potential problems about the quality of the reported data. The methodological visits are designed to monitor the processes and the government accounts which justify the reported actual data and to draw detailed conclusions as to the quality of reported data, as defined in Article 8a(1). The methodological visits should not go beyond the purely statistical domain. This should be reflected in the composition of the delegations referred to in Article 8e.

When organising dialogue and methodological visits, the Commission (Eurostat) shall transmit its provisional findings to the Member States concerned for comments.

Article 8e

1. When carrying out methodological visits in Member States, the Commission (Eurostat) may request the assistance of national accounts experts, proposed by other Member States on a voluntary basis, and of officials from other Commission departments.

The list of national accounts' experts from which the Commission may request assistance, will be constituted on the basis of proposals sent to the Commission by the national authorities responsible for the excessive deficit reporting.

2. Member States shall take all necessary measures to facilitate the methodological visits. These visits should be confined to the national authorities involved in the excessive deficit procedure reporting. Member States shall, however, ensure that their services which are directly or indirectly involved in the production of government accounts and debt, and where necessary their national authorities which have a functional responsibility for the control of the public accounts, provide the Commission officials or other experts referred to in paragraph 1 with the assistance necessary to carry out their duties, including making documents available to justify the reported actual deficit and debt data

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and the underlying government accounts. Confidential records of the national statistical system should only be provided to the Commission (Eurostat).

Without prejudice to the general obligation of the Member States to take all measures required to facilitate the methodological visits, the interlocutors of Eurostat for the methodological visits referred to in the first subparagraph are, in each Member State, the services responsible for the excessive deficit procedure reporting.

3. The Commission (Eurostat) shall ensure that officials and experts participating in these visits meet every guarantee as regards technical competence, professional independence and observance of confidentiality.

Article 8f

The Commission (Eurostat) shall report to the Economic and Financial Committee on the findings of dialogue and methodological visits, including any comments on these findings made by the Member State concerned. These reports, along with any comments made by the Member State concerned, after having been transmitted to the Economic and Financial Committee, shall be made public, without prejudice to the provisions concerning statistical confidentiality in Regulation (EC) No 322/97.

SECTION 2b

PROVISION OF DATA BY THE COMMISSION

Article 8g

1. The Commission (Eurostat) shall provide the actual government deficit and debt data for the application of the Protocol on the excessive deficit procedure, within three weeks after the reporting deadlines referred to in Article 4(1) or after revisions as referred to in Article 7(1). This provision of data shall be effected through publication.

2. The Commission (Eurostat) shall not delay the provision of the actual government deficit and debt data of Member States where a Member State has not reported its own data.

Article 8h

1. The Commission (Eurostat) may express a reservation on the quality of the actual data reported by the Member States. No later than three working days before the planned publication date, the Commission (Eurostat) shall commu-

icate to the Member State concerned and to the President of the Economic and Financial Committee the reservation it intends to express and make public. Where the issue is resolved after publication of the data and the reservation, withdrawal of the reservation shall be made public immediately thereafter.

2. The Commission (Eurostat) may amend actual data reported by Member States and provide the amended data and a justification of the amendment where there is evidence that actual data reported by Member States do not comply with the requirements of Article 8a(1). No later than three working days before the planned publication date, the Commission (Eurostat) shall communicate to the Member State concerned and to the President of the Economic and Financial Committee the amended data and the justification for the amendment.

SECTION 2c

GENERAL PROVISIONS

Article 8i

1. Member States shall ensure that the actual data reported to the Commission are provided in accordance with the principles established by Article 10 of Regulation (EC) No 322/97. In this regard, the responsibility of the National Statistical Authorities is to ensure the compliance of reported data with Articles 1 and 2 and the underlying ESA 95 accounting rules.

2. Member States shall take all appropriate measures to ensure that officials responsible for the reporting of the actual data to the Commission and of the underlying government accounts act in accordance with the principles established by Article 10 of Regulation (EC) No 322/97.

Article 8j

In the event of a revision of ESA 95 or of an amendment to its methodology decided on by the European Parliament and the Council or the Commission in accordance with the rules of competence and procedure laid down in the

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Treaty and in Regulation (EC) No 2223/96, the Commission shall introduce the new references to ESA 95 into Articles 1, 2 and 4.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

**Council Regulation (EC) No 1466/97 of 7 July 1997
on the strengthening of the surveillance of budgetary
positions and the surveillance and coordination
of economic policies ⁽¹⁹⁾**

Amended by:

– Council Regulation (EC) No 1055/2005 of 27 June 2005 ⁽²⁰⁾

[No 1466/97 of 7 July 1997] ⁽²¹⁾

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 103(5) thereof,

Having regard to the proposal from the Commission ⁽²²⁾,

Acting in accordance with the procedure referred to in Article 189c of the Treaty ⁽²³⁾,

(1) Whereas the Stability and Growth Pact is based on the objective of sound government finances as a means of strengthening the conditions for price stability and for strong sustainable growth conducive to employment creation;

(2) Whereas the Stability and Growth Pact consists of this Regulation which aims to strengthen the surveillance of budgetary positions and the surveillance and coordination of economic policies, of Council Regulation (EC) No 1467/97 ⁽²⁴⁾ which aims to speed up and to clarify the implementation of the excessive deficit procedure and of the Resolution of the European Council of 17 June 1997 on the Stability and Growth Pact ⁽²⁵⁾, in which, in accordance with Article 4 of the Treaty on European Union, firm political guidelines are issued in order to implement the Stability and Growth Pact in a strict and timely manner and in particular to adhere to the medium term objective of budgetary positions of close to balance or in surplus, to which all Member States are committed, and to take the corrective budgetary action they deem necessary to meet the objectives of their stability and convergence programmes, whenever they have information indicating actual or expected significant divergence from the medium-term budgetary objective;

⁽¹⁹⁾ OJ L 209, 2.8.1997, p. 1.

⁽²⁰⁾ OJ L 174, 7.7.2005, p. 1.

⁽²¹⁾ NB: The preamble and the recitals of both the original and the amending Regulation are reproduced.

⁽²²⁾ OJ C 368, 6.12.1996, p. 9.

⁽²³⁾ Opinion of the European Parliament of 28 November 1996 (OJ C 380, 16.12.1996, p. 28), Council Common Position of 14 April 1997 (OJ C 146, 30.5.1997, p. 26) and Decision of the European Parliament of 29 May 1997 (OJ C 182, 16.6.1997).

⁽²⁴⁾ See p. 6 of this Official Journal.

⁽²⁵⁾ OJ C 236, 2.8.1997, p. 1.

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(3) Whereas in stage three of Economic and Monetary Union (EMU) the Member States are, according to Article 104 of the Treaty, under a clear Treaty obligation to avoid excessive general government deficits; whereas under Article 5 of Protocol (No 11) on certain provisions relating to the United Kingdom of Great Britain and Northern Ireland to the Treaty, Article 104(1) does not apply to the United Kingdom unless it moves to the third stage; whereas the obligation under Article 116(4) to endeavour to avoid excessive deficits will continue to apply to the United Kingdom;

(4) Whereas adherence to the medium-term objective of budgetary positions close to balance or in surplus will allow Member States to deal with normal cyclical fluctuations while keeping the government deficit within the 3 % of GDP reference value;

(5) Whereas it is appropriate to complement the multilateral surveillance procedure of Article 99 (3) and (4) with an early warning system, under which the Council will alert a Member State at an early stage to the need to take the necessary budgetary corrective action in order to prevent a government deficit becoming excessive;

(6) Whereas the multilateral surveillance procedure of Article 99(3) and (4) should furthermore continue to monitor the full range of economic developments in each of the Member States and in the Community as well as the consistency of economic policies with the broad economic guidelines referred to in Article 99(2); whereas for the monitoring of these developments, the presentation of information in the form of stability and convergence programmes is appropriate;

(7) Whereas there is a need to build upon the useful experience gained during the first two stages of economic and monetary union with convergence programmes;

(8) Whereas the Member States adopting the single currency, hereafter referred to as 'participating Member States', will, in accordance with Article 121, have achieved a high degree of sustainable convergence and in particular a sustainable government financial position; whereas the maintenance of sound budgetary positions in these Member States will be necessary to support price stability and to strengthen the conditions for the sustained growth of output and employment; whereas it is necessary that participating Member States submit medium-term programmes, hereafter referred to as 'stability programmes'; whereas it is necessary to define the principal contents of such programmes;

(9) Whereas the Member States not adopting the single currency, hereafter referred to as 'non-participating Member States', will need to pursue policies aimed at a high degree of sustainable convergence; whereas it is necessary that these Member States submit medium-term programmes, hereafter referred to

as ‘convergence programmes’; whereas it is necessary to define the principal contents of such convergence programmes;

(10) Whereas in its Resolution of 16 June 1997 on the establishment of an exchange rate mechanism in the third stage of economic and monetary union, the European Council issued firm political guidelines in accordance with which an exchange rate mechanism is established in the third stage of EMU, hereafter referred to as ‘ERM2’; whereas the currencies of non-participating Member States joining ERM2 will have a central rate vis-à-vis the euro, thereby providing a reference point for judging the adequacy of their policies; whereas the ERM2 will also help to protect them and the Member States adopting the euro from unwarranted pressures in the foreign-exchange markets; whereas, so as to enable appropriate surveillance in the Council, non-participating Member States not joining ERM2 will nevertheless present policies in their convergence programmes oriented to stability thus avoiding real exchange rate misalignments and excessive nominal exchange rate fluctuations;

(11) Whereas lasting convergence of economic fundamentals is a prerequisite for sustainable exchange rate stability;

(12) Whereas it is necessary to lay down a timetable for the submission of stability programmes and convergence programmes and their updates;

(13) Whereas in the interest of transparency and informed public debate it is necessary that Member States make public their stability programmes and their convergence programmes;

(14) Whereas the Council, when examining and monitoring the stability programmes and the convergence programmes and in particular their medium-term budgetary objective or the targeted adjustment path towards this objective, should take into account the relevant cyclical and structural characteristics of the economy of each Member State;

(15) Whereas in this context particular attention should be given to significant divergences of budgetary positions from the budgetary objectives of being close to balance or in surplus; whereas it is appropriate for the Council to give an early warning in order to prevent a government deficit in a Member State becoming excessive; whereas in the event of persistent budgetary slippage it will be appropriate for the Council to reinforce its recommendation and make it public; whereas for non-participating Member States the Council may make recommendations on action to be taken to give effect to their convergence programmes;

(16) Whereas both convergence and stability programmes lead to the fulfilment of the conditions of economic convergence referred to in Article 104c,

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HAS ADOPTED THIS REGULATION:

[No 1055/2005 of 27 June 2005]

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 99(5) thereof,

Having regard to the proposal from the Commission,

Having regard to the opinion of the European Central Bank ⁽²⁶⁾,

Acting in accordance with the procedure laid down in Article 252 of the Treaty ⁽²⁷⁾,

Whereas:

(1) The Stability and Growth Pact initially consisted of Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies ⁽²⁸⁾, Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure ⁽²⁹⁾ and the Resolution of the European Council of 17 June 1997 on the Stability and Growth Pact ⁽³⁰⁾. The Stability and Growth Pact has proven its usefulness in anchoring fiscal discipline, thereby contributing to a high degree of macroeconomic stability with low inflation and low interest rates, which is necessary to induce sustainable growth and employment creation;

(2) On 20 March 2005 the Council adopted a report entitled 'Improving the implementation of the Stability and Growth Pact' which aims to enhance the governance and the national ownership of the fiscal framework by strengthening the economic underpinnings and the effectiveness of the Pact, both in its preventive and corrective arms, to safeguard the sustainability of public finances in the long run, to promote growth and to avoid imposing excessive burdens on future generations. The report was endorsed by the European Council in its conclusions of 23 March 2005 ⁽³¹⁾, which stated that the report updates and complements the Stability and Growth Pact, of which it is now an integral part;

(3) According to the 20 March 2005 Ecofin report endorsed by the spring 2005 European Council, the Member States, the Council and the Commission reaffirm their commitment to implement the Treaty and the Stability and Growth

⁽²⁶⁾ OJ C 144, 14.6.2005, p. 17.

⁽²⁷⁾ Opinion of the European Parliament of 9 June 2005 (OJ C 124 E, 25.5.2006, pp. 517-520), Council Common Position of 21 June 2005 (OJ C 188 E, 2.8.2005, pp. 1-10), and Decision of the European Parliament of 23 June 2005.

⁽²⁸⁾ OJ L 209, 2.8.1997, p. 1.

⁽²⁹⁾ OJ L 209, 2.8.1997, p. 6.

⁽³⁰⁾ OJ C 236, 2.8.1997, p. 1.

⁽³¹⁾ Annex 2 to conclusions of the European Council of 22 and 23 March 2005.

Pact in an effective and timely manner, through peer support and peer pressure, and to act in close and constructive cooperation in the process of economic and fiscal surveillance, in order to guarantee certainty and effectiveness in the rules of the Pact;

(4) Regulation (EC) No 1466/97 needs to be amended in order to allow the full application of the agreed improvement of the implementation of the Stability and Growth Pact;

(5) The Stability and Growth Pact lays down the obligation for Member States to adhere to the medium-term objective for their budgetary positions of ‘close to balance or in surplus’ (CTBOIS). In the light of the economic and budgetary heterogeneity in the Union, the medium-term budgetary objective should be differentiated for individual Member States, to take into account the diversity of economic and budgetary positions and developments as well as of fiscal risk to the sustainability of public finances, also in the face of prospective demographic changes. The medium-term budgetary objective may diverge from CTBOIS for individual Member States. For euro area and ERM2 Member States, there would thus be a defined range for the country-specific medium-term budgetary objectives, in cyclically adjusted terms, net of one-off and temporary measures;

(6) A more symmetrical approach to fiscal policy over the cycle through enhanced budgetary discipline in economic good times should be achieved, with the objective to avoid pro-cyclical policies and to gradually reach the medium-term budgetary objective. Adherence to the medium-term budgetary objective should allow Member States to deal with normal cyclical fluctuations while keeping the government deficit below the 3 % of GDP reference value and ensure rapid progress towards fiscal sustainability. Taking this into account, it should allow room for budgetary manoeuvre, in particular for public investment;

(7) Member States that have not yet reached their medium-term budgetary objective should take steps to achieve it over the cycle. In order to reach their medium-term budgetary objective, Member States of the euro zone or of ERM2 should pursue a minimum annual adjustment in cyclically adjusted terms, net of one-offs and other temporary measures;

(8) In order to enhance the growth-oriented nature of the Pact, major structural reforms which have direct long-term cost-saving effects, including by raising potential growth, and therefore a verifiable impact on the long-term sustainability of public finances, should be taken into account when defining the adjustment path to the medium-term budgetary objective for countries that have not yet reached this objective and in allowing a temporary deviation from this objective for countries that have already reached it. In order not to hamper structural reforms that unequivocally improve the long-term sustainability of public finances, special attention should be paid to pension reforms

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introducing a multi-pillar system that includes a mandatory, fully funded pillar, because these reforms entail a short-term deterioration of public finances during the implementation period;

(9) Deadlines set for the examination of stability and convergence programmes by the Council should be extended in order to allow for a thorough assessment of stability and convergence programmes,

HAS ADOPTED THIS REGULATION:

SECTION 1

PURPOSE AND DEFINITIONS

Article 1

This Regulation sets out the rules covering the content, the submission, the examination and the monitoring of stability programmes and convergence programmes as part of multilateral surveillance by the Council so as to prevent, at an early stage, the occurrence of excessive general government deficits and to promote the surveillance and coordination of economic policies.

Article 2

For the purpose of this Regulation ‘participating Member States’ shall mean those Member States which adopt the single currency in accordance with the Treaty and ‘non-participating Member States’ shall mean those which have not adopted the single currency.

SECTION 1A

MEDIUM-TERM BUDGETARY OBJECTIVES

Article 2a

Each Member State shall have a differentiated medium-term objective for its budgetary position. These country-specific medium-term budgetary objectives may diverge from the requirement of a close to balance or in surplus position. They shall provide a safety margin with respect to the 3 % of GDP government deficit ratio; they shall ensure rapid progress towards sustainability and, taking this into account, they shall allow room for budgetary manoeuvre, considering in particular the needs for public investment.

Taking these factors into account, for Member States that have adopted the euro and for ERM2 Member States the country-specific medium-term budgetary objectives shall be specified within a defined range between – 1 % of GDP

and balance or surplus, in cyclically adjusted terms, net of one-off and temporary measures.

A Member State's medium-term budgetary objective can be revised when a major structural reform is implemented and in any case every four years.

SECTION 2

STABILITY PROGRAMMES

Article 3

1. Each participating Member State shall submit to the Council and Commission information necessary for the purpose of multilateral surveillance at regular intervals under Article 99 of the Treaty in the form of a stability programme, which provides an essential basis for price stability and for strong sustainable growth conducive to employment creation.
2. A stability programme shall present the following information:
 - (a) the medium-term budgetary objective and the adjustment path towards this objective for the general government surplus/deficit and the expected path of the general government debt ratio;
 - (b) the main assumptions about expected economic developments and important economic variables which are relevant to the realisation of the stability programme such as government investment expenditure, real gross domestic product (GDP) growth, employment and inflation;
 - (c) a detailed and quantitative assessment of the budgetary and other economic policy measures being taken and/or proposed to achieve the objectives of the programme, comprising a detailed cost-benefit analysis of major structural reforms which have direct long-term cost-saving effects, including by raising potential growth;
 - (d) an analysis of how changes in the main economic assumptions would affect the budgetary and debt position;
 - (e) if applicable, the reasons for a deviation from the required adjustment path towards the medium term budgetary objective.
3. The information about paths for the general government surplus/deficit ratio and debt ratio and the main economic assumptions referred to in paragraph 2(a) and (b) shall be on an annual basis and shall cover, as well as the current and preceding year, at least the following three years.

Article 4

1. Stability programmes shall be submitted before 1 March 1999. Thereafter, updated programmes shall be submitted annually. A Member State adopting the single currency at a later stage shall submit a stability programme within six months of the Council Decision on its participation in the single currency.
2. Member States shall make public their stability programmes and updated programmes.

Article 5

1. Based on assessments by the Commission and the Committee set up by Article 114 of the Treaty, the Council shall, within the framework of multilateral surveillance under Article 99 of the Treaty, examine the medium-term budgetary objective presented by the Member State concerned, assess whether the economic assumptions on which the programme is based are plausible, whether the adjustment path towards the medium-term budgetary objective is appropriate and whether the measures being taken and/or proposed to respect that adjustment path are sufficient to achieve the medium-term objective over the cycle.

The Council, when assessing the adjustment path toward the medium-term budgetary objective, shall examine if the Member State concerned pursues the annual improvement of its cyclically-adjusted balance, net of one-off and other temporary measures, required to meet its medium-term budgetary objective, with 0.5 % of GDP as a benchmark. The Council shall take into account whether a higher adjustment effort is made in economic good times, whereas the effort may be more limited in economic bad times.

When defining the adjustment path to the medium-term budgetary objective for Member States that have not yet reached this objective and in allowing a temporary deviation from this objective for Member States that have already reached it, under the condition that an appropriate safety margin with respect to the deficit reference value is preserved and that the budgetary position is expected to return to the medium-term budgetary objective within the programme period, the Council shall take into account the implementation of major structural reforms which have direct long-term cost-saving effects, including by raising potential growth, and therefore a verifiable impact on the long-term sustainability of public finances.

Special attention shall be paid to pension reforms introducing a multi-pillar system that includes a mandatory, fully funded pillar. Member States implementing such reforms shall be allowed to deviate from the adjustment path to their medium-term budgetary objective or from the objective itself, with the

deviation reflecting the net cost of the reform to the publicly managed pillar, under the condition that the deviation remains temporary and that an appropriate safety margin with respect to the deficit reference value is preserved.

The Council shall furthermore examine whether the contents of the stability programme facilitate the closer coordination of economic policies and whether the economic policies of the Member State concerned are consistent with the broad economic policy guidelines.

2. The Council shall carry out the examination of the stability programme referred to in paragraph 1 within at most three months of the submission of the programme. The Council, on a recommendation from the Commission and after consulting the Committee set up by Article 114, shall deliver an opinion on the programme. Where the Council, in accordance with Article 99, considers that the objectives and contents of a programme should be strengthened, the Council shall, in its opinion, invite the Member State concerned to adjust its programme.

3. Updated stability programmes shall be examined by the Committee set up by Article 114 on the basis of assessments by the Commission; if necessary, updated programmes may also be examined by the Council in accordance with the procedure set out in paragraphs 1 and 2 of this Article.

Article 6

1. As part of multilateral surveillance in accordance with Article 99(3), the Council shall monitor the implementation of stability programmes, on the basis of information provided by participating Member States and of assessments by the Commission and the Committee set up by Article 114, in particular with a view to identifying actual or expected significant divergence of the budgetary position from the medium-term budgetary objective, or the adjustment path towards it, as set in the programme for the government surplus/deficit.

2. In the event that the Council identifies significant divergence of the budgetary position from the medium-term budgetary objective, or the adjustment path towards it, it shall, with a view to giving early warning in order to prevent the occurrence of an excessive deficit, address, in accordance with Article 99(4), a recommendation to the Member State concerned to take the necessary adjustment measures.

3. In the event that the Council in its subsequent monitoring judges that the divergence of the budgetary position from the medium-term budgetary objective, or the adjustment path towards it, is persisting or worsening, the Council shall, in accordance with Article 99(4), make a recommendation to the Member State concerned to take prompt corrective measures and may, as provides in that Article, make its recommendation public.

SECTION 3

CONVERGENCE PROGRAMMES

Article 7

1. Each non-participating Member State shall submit to the Council and the Commission information necessary for the purpose of multilateral surveillance of regular intervals under Article 99 in the form of a convergence programme, which provides an essential basis for price stability and for strong sustainable growth conducive to employment creation.
2. A convergence programme shall present the following information in particular on variables related to convergence:
 - (a) the medium-term budgetary objective and the adjustment path towards this objective for the general government surplus/deficit and the expected path of the general government debt ratio; the medium-term monetary policy objectives; the relationship of those objectives to price and exchange rate stability;
 - (b) the main assumptions about expected economic developments and important economic variables which are relevant to the realisation of the convergence programme, such as government investment expenditure, real GDP growth, employment and inflation;
 - (c) a detailed and quantitative assessment of the budgetary and other economic policy measures being taken and/or proposed to achieve the objectives of the programme, comprising a detailed cost-benefit analysis of major structural reforms which have direct long-term cost-saving effects, including by raising potential growth;
 - (d) an analysis of how changes in the main economic assumptions would affect the budgetary and debt position;
 - (e) if applicable, the reasons for a deviation from the required adjustment path towards the medium term budgetary objective.
3. The information about paths for the general government surplus/deficit ratio, debt ratio and the main economic assumptions referred to in paragraph 2(a) and (b) shall be on an annual basis and shall cover, as well as the current and preceding year, at least the following three years.

Article 8

1. Convergence programmes shall be submitted before 1 March 1999. Thereafter, updated programmes shall be submitted annually.

2. Member States shall make public their convergence programmes and updated programmes.

Article 9

1. Based on assessments by the Commission and the Committee set up by Article 114 of the Treaty, the Council shall, within the framework of multilateral surveillance under Article 99 of the Treaty, examine the medium-term budgetary objective presented by the Member State concerned, assess whether the economic assumptions on which the programme is based are plausible, whether the adjustment path towards the medium-term budgetary objective is appropriate and whether the measures being taken and/or proposed to respect that adjustment path are sufficient to achieve the medium-term objective over the cycle.

The Council, when assessing the adjustment path toward the medium-term budgetary objective, shall take into account whether a higher adjustment effort is made in economic good times, whereas the effort may be more limited in economic bad times. For ERM2 Member States, the Council shall examine if the Member State concerned pursues the annual improvement of its cyclically adjusted balance, net of one-off and other temporary measures, required to meet its medium-term budgetary objective, with 0.5 % of GDP as a benchmark.

When defining the adjustment path to the medium-term budgetary objective for Member States that have not yet reached this objective and in allowing a temporary deviation from this objective for Member States that have already reached it, under the condition that an appropriate safety margin with respect to the deficit reference value is preserved and that the budgetary position is expected to return to the medium-term budgetary objective within the programme period, the Council shall take into account the implementation of major structural reforms which have direct long-term cost-saving effects, including by raising potential growth, and therefore a verifiable impact on the long-term sustainability of public finances.

Special attention shall be paid to pension reforms introducing a multi-pillar system that includes a mandatory, fully funded pillar. Member States implementing such reforms shall be allowed to deviate from the adjustment path to their medium-term budgetary objective or from the objective itself, with the deviation reflecting the net cost of the reform to the publicly managed pillar, under the condition that the deviation remains temporary and that an appropriate safety margin with respect to the deficit reference value is preserved.

The Council shall furthermore examine whether the contents of the convergence programme facilitate the closer coordination of economic policies and

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whether the economic policies of the Member State concerned are consistent with the broad economic policy guidelines.

2. The Council shall carry out the examination of the convergence programme referred to in paragraph 1 within at most three months of the submission of the programme. The Council, on a recommendation from the Commission and after consulting the Committee set up by Article 114, shall deliver an opinion on the programme. Where the Council, in accordance with Article 99, considers that the objectives and contents of a programme should be strengthened, the Council shall, in its opinion, invite the Member State concerned to adjust its programme.

3. Updated convergence programmes shall be examined by the Committee set up by Article 114 on the basis of assessments by the Commission; if necessary, updated programmes may also be examined by the Council in accordance with the procedure set out in paragraphs 1 and 2 of this Article.

Article 10

1. As part of multilateral surveillance in accordance with Article 99(3), the Council shall monitor the implementation of convergence programmes on the basis of information provided by non-participating Member States in accordance with Article 7(2) (a) of this Regulation and of assessments by the Commission and the Committee set up by Article 114 of the Treaty, in particular with a view to identifying actual or expected significant divergence of the budgetary position from the medium-term budgetary objective, or the adjustment path towards it, as set in the programme for the government surplus/deficit.

In addition, the Council shall monitor the economic policies of non-participating Member States in the light of convergence programme objectives with a view to ensure that their policies are geared to stability and thus to avoid real exchange rate misalignments and excessive nominal exchange rate fluctuations.

2. In the event that the Council identifies significant divergence of the budgetary position from the medium-term budgetary objective, or the adjustment path towards it, it shall, with a view to given early warning in order to prevent the occurrence of an excessive deficit, address in accordance with Article 99(4), a recommendation to the Member State concerned to take the necessary adjustment measures.

3. In the event that the Council in its subsequent monitoring judges that the divergence of the budgetary position from the medium-term budgetary objective, or the adjustment path towards it, is persisting or worsening, the Council shall, in accordance with Article 99(4), make a recommendation to the Mem-

ber State concerned to take prompt corrective measures and may, as provided in that Article, make its recommendation public.

SECTION 4

COMMON PROVISIONS

Article 11

As part of the multilateral surveillance described in this Regulation, the Council shall carry out the overall assessment described in Article 99(3).

Article 12

In accordance with the second subparagraph of Article 99(4) the President of the Council and the Commission shall include in their report to the European Parliament the results of the multilateral surveillance carried out under this Regulation.

Article 13

This Regulation shall enter into force on 1 July 1998.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure ⁽³²⁾

Amended by:

- Council Regulation (EC) No 1056/2005 of 27 June 2005 ⁽³³⁾
[No 1467/97 of 7 July 1997] ⁽³⁴⁾

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular the second subparagraph of Article 104c (14) thereof,

Having regard to the proposal from the Commission ⁽³⁵⁾,

Having regard to the opinion of the European Parliament ⁽³⁶⁾

Having regard to the opinion of the European Monetary Institute,

(1) Whereas it is necessary to speed up and to clarify the excessive deficit procedure set out in Article 104c of the Treaty in order to deter excessive general government deficits and, if they occur, to further their prompt correction; whereas the provisions of this Regulation, which are to the above effect and adopted under Article 104c(14) second subparagraph, constitute, together with those of Protocol (No 5) to the Treaty, a new integrated set of rules for the application of Article 104c;

(2) Whereas the Stability and Growth Pact is based on the objective of sound government finances as a means of strengthening the conditions for price stability and for strong sustainable growth conducive to employment creation;

(3) Whereas the Stability and Growth Pact consists of this Regulation, of Council Regulation (EC) No 1466/97 ⁽³⁷⁾ which aims to strengthen the surveillance of budgetary positions and the surveillance and coordination of economic policies and of the Resolution of the European Council of 17 June 1997 on the Stability and Growth Pact ⁽³⁸⁾, in which, in accordance with Article 4 of the Treaty on European Union, firm political guidelines are issued in order to implement the Stability and Growth Pact in a strict and timely manner and in particular to adhere to the medium term objective for budgetary positions of close to balance or in surplus, to which all Member States are committed, and to take

⁽³²⁾ OJ L 209, 2.8.1997, p. 6.

⁽³³⁾ OJ L 174, 7.7.2005, p. 5.

⁽³⁴⁾ NB: The preamble and the recitals of both the original and the amending Regulation are reproduced.

⁽³⁵⁾ OJ C 368, 6.12.1996, p. 12.

⁽³⁶⁾ OJ C 380, 16.12.1996, p. 29.

⁽³⁷⁾ See p. 1 of this Official Journal.

⁽³⁸⁾ OJ C 236, 2.8.1997, p. 1.

the corrective budgetary action they deem necessary to meet the objectives of their stability and convergence programmes, whenever they have information indicating actual or expected significant divergence from the medium-term budgetary objective;

(4) Whereas in Stage III of economic and monetary union (EMU) the Member States are, according to Article 104c of the Treaty, under a clear Treaty obligation to avoid excessive government deficits; whereas under Article 5 of Protocol (No 11) to the Treaty, paragraphs 1, 9 and 11 of Article 104c do not apply to the United Kingdom unless it moves to the third stage; whereas the obligation under Article 109e(4) to endeavour to avoid excessive deficits will continue to apply to the United Kingdom;

(5) Whereas Denmark, referring to paragraph 1 of Protocol (No 12) to the Treaty has notified, in the context of the Edinburgh decision of 12 December 1992, that it will not participate in the third stage; whereas, therefore, in accordance with paragraph 2 of the said Protocol, paragraphs 9 and 11 of Article 104c shall not apply to Denmark;

(6) Whereas in Stage III of EMU Member States remain responsible for their national budgetary policies, subject to the provisions of the Treaty; whereas the Member States will take the necessary measures in order to meet their responsibilities in accordance with the provisions of the Treaty;

(7) Whereas adherence to the medium-term objective of budgetary positions close to balance or in surplus to which all Member States are committed, contributes to the creation of the appropriate conditions for price stability and for sustained growth conducive to employment creation in all Member States and will allow them to deal with normal cyclical fluctuations while keeping the government deficit within the 3 % of GDP reference value;

(8) Whereas for EMU to function properly, it is necessary that convergence of economic and budgetary performances of Member States which have adopted the single currency, hereafter referred to as 'participating Member States', proves stable and durable; whereas budgetary discipline is necessary in stage three of EMU to safeguard price stability;

(9) Whereas according to Article 109k(3) Articles 104c(9) and (11) only apply to participating Member States;

(10) Whereas it is necessary to define the concept of an exceptional and temporary excess over the reference value as referred to in Article 104c(2)(a); whereas the Council should in this context, *inter alia*, take account of the pluri-annual budgetary forecasts provided by the Commission;

(11) Whereas a Commission report in accordance with Article 104c(3) is also to take into account whether the government deficit exceeds government investment expenditure and take into account all other relevant factors, including the medium-term economic and budgetary position of the Member State;

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(12) Whereas there is a need to establish deadlines for the implementation of the excessive deficit procedure in order to ensure its expeditious and effective implementation; whereas it is necessary in this context to take account of the fact that the budgetary year of the United Kingdom does not coincide with the calendar year;

(13) Whereas there is a need to specify how the sanctions provided for in Article 104c could be imposed in order to ensure the effective implementation of the excessive deficit procedure;

(14) Whereas reinforced surveillance under the Council Regulation (EC) No 1466/97 together with the Commission's monitoring of budgetary positions in accordance with paragraph 2 of Article 104c should facilitate the effective and rapid implementation of the excessive deficit procedure;

(15) Whereas in the light of the above, in the event that a participating Member State fails to take effective action to correct an excessive deficit, an overall maximum period of ten months from the reporting date of the figures indicating the existence of an excessive deficit until the decision to impose sanctions, if necessary, seems both feasible and appropriate in order to exert pressure on the participating Member State concerned to take such action; in this event, and if the procedure starts in March, this would lead to sanctions being imposed within the calendar year in which the procedure had been started;

(16) Whereas the Council recommendation for the correction of an excessive deficit or the later steps of the excessive deficit procedure, should have been anticipated by the Member State concerned, which would have had an early warning; whereas the seriousness of an excessive deficit in stage three should call for urgent action from all those involved;

(17) Whereas it is appropriate to hold the excessive deficit procedure in abeyance if the Member State concerned takes appropriate action in response to a recommendation under Article 104c(7) or a notice issued under Article 104c(9) in order to provide an incentive to Member States to act accordingly; whereas the time period during which the procedure would be held in abeyance should not be included in the maximum period of ten months between the reporting date indicating the existence of an excessive deficit and the imposition of sanctions; whereas it is appropriate to resume the procedure immediately if the envisaged action is not being implemented or if the implemented action is proving to be inadequate;

(18) Whereas, in order to ensure that the excessive deficit procedure has a sufficient deterrent effect, a non-interest-bearing deposit of an appropriate size should be required from the participating Member State concerned, whenever the Council decides to impose a sanction;

(19) Whereas the definition of sanctions on a prescribed scale is conducive to legal certainty; whereas it is appropriate to relate the amount of the deposit to the GDP of the participating Member State concerned;

(20) Whereas, whenever the imposition of a non-interest-bearing deposit does not induce the participating Member State concerned to correct its excessive deficit in due time, it is appropriate to intensify the sanctions; whereas it is then appropriate to transform the deposit into a fine;

(21) Whereas appropriate action by the participating Member State concerned in order to correct its excessive deficit is the first step towards abrogation of sanctions; whereas significant progress in correcting the excessive deficit should allow for the lifting of sanctions in accordance with paragraph 12 of Article 104c; whereas the abrogation of all outstanding sanctions should only occur once the excessive deficit has been totally corrected;

(22) Whereas Council Regulation (EC) No 3605/93 of 22 November 1993 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community⁽³⁹⁾ contains detailed rules for the reporting of budgetary data by Member States;

(23) Whereas, according to Article 109f(8), where the Treaty provides for a consultative role for the European Central Bank (ECB), references to the ECB shall be read as referring to the European Monetary Institute before the establishment of the ECB,

HAS ADOPTED THIS REGULATION:

[No 1056/2005 of 27 June 2005]

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular the second subparagraph of Article 104(14) thereof,

Having regard to the proposal from the Commission,

Having regard to the opinion of the European Central Bank⁽⁴⁰⁾,

Having regard to the opinion of the European Parliament⁽⁴¹⁾,

Whereas:

(1) The Stability and Growth Pact initially consisted of Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies⁽⁴²⁾, Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up

⁽³⁹⁾ OJ L 332, 31.12.1993, p. 7.

⁽⁴⁰⁾ OJ C 144, 14.6.2005, p. 16.

⁽⁴¹⁾ Opinion of 9 June 2005 (OJ C 124 E, 25.5.2006, pp. 524-526).

⁽⁴²⁾ OJ L 209, 2.8.1997, p. 1.

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and clarifying the implementation of the excessive deficit procedure ⁽⁴³⁾ and the Resolution of the European Council of 17 June 1997 on the Stability and Growth Pact ⁽⁴⁴⁾. The Stability and Growth Pact has proven its usefulness in anchoring fiscal discipline, thereby contributing to a high degree of macroeconomic stability with low inflation and low interest rates, which is necessary to induce sustainable growth and employment creation.

(2) On 20 March 2005 the Council adopted a report entitled ‘Improving the implementation of the Stability and Growth Pact’ which aims to enhance the governance and the national ownership of the fiscal framework by strengthening the economic underpinnings and the effectiveness of the Pact, both in its preventive and corrective arms, to safeguard the sustainability of public finances in the long run, to promote growth and to avoid imposing excessive burdens on future generations. The report was endorsed by the European Council in its conclusions of 23 March 2005 ⁽⁴⁵⁾, which stated that the report updates and complements the Stability and Growth Pact, of which it is now an integral part.

(3) According to the 20 March 2005 Ecofin report endorsed by the spring 2005 European Council, the Member States, the Council and the Commission reaffirm their commitment to implement the Treaty and the Stability and Growth Pact in an effective and timely manner, through peer support and peer pressure, and to act in close and constructive cooperation in the process of economic and fiscal surveillance, in order to guarantee certainty and effectiveness in the rules of the Pact.

(4) Regulation (EC) No 1467/97 needs to be amended in order to allow the full application of the agreed improvement of the implementation of the Stability and Growth Pact.

(5) The guiding principle for the application of the excessive deficit procedure is the prompt correction of an excessive deficit. The procedure should remain simple, transparent and equitable.

(6) The concept of exceptional excess over the reference value resulting from a severe economic downturn should be revised. In doing so, due account should be taken of the economic heterogeneity in the European Union.

(7) The Commission should always prepare a report on the basis of Article 104(3) of the Treaty. In its report, it should examine whether the exceptions provided for in Article 104(2) apply. The Commission report under Article 104(3) should appropriately reflect developments in the medium-term economic position and in the medium-term budgetary position. Furthermore, due consideration should be given to any other factors which, in the opinion of

⁽⁴³⁾ OJ L 209, 2.8.1997, p. 6.

⁽⁴⁴⁾ OJ C 236, 2.8.1997, p. 1.

⁽⁴⁵⁾ Annex 2 to conclusions of the European Council of 22 and 23 March 2005.

the Member State concerned, are relevant in order to comprehensively assess in qualitative terms the excess over the reference value.

(8) Careful consideration should be given in all budgetary assessments in the framework of the excessive deficit procedure to an excess close to the reference value which reflects the implementation of pension reforms introducing a multi-pillar system that includes a mandatory, fully funded pillar, because the implementation of those reforms leads to a short-term deterioration of the budgetary position, while the long-term sustainability of public finances clearly improves. In particular, when assessing under Article 104(12) of the Treaty whether the excessive deficit has been corrected, the Commission and the Council should assess developments in EDP deficit figures while also considering the net cost of the reform to the publicly managed pillar.

(9) The procedural deadlines for Council decisions in the excessive deficit procedure should be extended in order to allow the Member State concerned to better frame its action within the national budgetary procedure and to develop a more coherent package of measures. In particular, the deadline for the Council to decide on the existence of an excessive deficit in accordance with Article 104(6) of the Treaty should be set, as a rule, to four months after the reporting dates established in Article 4(2) and (3) of Council Regulation (EC) No 3605/93 of 22 November 1993 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community⁽⁴⁶⁾. This would address the cases in which the budgetary statistical data has not been validated by the Commission (Eurostat) shortly after the reporting dates established in Regulation (EC) No 3605/93.

(10) In order to ensure a prompt correction of excessive deficits, it is necessary for Member States that are in a situation of excessive deficit to take effective action and to achieve an annual minimum fiscal improvement in their cyclically adjusted balance, net of one-off and temporary measures. As a benchmark, countries in excessive deficit will be required to achieve an annual minimum fiscal effort in cyclically adjusted terms, net of one-off and temporary measures.

(11) Maximum time periods within which Member States are to take effective action and measures should be extended to allow better framing of the action in the national budgetary procedures and the development of more articulated packages of measures.

(12) If the Member State concerned has taken effective action in response to a recommendation under Article 104(7) of the Treaty or a notice issued under Article 104(9) and unexpected adverse economic events with major negative consequences for government finances prevent the correction of the excessive deficit within the time limit set by the Council, it should be possible for the

⁽⁴⁶⁾ OJ L 332, 31.12.1993, p. 7. Regulation as last amended by Regulation (EC) No 351/2002 (OJ L 55, 26.2.2002, p. 23).

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Council to issue a revised recommendation under Article 104(7) or a revised notice under Article 104(9).

(13) The current overall maximum period of 10 months from the reporting dates established in Article 4(2) and (3) of Regulation (EC) No 3605/93 until the decision to impose sanctions would be inconsistent with the amended deadlines in each step of the procedure and the possibility to issue revised recommendations under Article 104(7) of the Treaty or revised notices under Article 104(9). The overall maximum period should therefore be adjusted in accordance with these amendments.

(14) The provisions applicable to the implementation of the excessive deficit procedure in the case of the United Kingdom, which are set out in the Annex to Regulation (EC) No 1467/97, also need to be modified to reflect those changes,

HAS ADOPTED THIS REGULATION:

SECTION 1

DEFINITIONS AND ASSESSMENTS

Article 1

1. This Regulation sets out the provisions to speed up and clarify the excessive deficit procedure, having as its objective to deter excessive general government deficits and, if they occur, to further their prompt correction.
2. For the purpose of this Regulation ‘participating Member States’ shall mean those Member States which adopt the single currency in accordance with the Treaty and ‘non-participating Member States’ shall mean those which have not adopted the single currency.

Article 2

1. The excess of a government deficit over the reference value shall be considered exceptional and temporary, in accordance with Article 104(2) (a), second indent, when resulting from an unusual event outside the control of the Member State concerned and which has a major impact on the financial position of the general government, or when resulting from a severe economic downturn.

In addition, the excess over the reference value shall be considered temporary if budgetary forecasts as provided by the Commission indicate that the deficit will fall below the reference value following the end of the unusual event or the severe economic downturn.

2. The Commission and the Council, when assessing and deciding upon the existence of an excessive deficit in accordance with Article 104(3) to (6) of the

Treaty, may consider an excess over the reference value resulting from a severe economic downturn as exceptional in the sense of the second indent of Article 104(2)(a) if the excess over the reference value results from a negative annual GDP volume growth rate or from an accumulated loss of output during a protracted period of very low annual GDP volume growth relative to its potential.

3. The Commission, when preparing a report under Article 104(3) of the Treaty shall take into account all relevant factors as indicated in that Article. The report shall appropriately reflect developments in the medium-term economic position (in particular potential growth, prevailing cyclical conditions, the implementation of policies in the context of the Lisbon agenda and policies to foster research and development and innovation) and developments in the medium-term budgetary position (in particular, fiscal consolidation efforts in ‘good times’, debt sustainability, public investment and the overall quality of public finances). Furthermore, the Commission shall give due consideration to any other factors which, in the opinion of the Member State concerned, are relevant in order to comprehensively assess in qualitative terms the excess over the reference value and which the Member State has put forward to the Commission and to the Council. In that context, special consideration shall be given to budgetary efforts towards increasing or maintaining at a high level financial contributions to fostering international solidarity and to achieving European policy goals, notably the unification of Europe if it has a detrimental effect on the growth and fiscal burden of a Member State. A balanced overall assessment shall encompass all these factors.

4. If the double condition of the overarching principle — that, before the relevant factors mentioned in paragraph 3 are taken into account, the general government deficit remains close to the reference value and its excess over the reference value is temporary — is fully met, these factors shall also be taken into account in the steps leading to the decision on the existence of an excessive deficit, foreseen in paragraphs 4, 5 and 6 of Article 104 of the Treaty. The balanced overall assessment to be made by the Council shall encompass all these factors.

5. The Commission and the Council, in all budgetary assessments in the framework of the excessive deficit procedure, shall give due consideration to the implementation of pension reforms introducing a multi-pillar system that includes a mandatory, fully funded pillar.

6. If the Council has decided, on the basis of Article 104(6) of the Treaty, that an excessive deficit exists in a Member State, the Commission and the Council shall take into account the relevant factors mentioned in paragraph 3 also in the subsequent procedural steps of Article 104, including as specified in Articles 3(5) and 5(2) of this Regulation. However those relevant factors shall not be taken into account for the decision of the Council under Article 104(12) of

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the Treaty on the abrogation of some or all of its decisions under paragraphs 6 to 9 and 11 of Article 104.

7. In the case of Member States where the deficit exceeds the reference value, while remaining close to it, and where this excess reflects the implementation of a pension reform introducing a multi-pillar system that includes a mandatory, fully funded pillar, the Commission and the Council shall also consider the cost of the reform to the publicly managed pillar when assessing developments in EDP deficit figures. For that purpose, consideration shall be given to the net cost of the reform on a linear degressive basis for a transitory period of five years. This net cost shall be taken into account also for the decision of the Council under Article 104(12) of the Treaty on the abrogation of some or all of its decisions under paragraphs 6 to 9 and 11 of Article 104, if the deficit has declined substantially and continuously and has reached a level that comes close to the reference value.

SECTION 2

SPEEDING UP THE EXCESSIVE DEFICIT PROCEDURE

Article 3

1. Within two weeks of the adoption by the Commission of a report issued in accordance with Article 104(3), the Economic and Financial Committee shall formulate an opinion in accordance with Article 104(4).
2. Taking fully into account the opinion referred to in paragraph 1, the Commission, if it considers that an excessive deficit exists, shall address an opinion and a recommendation to the Council in accordance with Article 104(5) and (6).
3. The Council shall decide on the existence of an excessive deficit in accordance with Article 104(6) of the Treaty, as a rule within four months of the reporting dates established in Article 4(2) and (3) of Regulation (EC) No 3605/93. When it decides that an excessive deficit exists, the Council shall at the same time make recommendations to the Member State concerned in accordance with Article 104(7) of the Treaty.
4. The Council recommendation made in accordance with Article 104(7) of the Treaty shall establish a deadline of six months at most for effective action to be taken by the Member State concerned. The Council recommendation shall also establish a deadline for the correction of the excessive deficit, which should be completed in the year following its identification unless there are special circumstances. In the recommendation, the Council shall request that the Member State achieves a minimum annual improvement of at least 0.5 % of GDP as a benchmark, in its cyclically adjusted balance net of one-off and

temporary measures, in order to ensure the correction of the excessive deficit within the deadline set in the recommendation.

5. If effective action has been taken in compliance with a recommendation under Article 104(7) and unexpected adverse economic events with major unfavourable consequences for government finances occur after the adoption of that recommendation, the Council may decide, on a recommendation from the Commission, to adopt a revised recommendation under Article 104(7). The revised recommendation, taking into account the relevant factors mentioned in Article 2(3) of this Regulation, may notably extend the deadline for the correction of the excessive deficit by one year. The Council shall assess the existence of unexpected adverse economic events with major unfavourable consequences for government finances against the economic forecasts in its recommendation.

Article 4

1. Any Council decision to make public its recommendations, where it is established that no effective action has been taken in accordance with Article 104(8), shall be taken immediately after the expiry of the deadline set in accordance with Article 3(4) of this Regulation.
2. The Council, when considering whether effective action has been taken in response to its recommendations made in accordance with Article 104(7), shall base its decision on publicly announced decisions by the Government of the Member State concerned.

Article 5

1. Any Council decision to give notice to the participating Member State concerned to take measures for the deficit reduction in accordance with Article 104(9) of the Treaty shall be taken within two months of the Council decision establishing that no effective action has been taken in accordance with Article 104(8). In the notice, the Council shall request that the Member State achieves a minimum annual improvement of at least 0.5 % of GDP as a benchmark, in its cyclically adjusted balance net of one-off and temporary measures, in order to ensure the correction of the excessive deficit within the deadline set in the notice.
2. If effective action has been taken in compliance with a notice under Article 104(9) of the Treaty and unexpected adverse economic events with major

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unfavourable consequences for government finances occur after the adoption of that notice, the Council may decide, on a recommendation from the Commission, to adopt a revised notice under Article 104(9) of the Treaty. The revised notice, taking into account the relevant factors mentioned in Article 2(3) of this Regulation, may notably extend the deadline for the correction of the excessive deficit by one year. The Council shall assess the existence of unexpected adverse economic events with major unfavourable consequences for government finances against the economic forecasts in its notice.

Article 6

Where the conditions to apply Article 104(11) are met, the Council shall impose sanctions in accordance with Article 104(11). Any such decision shall be taken no later than four months after the Council decision giving notice to the participating Member State concerned to take measures in accordance with Article 104(9).

Article 7

If a participating Member State fails to act in compliance with the successive decisions of the Council in accordance with Article 104(7) and (9) of the Treaty, the decision of the Council to impose sanctions, in accordance with Article 104(11), shall be taken as a rule within 16 months of the reporting dates established in Article 4(2) and (3) of Regulation (EC) No 3605/93. In case Article 3(5) or 5(2) of this Regulation is applied, the 16-month deadline is amended accordingly. An expedited procedure shall be used in the case of a deliberately planned deficit which the Council decides is excessive.

Article 8

Any Council decision to intensify sanctions, in accordance with Article 104(11), other than the conversion of deposits into fines under Article 14 of this Regulation, shall be taken no later than two months after the reporting dates pursuant to Regulation (EC) No 3605/93. Any Council decision to abrogate some or all of its decisions in accordance with Article 104(12) shall be taken as soon as possible and in any case no later than two months after the reporting dates pursuant to Regulation (EC) No 3605/93.

SECTION 3

ABEYANCE AND MONITORING

Article 9

1. The excessive deficit procedure shall be held in abeyance:
 - if the Member State concerned acts in compliance with recommendations made in accordance with Article 104(7),
 - if the participating Member State concerned acts in compliance with notices given in accordance with Article 104(9).
2. The period during which the procedure is held in abeyance shall be included neither in the period referred to in Article 6 nor in the period referred to in Article 7 of this Regulation.
3. Following the expiry of the period referred to in the first sentence of Article 3(4) and following the expiry of the period referred to in the second sentence of Article 6 of this Regulation, the Commission shall inform the Council if it considers that the measures taken seem sufficient to ensure adequate progress towards the correction of the excessive deficit within the time limits set by the Council, provided that they are fully implemented and that economic developments are in line with forecasts. The Commission statement shall be made public.

Article 10

1. The Commission and the Council shall monitor the implementation of action taken:
 - by the Member State concerned in response to recommendations made under Article 104(7),
 - by the participating Member State concerned in response to notices given under Article 104(9).
2. If action by a participating Member State is not being implemented or, in the Council's view, is proving to be inadequate, the Council shall immediately take a decision under Article 104(9) or Article 104(11) respectively.
3. If actual data pursuant to Regulation (EC) No 3605/93 indicate that an excessive deficit has not been corrected by a participating Member State within the time limits specified either in recommendations issued under Article 104(7) or notices issued under Article 104(9), the Council shall immediately take a decision under Article 104(9) or Article 104(11) respectively.

SECTION 4

SANCTIONS

Article 11

Whenever the Council decides to apply sanctions to a participating Member State in accordance with Article 104(11), a non-interest-bearing deposit shall, as a rule, be required. The Council may decide to supplement this deposit by the measures provided for in the first and second indents of Article 104(11).

Article 12

1. When the excessive deficit results from non-compliance with the criterion relating to the government deficit ratio in Article 104(2)(a), the amount of the first deposit shall comprise a fixed component equal to 0.2 % of GDP, and a variable component equal to one tenth of the difference between the deficit as a percentage of GDP in the preceding year and the reference value of 3 % of GDP.
2. Each following year, until the decision on the existence of an excessive deficit is abrogated, the Council shall assess whether the participating Member State concerned has taken effective action in response to the Council notice in accordance with Article 104(9). In this annual assessment the Council shall decide, in accordance with Article 104(11), and without prejudice to Article 13 of this Regulation, to intensify the sanctions, unless the participating Member State concerned has complied with the Council notice. If an additional deposit is decided, it shall be equal to one tenth of the difference between the deficit as a percentage of GDP in the preceding year and the reference value of 3 % of GDP.
3. Any single deposit referred to in paragraphs 1 and 2 shall not exceed the upper limit of 0.5 % of GDP.

Article 13

A deposit shall, as a rule, be converted by the Council, in accordance with Article 104(11), into a fine if two years after the decision to require the participating Member State concerned to make a deposit, the excessive deficit has in the view of the Council not been corrected.

Article 14

1. In accordance with Article 104(12), the Council shall abrogate the sanctions referred to in the first and second indents of Article 104(11) depending on the significance of the progress made by the participating Member State concerned in correcting the excessive deficit.

Article 15

In accordance with Article 104(12), the Council shall abrogate all outstanding sanctions if the decision on the existence of an excessive deficit is abrogated. Fines imposed in accordance with Article 13 of this Regulation will not be reimbursed to the participating Member State concerned.

Article 16

Deposits referred to in Articles 11 and 12 of this Regulation shall be lodged with the Commission. Interest on the deposits, and the fines referred to in Article 13 of this Regulation constitute other revenue referred to in Article 269 of the Treaty and shall be distributed among participating Member States without a deficit that is excessive as determined in accordance with Article 104(6) in proportion to their share in the total GNP of the eligible Member States.

SECTION 5

TRANSITIONAL AND FINAL PROVISIONS

Article 17

For the purpose of this Regulation and for as long as the United Kingdom has a budgetary year which is not a calendar year, the provisions of sections 2, 3 and 4 of this Regulation shall be applied to the United Kingdom in accordance with the Annex.

Article 18

This Regulation shall enter into force on 1 January 1999.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

ANNEX

TIME LIMITS APPLICABLE TO THE UNITED KINGDOM

In order to ensure equal treatment of all Member States, the Council, when taking decisions in Sections 2, 3 and 4 of this Regulation, shall have regard to the different budgetary year of the United Kingdom, with a view to taking decisions with regard to the United Kingdom at a point in its budgetary year similar to that at which decisions have been or will be taken in the case of other Member States.

The provisions specified in Column I shall be substituted by the provisions specified in Column II.

Column 1	Column 2
‘as a rule, within four months of the reporting dates established in Article 4(2) and (3) of Council Regulation (EC) No 3605/93’ <i>(Article 3(3))</i>	‘as a rule, within six months after the end of the budgetary year in which the deficit occurred’
‘the year following its identification’ <i>(Article 3(4))</i>	‘the budgetary year following its identification’
‘as a rule, within 16 months of reporting dates established in Article 4(2) and (3) of Regulation (EC) No 3605/93’ <i>(Article 7)</i>	‘as a rule, within 18 months from the end of the budgetary year in which the deficit occurred’
‘the preceding year’ <i>(Article 12(1))</i>	‘the preceding budgetary year’

Specifications on the implementation of the Stability and Growth Pact and guidelines on the format and content of stability and convergence programmes

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INTRODUCTION

This opinion updates and replaces the opinion of the Economic and Financial Committee on the content and format of the stability and convergence programmes, endorsed by the Ecofin Council on 10 July 2001.

The Stability and Growth Pact fully entered into force on 1 January 1999 and consists of a rules-based framework with both preventive and corrective elements. It initially consisted of Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies, Council Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure and the Resolution of 17 June 1997 on the Stability and Growth Pact. On 20 March 2005 the Council adopted a report entitled 'Improving the implementation of the Stability and Growth Pact'. The report was endorsed by the European Council in its conclusions of 22 March 2005, which stated that the report updates and complements the Stability and Growth Pact, of which it is now an integral part. On 27 June 2005 the Pact was complemented by two additional Regulations amending Regulations (EC) No 1466/97 and (EC) No 1467/97.

The Stability and Growth Pact is an essential part of the macroeconomic framework of economic and monetary union, which contributes to achieving macroeconomic stability in the EU and safeguarding the sustainability of public finances. A rules-based system is the best guarantee for commitments to be enforced and for all Member States to be treated equally. The two nominal anchors of the Stability and Growth Pact — the 3 % of GDP reference value for the deficit ratio and the 60 % of GDP reference value for the debt ratio — and the medium-term budgetary objectives are the centrepiece of multilateral surveillance.

Member States, the Commission and the Council are committed to deliver on their respective responsibilities, applying the Treaty and the Stability and Growth Pact in an effective and timely manner. In addition, since effectiveness of peer support and peer pressure is an integral part of the Stability and Growth Pact, the Council and the Commission are expected to motivate and make public their positions and decisions at all appropriate stages of the procedure of the Stability and Growth Pact. Member States are expected to regularly inform the national Parliaments of developments in the procedures.

In order to enhance ownership of the EU budgetary framework, national budgetary rules should be complementary to the Stability and Growth Pact. Without prejudice to the balance between national and Community competences, their implementation could be discussed at European level in the context of the stability and convergence programmes. In the same vein, governance arrangements at national level should complement the EU framework. National institutions could play a more prominent role in budgetary surveillance to enhance

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enforcement through national public opinion and complement the economic and policy analysis at EU level. In particular, Member States could establish an economic council of wise people who would advise on the main macroeconomic projections.

These guidelines for the implementation of the Stability and Growth Pact consist of two sections. The first section elaborates on the implementation of the Stability and Growth Pact. The second section consists of guidelines on the content and format of the stability and convergence programmes.

SECTION I

SPECIFICATIONS ON THE IMPLEMENTATION OF THE STABILITY AND GROWTH PACT

A. THE PREVENTIVE ARM OF THE STABILITY AND GROWTH PACT

1. The medium-term budgetary objective (MTO)

Definition of the MTO

The MTO is defined in cyclically adjusted terms, net of one-off and other temporary measures. The reference method for the estimation of potential output is the one adopted by the Council on 12 July 2002 ⁽⁴⁷⁾. One-off and temporary measures are measures having a transitory budgetary effect that does not lead to a sustained change in the intertemporal budgetary position ⁽⁴⁸⁾.

The MTO pursues a triple aim:

- *providing a safety margin with respect to the 3 % of GDP deficit limit.* This safety margin is assessed for each Member State taking into account past output volatility and the budgetary sensitivity to output fluctuations;
- *ensuring rapid progress towards sustainability.* This is assessed against the need to ensure the convergence of debt ratios towards prudent levels taking into account the economic and budgetary impact of ageing populations;
- *taking (i) and (ii) into account, allowing room for budgetary manoeuvre, in particular taking into account the needs for public investment.*

The MTOs are differentiated for individual Member States to take into account the diversity of economic and budgetary positions and developments as well as of fiscal risk to the sustainability of public finances, also in face of prospective demographic changes. The country-specific MTOs may diverge from the requirement of a close to balance or in surplus position.

Until criteria and modalities for taking into account implicit liabilities are appropriately established and agreed by the Council, the country-specific MTOs are set taking into account the current government debt ratio and potential growth, while preserving sufficient margin below the reference value

⁽⁴⁷⁾ Due to data problems, a different method may be used for the estimation of potential output in the case of recently acceded Member States (RAMS). The method used should be agreed by the Economic Policy Committee on the basis of a proposal of the Output Gap Working Group.

⁽⁴⁸⁾ Examples of one-off and temporary measures are the sales of non-financial assets; receipts of auctions of publicly owned licences; short-term emergency costs emerging from natural disasters; tax amnesties; revenues resulting from the transfers of pension obligations.

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of -3 % of GDP ⁽⁴⁹⁾. In this transition period, the country-specific MTOs for euro area and ERM2 Member States would be in a range between -1 % of GDP for low debt / high potential growth countries and balance or surplus for high debt / low potential growth countries.

Potential growth should be assessed in a long-term perspective on the basis of the projections produced by the Working Group on Ageing attached to the Economic Policy Committee.

Member States may present more ambitious MTOs than implied by these criteria if they feel their circumstances call for it.

For Member States outside of the euro area and not participating in ERM2, country-specific MTOs would be defined with a view to ensuring the respect of the triple aim mentioned above.

Procedure for defining and revising the MTOs

In order to ensure a consistent application of the principles mentioned above for defining the country-specific MTOs, regular methodological discussions take place in the Economic and Financial Committee.

Taking into account the results of these discussions, Member States present their MTO in their stability or convergence programme. The MTOs are examined by the Commission and the Council in the context of the assessment of the stability and convergence programmes. In accordance with Article 99(3) of the Treaty and Article 5(2) of Regulation (EC) No 1466/97, where the Council considers that the MTO presented in a stability or convergence programme should be strengthened, it shall, in its opinion, invite the Member State concerned to adjust its programme.

The MTOs could be revised when a major reform is implemented and in any case every four years, in order to reflect developments in government debt, potential growth and fiscal sustainability.

2. The adjustment path toward the medium-term budgetary objective and deviations from it

Fiscal behaviour over the cycle and adjustment path toward the MTO

Member States should achieve a more symmetrical approach to fiscal policy over the cycle through enhanced budgetary discipline in periods of economic recovery, with the objective to avoid pro-cyclical policies and to gradually reach their medium term objective, thus creating the necessary room to accomod-

⁽⁴⁹⁾ The Council Report on 'Improving the implementation of the Stability and Growth Pact' of 20 March 2005 and endorsed on 22 March 2005 by the Heads of State or Government stated that 'by the end of 2006, the Commission should report on progress achieved towards the methodology for completing the analysis by incorporating implicit liabilities'.

ate economic downturns and reduce government debt at a satisfactory pace, thereby contributing to the long-term sustainability of public finances. The presumption is to use unexpected extra revenues for deficit and debt reduction.

- Member States that have already reached their MTO could let automatic stabilisers play freely over the cycle. They should in particular avoid procyclical fiscal policies in ‘good times’.
- Member States that have not yet reached their MTO should take steps to achieve it over the cycle. Their adjustment effort should be higher in good times; it could be more limited in bad times. In order to reach their MTO, Member States of the euro zone or of ERM2 should pursue an annual adjustment in cyclically adjusted terms, net of one-offs and other temporary measures, of 0.5 % of GDP as a benchmark.

Member States that do not follow the required adjustment path will explain the reasons for the deviation in the annual update of their stability/convergence programme.

Based on the principles mentioned above and on the explanations provided by Member States, the Commission and the Council, in their assessments of the stability or convergence programmes, examine whether the adjustment path towards the medium-term budgetary objective is appropriate. In particular, they examine whether a sufficient adjustment effort is made in economic good times, and take into account that the effort may be more limited in economic bad times.

Where the Council considers that the adjustment path towards the MTO should be strengthened, it shall, in accordance with Article 99(3) of the Treaty and Article 5(2) of Regulation (EC) No 1466/97, invite the Member State concerned to adjust its programme.

Definition of economic ‘good times’

Economic ‘good times’ should be identified as periods where output exceeds its potential level, taking into account tax elasticities.

Given the uncertainty surrounding output gap levels’ estimates, the change in the output gap could also be considered, especially when the output gap is estimated to be close to zero. For instance, periods where the output gap is slightly negative but moving rapidly towards positive values could be considered as ‘good times’. Symmetrically, periods where the output gap is slightly positive but moving rapidly towards negative values could not be considered as ‘good times’.

The identification of periods of economic ‘good times’ should be made after an overall economic assessment.

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The reference for the estimation of potential output is the methodology adopted by the Council on 12 July 2002⁽⁵⁰⁾. The reference to ‘tax elasticities’ should be understood as the overall elasticity of taxes to GDP, resulting from the influence of economic factors (fiscal leads and lags, supply and demand composition of growth), abstracting from the implementation of discretionary measures.

Structural reforms

In order to enhance the growth oriented nature of the Pact, structural reforms will be taken into account when defining the adjustment path to the medium-term objective for countries that have not yet reached this objective and in allowing a temporary deviation from this objective for countries that have already reached it.

Only major reforms that have a verifiable positive impact on the long-term sustainability of public finances will be taken into account. This includes reforms with direct long-term cost-saving effects and reforms raising potential growth. For instance, major health, pension and labour-market reforms will be considered.

Special attention will be paid to pension reforms introducing a multi-pillar system that includes a fully funded pillar, which have a direct negative impact on the general government deficit (as defined in Article 1 of Regulation (EC) No 3605/93). This impact stems from the fact that revenue, which used to be recorded as government revenue, is diverted to a pension fund, which is fully funded and classified in a sector other than general government, and that some pensions and other social benefits, which used to be government expenditure, will be, after the reform, paid by the pension scheme⁽⁵¹⁾. In this specific case, the allowed deviation from the MTO should reflect the net cost of the reform to the publicly managed pillar, provided the deviation remains temporary and an appropriate safety margin to the reference value is preserved. The net cost of the reform is measured as its direct impact on the general government deficit.

Only adopted reforms should be considered, provided that sufficient, detailed information is provided in the stability and convergence programmes (see Section II). The budgetary effects of the reforms over time are assessed by the Commission and the Council in a prudent way, making due allowance for the margin of uncertainties associated with such an exercise.

Major structural reforms as identified above will be taken into account when defining the adjustment path to the medium-term objective for countries that have not yet reached this objective and in allowing a temporary deviation from

⁽⁵⁰⁾ See footnote 47.

⁽⁵¹⁾ For more information on the classification of pension schemes, see Eurostat decision on the ‘Classification of funded pension schemes in case of government responsibility or guarantee’ of 2 March 2004.

this objective for countries that have already reached it, with the clear understanding that:

- (i) *a safety margin to ensure the respect of the 3 % of GDP reference value for the deficit is guaranteed.* This safety margin will be assessed for each Member State taking into account past output volatility and the budgetary sensitivity to output fluctuations;
- (ii) *the budgetary position is expected to return to the MTO within the period covered by the stability or convergence programme.* For this purpose, the period under consideration will be limited to — at most — the four years following the year of the presentation of the programme.

Where a temporary deviation from the medium-term objective or the adjustment path towards it is allowed, this should be specified in the Council opinion on the stability/convergence programme.

3. Commission policy advice and warning

The Commission will issue policy advice to encourage Member States to stick to their adjustment path. Such policy advice, given in accordance with Article 211, second indent, of the Treaty, will be replaced by warnings in accordance with Article III-179(4) of the Constitution as soon as it becomes applicable. The Commission policy advice and warnings are made public. The Commission continues to have the possibility to propose recommendations for the Council to issue an early warning, in accordance with Article 99(4) of the Treaty and Article 6(2), 6(3), 10(2) and 10(3) of Regulation (EC) No 1466/97.

B. THE EXCESSIVE DEFICIT PROCEDURE

1. Commission report under Article 104(3)

The Commission will always prepare a report under Article 104(3) of the Treaty when a reported or planned deficit exceeds 3 % of GDP. The Commission may, in accordance with Article 104(3), also prepare a report notwithstanding the fulfilment of the requirements under the criteria laid down in Article 104(2)(a) of the Treaty if it is of the opinion that there is a risk of an excessive deficit in a Member State.

The Commission shall examine in its report if one or more of the exceptions foreseen in Article 104(2)(a) apply. In particular, the Commission shall consider whether the deficit ratio has declined substantially and continuously and reached a level that comes close to the reference value.

The Commission shall also consider whether the excess over the reference value is only exceptional and temporary and whether the ratio remains close

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to the reference value. In order to be considered as exceptional, the excess has to result from an unusual event outside the control of the Member State concerned and with a major impact on the financial position of the general government, or it has to result from a 'severe economic downturn'. The Commission and the Council may consider an excess over the reference value resulting from a 'severe economic downturn' as exceptional in the sense of the second indent of Article 104(2)(a) of the Treaty if the excess over the reference value results from a negative annual GDP volume growth rate or from an accumulated loss of output during a protracted period of very low annual GDP volume growth relative to its potential. The indicator for assessing accumulated loss of output is the output gap, as calculated according to the method agreed by the Council on 12 July 2002⁽⁵²⁾. The excess over the reference value shall be considered as temporary if the forecasts provided by the Commission indicate that the deficit will fall below the reference value following the end of the unusual event or the severe economic downturn.

The Commission report under Article 104(3) shall also take into account whether the government deficit exceeds government investment expenditure and take into account all other relevant factors.

The Commission report should appropriately reflect developments in the medium-term economic position (in particular potential growth, prevailing cyclical conditions, the implementation of policies in the context of the Lisbon agenda and policies to foster R & D and innovation) and in the medium-term budgetary position (in particular, fiscal consolidation efforts in 'good times', debt sustainability, public investment and the overall quality of public finances). Furthermore, due consideration will be given to any other factors which, in the opinion of the Member State concerned, are relevant in order to comprehensively assess in qualitative terms the excess over the reference value. To this end, the Member State concerned may put forward to the Council and to the Commission the specific factors that it considers relevant, in due time for the preparation of the report under Article 104(3) and as a rule within one month of the reporting dates established in Article 4(2) and (3) of Regulation (EC) No 3605/93. The Member State shall provide the information necessary for the Commission and the Council to make a comprehensive assessment of the budgetary impact of these factors. In that context, special consideration will be given to budgetary efforts towards increasing or maintaining at a high level financial contributions to fostering international solidarity and to achieving European policy goals, notably the unification of Europe if it has a detrimental effect on the growth and fiscal burden of a Member State. A balanced overall assessment has to encompass all these factors.

The Commission report will give due consideration to the implementation of pension reforms introducing a multi-pillar system that includes a fully funded

⁽⁵²⁾ See footnote 47.

pillar, if these reforms have a direct negative impact on the general government deficit (as defined in Article 1 of Regulation (EC) No 3605/93. This impact stems from the fact that revenue, which used to be recorded as government revenue, is diverted to a pension fund, which is fully funded and classified in a sector other than general government, and that some pensions and other social benefits, which used to be government expenditure will be, after the reform, paid by the pension scheme. In particular, the Commission report will examine the net cost of the reform to the publicly managed pillar. The net cost of the reform is measured as its direct impact on the general government deficit.

2. Increasing the focus on debt and sustainability

In line with the provisions of the Treaty, the Commission has to examine compliance with budgetary discipline on the basis of both the deficit and the debt criteria. The Council has agreed that there should be increased focus on debt and sustainability, and reaffirmed the need to reduce government debt to below 60 % of GDP at a satisfactory pace, taking into account macroeconomic conditions. The higher the debt to GDP ratios of Member States, the greater must be their efforts to reduce them rapidly.

The debt surveillance framework and the excessive deficit procedure should be strengthened by applying the concept of ‘sufficiently diminishing and approaching the reference value at a satisfactory pace’ for the debt ratio in qualitative terms, by taking into account macroeconomic conditions and debt dynamics, including the pursuit of appropriate levels of primary surpluses as well as other measures to reduce gross debt and debt management strategies and the relationship between the evolution of the deficit and the evolution of the general government gross debt.

The Commission will always prepare a report on the basis of Article 104(3) of the Treaty, in which it shall examine if one or more of the exceptions foreseen respectively in Article 104(2)(a) and (b) apply.

For countries in which the debt ratio is above the reference value, the Council will formulate recommendations on the debt dynamics in its opinions on the stability and convergence programmes.

3. The decision on the existence of an excessive deficit

If the double condition of the overarching principle – that, before the relevant factors mentioned in Article 2 (3) of Regulation (EC) No 1467/97 are taken into account, the general government deficit remains close to the reference value and its excess over the reference value is temporary – is fully met, the relevant factors assessed in the Commission report under Article 104(3) will also be taken into account in the steps leading to the decision on the existence of an excessive deficit, foreseen in paragraphs (4), (5) and (6) of Article 104 of the

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Treaty. The balanced overall assessment to be made by the Council in accordance with Article 104(6) shall encompass all these factors.

In the case of Member States where the deficit exceeds the reference value, while remaining close to it, and where this excess reflects the direct impact on the general government deficit (as defined in Article 1 of Regulation (EC) No 3605/93) stemming from the implementation of a pension reform introducing a multi-pillar system that includes a fully funded pillar, the Commission and the Council shall also consider the cost of the reform to the publicly managed pillar when assessing developments in EDP deficit figures. This impact stems from the fact that revenue, which used to be recorded as government revenue, is diverted to a pension fund, which is fully funded and classified in a sector other than general government, and that some pensions and other social benefits, which used to be government expenditure, will be, after the reform, paid by the pension scheme. Consideration to the net cost of the reform will be given for the initial five years after a Member State has introduced a fully funded system, or five years after 2004 for Member States that have already introduced such a system. Furthermore, it will also be regressive, i.e. during a period of five years, consideration will be given to 100, 80, 60, 40 and 20 % of the net cost of the reform to the publicly managed pillar. The net cost of the reform is measured as its direct impact on the general government deficit.

The Council shall decide on the existence of an excessive deficit in accordance with Article 104(6) of the Treaty, on the basis of a Commission recommendation, as a rule within four months of the reporting dates established in Article 4(2) and (3) of Regulation (EC) No 3605/93. The Council may decide later in the cases in which the budgetary statistical data have not been validated by the Commission (Eurostat) shortly after the reporting dates established in Regulation (EC) No 3605/93.

4. The correction of an excessive deficit

Minimum fiscal effort for countries in excessive deficit and initial deadline for its correction

The Council recommendations under Article 104(7) and notices under Article 104(9), based on recommendations of the Commission, will request that the Member State concerned achieves a minimum annual improvement in its cyclically adjusted balance net of one-off and temporary measures of at least 0.5 % of GDP as a benchmark, in order to correct the excessive deficit within the deadline set in the recommendation.

As a rule, the initial deadline for correcting an excessive deficit should be the year after its identification and thus, normally, the second year after its occurrence. This deadline should be set taking into account the minimum adjustment, in cyclically adjusted terms net of one-off and other temporary measures, requested by the Council. If this effort seems sufficient to correct the excessive

deficit in the year following its identification, the initial deadline needs not to be set beyond that year.

In case of special circumstances, the initial deadline for correcting an excessive deficit would be set, as a rule, one year later, i.e. the second year after its identification and thus normally the third year after its occurrence. The determination of the existence of such circumstances will take into account a balanced overall assessment of the factors mentioned in the report under Article 104(3).

Longer deadlines could be set for new and future Member States, i.e. in the case of Member States being placed in excessive deficit immediately following their accession. Longer deadlines could also be set for Member States implementing pension reforms introducing a multi-pillar system that includes a fully funded pillar.

Clarifying the conditions for abeyance

Following the expiry of the six-month period following the adoption of a recommendation under Article 104(7) or the four-month period following the adoption of a notice under Article 104(9), the Commission shall assess whether the Member State concerned has acted in compliance with the recommendation or notice. This assessment should consider whether the Member State concerned has publicly announced or taken measures that seem sufficient to ensure adequate progress towards the correction of the excessive deficit within the time limits set by the Council.

Where it appears that the Member State concerned has not acted in compliance with the recommendation or notice, the following step of the procedure provided by Article 104 of the Treaty, as clarified by Regulation (EC) No 1467/97, shall be activated.

If the Commission considers that the Member State has acted in compliance with the recommendation or notice, it shall inform the Council accordingly, and the procedure shall be held in abeyance. If, thereafter, it appears that action by the Member State concerned is not being implemented or is proving to be inadequate and if the possibility of repeating the same step does not apply, the following step of the procedure provided by Article 104 of the Treaty, as clarified by Regulation (EC) No 1467/97, shall be immediately activated. When considering whether the following step of the procedure should be activated, the Commission and the Council should take into account whether the measures required in the recommendation or notice are fully implemented and whether other budgetary variables under the control of the government are developing in line with what was assumed in the recommendation or notice.

In the specific case of recommendations or notices which have set a deadline for the correction of the excessive deficit more than one year after its identification, the assessment made by the Commission after the expiry of the six-month

period following the adoption of a recommendation under Article 104(7) or the four-month period following a notice under Article 104(9) should mainly focus on the measures taken in order to ensure an adequate fiscal adjustment in the year following the identification of the excessive deficit. The Commission should, during the period of abeyance, assess whether the measures already announced or taken are being adequately implemented and whether additional measures are announced and implemented in order to ensure adequate progress toward the correction of the excessive deficit within the time limits set by the Council.

Clarifying the concept of effective action and repetition of steps in the excessive deficit procedure

If effective action has been taken in compliance with a recommendation under Article 104(7) (or notice under Article 104(9)) of the Treaty and unexpected adverse economic events with major unfavourable consequences for government finances occur after the adoption of that recommendation or notice, the Council may decide, on a recommendation from the Commission and before taking into account the relevant factors mentioned in Article 2(3) of Regulation (EC) No 1467/97, to adopt a revised recommendation under Article 104(7) (or notice under Article 104(9)) of the Treaty. The revised recommendation (or notice), then taking into account the relevant factors mentioned in Article 2(3) of Regulation (EC) No 1467/97, may notably extend the deadline for the correction of the excessive deficit by one year.

A Member State should be considered to have taken ‘effective action’ if it has acted in compliance with the recommendation or notice, regarding both the implementation of the measures required therein and budgetary execution. The assessment should in particular take into account whether the Member State concerned has achieved the annual improvement of its cyclically adjusted balance, net of one-off and other temporary measures, initially recommended by the Council. Where the observed adjustment proves to be lower than recommended, a careful analysis of the reasons for the shortfall would be made.

The occurrence of unexpected adverse economic events with major unfavourable budgetary effects shall be assessed against the economic forecast underlying the Council recommendation or notice.

5. Abrogation of Council decisions in the context of the EDP for Member States having implemented multi-pillar pension reforms

Abrogation of Council decisions under paragraphs (6) to (9) and (11) of Article 104 of the Treaty is possible only if the general government deficit has declined substantially and continuously and has reached a level that comes close to the reference value.

The Commission and the Council, when considering under Article 104(12) whether some or all of the Council decisions under Article 104(6) to (9) and (11) should be abrogated, consider carefully an excess close to the deficit reference value which reflects the implementation of a pension reform introducing a multi-pillar system that includes a fully funded pillar.

Consideration to the net cost of the reform will be given for the initial five years after a Member State has introduced a fully funded system, or five years after 2004 for Member States that have already introduced such a system⁽⁵³⁾. Furthermore, it will also be regressive, i.e. during a period of five years, consideration will be given to 100, 80, 60, 40 and 20 % of the net cost of the reform to the publicly managed pillar. The net cost of the reform is measured as its direct impact on the general government deficit (as defined in Article 1 of Regulation (EC) No 3605/93). This impact stems from the fact that revenue, which used to be recorded as government revenue, is diverted to a pension fund, which is fully funded and classified in a sector other than general government, and that some pensions and other social benefits, which used to be government expenditure, will be, after the reform, paid by the pension scheme.

This implies in particular that for those Member States that already have implemented such reforms, it will be considered for 100 % in 2005, 80 % in 2006, 60 % in 2007, 40 % in 2008 and 20 % in 2009. For reforms implemented after 2005, the net impact of such reforms will be considered accordingly. For example, in the case of a Member State that would implement such a reform in 2007, the net budgetary impact of the reform will be considered for 100 % in 2007, 80 % in 2008, 60 % in 2009, 40 % in 2010 and 20 % in 2011. The Member State shall provide the information necessary for the Commission to assess the net budgetary impact of the reform.

⁽⁵³⁾ Up to the March 2007 notification, these provisions do not apply to Member States that benefit from the special treatment granted by Eurostat for the implementation of the 2 March 2004 decision on the classification of second-pillar funded pension schemes. See Eurostat News Releases No 30/2004 of 2 March 2004 and No 117/2004 of 23 September 2004.

SECTION II

GUIDELINES ON THE FORMAT AND CONTENT OF STABILITY AND CONVERGENCE PROGRAMMES

The Stability and Growth Pact requires Member States to submit stability or convergence programmes and updates thereof, which are at the basis of the Council's surveillance of budgetary positions and its surveillance and co-ordination of economic policies. The Council may, on a recommendation from the Commission, and after consulting the Economic and Financial Committee, deliver an opinion on each of the updated programmes and, if it considers that its objectives and contents should be strengthened, invite the Member State concerned to adjust its programme.

Member States are expected to take the corrective action they deem necessary to meet the objectives of their stability or convergence programmes, whenever they have information indicating actual or expected significant divergence from those objectives.

In view of the fundamental role of the stability and convergence programmes in the process of multilateral surveillance, it is important that their information content is suitable and allows for comparison across Member States. Whilst acknowledging that the programmes are the responsibility of national authorities and that the possibilities and practices differ across countries, Council Regulation (EC) No 1466/97 as amended by Council Regulation (EC) No 1055/2005 sets out the essential elements of these programmes.

The experience gathered during the first years of implementation of the Pact with the stability and convergence programmes shows that guidelines on the content and format of the programmes not only assist the Member States in drawing up their programmes, but also facilitate their examination by the Commission, the Economic and Financial Committee and the Council.

The guidelines set out below should be considered as a code of good practice and checklist to be used by Member States in preparing stability or convergence programmes. Member States are expected to follow the guidelines as far as possible, and to justify any departure from them.

1. Status of the programme and of the measures

Each programme mentions its status in the context of national procedures, notably with respect to the national Parliament. The programme also indicates whether the Council opinion on the previous programme has been presented to the national Parliament.

The state of implementation of the measures (enacted versus planned) presented in the programme should be specified.

2. Content of stability and convergence programmes

In order to facilitate comparison across countries, Member States are expected, as far as possible, to follow the model structure for the programmes in Annex 1. The standardisation of the format and content of the programmes along the lines set below will substantially improve the conditions for equality of treatment.

The quantitative information should be presented following a standardised set of tables (Annex 2). Member States should endeavour to supply all the information in these tables. The tables could be complemented by further information wherever deemed useful by Member States.

In addition to the guidelines set out below, the programmes should provide information on the consistency with the broad economic policy guidelines of the budgetary objectives and the measures to achieve them, as well as on the measures to enhance the quality of public finances and to achieve long-term sustainability.

Objectives

Member States will present in their stability and convergence programmes budgetary targets for the general government balance in relation to the MTO, and the projected path for the debt ratio. Convergence programmes shall also present the medium-term monetary policy objectives and their relationship to price and exchange rate stability.

Member States, when preparing the first update of their stability or convergence programme after a new government has taken office, are invited to show continuity with respect to the budgetary targets endorsed by the Council on the basis of the previous update of the stability/convergence programme and — with an outlook for the whole legislature — to provide information on the means and instruments envisaged to reach these targets by setting out its budgetary strategy.

To permit a fuller understanding of the path of the government balance and of the budgetary strategy in general, information should be provided on expenditure and revenue ratios and on their components separately identified, as well as on one-off and other temporary measures⁽⁵⁴⁾. To permit a fuller understanding of the path of the debt ratio, information should be provided, to the extent possible, on components of the stock-flow adjustment, such as privatisation receipts and other financial operations.

⁽⁵⁴⁾ Countries that benefit, over a transition period up to the March 2007 notification, from the special treatment granted by Eurostat for the implementation of the 2 March 2004 decision on the classification of second-pillar funded pension schemes, should present in their programmes detailed information on the impact on the general government balance as well as on the revenue and expenditure side separately and, if possible, on the debt ratio.

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The budget balances should be broken down by sub-sector of general government (central government, state government for Member States with federal or quasi-federal institutional arrangements, local government and, social security).

Assumptions and data

Stability and convergence programmes should be based on realistic and cautious macroeconomic forecasts. The Commission forecasts can provide an important contribution for the coordination of economic and fiscal policies. Member States are free to base their stability/convergence programmes on their own projections. However, significant divergences between the national and the Commission services' forecasts should be explained in some detail. This explanation will serve as a reference when forecast errors are assessed ex post.

The programmes should present the main assumptions about expected economic developments and important economic variables that are relevant to the realisation of their budgetary plans, such as government investment expenditure, real GDP growth, employment and inflation. The assumptions on real GDP growth should be underpinned by an indication of the expected demand contributions to growth. The possible upside and downside risks to the outlook should be brought out.

Furthermore, the programmes should provide sufficient information about GDP developments to allow an analysis of the cyclical position of the economy and the sources of potential growth. The outlook for sectoral balances and, especially for countries with a high external deficit, the external balance should be analysed.

As regards external macroeconomic developments, euro-area Member States and Member States participating in ERM2 in particular should use the 'common external assumptions' on the main extra-EU variables if provided by the Commission in due time or, for comparability reasons, present sensitivity analysis based on the common assumptions for these variables when the differences are significant. The assumptions are to be provided in due time by the Commission services (after consultation with national experts), on the basis of the final table in Annex 2, for discussion by the EFC.

Assumptions about interest rates and exchange rates, if not presented in the programme, should be provided to the Commission services to allow for the technical assessment of the programmes.

In order to facilitate the assessment, the concepts used shall be in line with the standards established at European level, notably in the context of the European system of accounts (ESA). The programmes should ensure the formal and substantial consistency of the required information on budgetary aggregates and

economic assumptions with ESA concepts. This information may be complemented by a presentation of specific accounting concepts that are of particular importance to the country concerned.

Measures, structural reforms and long-term sustainability

The programmes should describe the budgetary and other economic policy measures being taken or proposed to achieve the objectives of the programme, and, in the case of the main budgetary measures, an assessment of their quantitative effects on the general government balance. Measures having significant ‘one-off’ effects should be explicitly identified. The further forward the year of the programme, the less detailed the information could be. However, budgetary targets should be backed by an indication of the broad measures necessary to achieve them.

Structural reforms should be specifically analysed when they are envisaged to contribute to the achievement of the objectives of the programme. In particular, given the relevance of ‘major structural reforms’ in defining the adjustment path to the medium-term objective for Member States that have not yet reached it and allowing a temporary deviation from the MTO for Member States that have already reached it (see Section I), the programmes should include comprehensive information on the budgetary and economic effects of such reforms. Programmes should notably include a detailed quantitative cost-benefit analysis of the short-term costs – if any – and of the long-term benefits of the reforms from the budgetary point of view. They should also analyse the projected impact of the reforms on economic growth over time while explaining the used methodology.

The programmes should also describe measures aimed at improving the quality of public finances on both the revenue and expenditure side (e.g. tax reform, value-for-money initiatives, measures to improve tax collection efficiency and expenditure control).

The programmes could further include information on the implementation of existing national budgetary rules (expenditure rules etc.) as well as on other institutional features of the public finances, in particular budgetary procedures and public finance statistical governance.

Finally, the programmes should outline the countries’ strategies to ensure the sustainability of public finances, especially in light of the economic and budgetary impact of ageing populations.

The Working Group on Ageing (AWG) attached to the Economic Policy Committee (EPC) is responsible for producing common budgetary projections on: public spending on pensions, healthcare, long-term care, education, unemployment transfers and where possible and relevant, age-related revenues, such as pension contributions. These common projections will provide the basis for

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the assessment by the Commission and the Council of sustainability of the Member States' public finances within the context of the SGP. They should be included in the programmes.

The programmes should include all the necessary additional information, both of qualitative and quantitative nature, so as to enable the Commission and the Council to assess the sustainability of Member States of public finances based on current policies. To this end, information included in programmes should focus on new relevant information that is not fully reflected in the latest common EPC projections. For example, Member States might want to include information on the latest demographic trends and major policy changes in pension and healthcare systems. Programmes should clearly distinguish between measures that have been enacted and measures that are envisaged.

Given the uncertainty surrounding long-term projections, the assessment by the Commission and the Council should include stress tests that provide an indication of the risks to public finance sustainability in the event of adverse demographic, economic or budgetary developments.

In addition to the requirements mentioned above, Member States may present different projections, based on national calculations. In such a case, Member States should explain in detail the underlying assumptions of these projections, the methodology used, the policies implemented or planned to meet the assumptions, and the divergences between the national projections and the common projections produced by the Working Group on Ageing attached to the Economic Policy Committee.

These national projections and their assumptions, including their plausibility, will enter the basis for the assessment by the Commission and the Council of sustainability of the Member States' public finances within the context of the SGP.

Sensitivity analysis

Given the inevitability of forecast errors, stability and convergence programmes include comprehensive sensitivity analyses and/or develop alternative scenarios, in order to enable the Commission and the Council to consider the complete range of possible fiscal outcomes.

In particular, the programmes shall provide an analysis of how changes in the main economic assumptions would affect the budgetary and debt position and indicate the underlying assumptions about how revenues and expenditures are projected to react to variations in economic variables. This should include the impact of different interest rate assumptions and, for non-participating Member States, of different exchange rate assumptions, on the budgetary and debt position. Countries that do not use the common external assumptions should

endeavour to provide a sensitivity analysis also on main extra-EU variables when the differences are significant.

In the case of ‘major structural reforms’ (see Section I), the programmes shall also provide an analysis of how changes in the assumptions would affect the effects on the budget and potential growth.

Time horizon

The information about paths for the general government surplus/ deficit ratio, the expenditure and revenue ratios and their components as well as for debt ratio and the main economic assumptions should be on an annual basis and should cover, as well as the current and preceding year, at least the three following years (Article 3(3) and Article 7(3)), leaving it open to Member States to cover a longer period if they so wish.

The horizon for the long-term projections on the budgetary implications of ageing should cover the same period as the EPC projections.

Updating of programmes

In order to promote the efficiency of the budgetary and economic surveillance and achieve a better interaction between different procedures, submissions of SCP updates should take place shortly after national governments have presented their budget proposals to parliaments, but not earlier than mid-October and not later than 1 December ⁽⁵⁵⁾ ⁽⁵⁶⁾ ⁽⁵⁷⁾. This should increase the comparability of the programmes, the consistency of the assessments and the equality of treatment. The EFC and the Ecofin should examine the SCP updates in a maximum of three sessions. The whole process should be completed before the end of March each year.

Annual updates of stability and convergence programmes should show how developments have compared with the budgetary targets in the previous programme or update. When applicable, they should explain in detail the reasons for the deviations from these targets. When substantial deviations occur, the update should mention whether measures are taken to rectify the situation, and provide information on these measures.

⁽⁵⁵⁾ In the case of the UK, which has a different fiscal year, submission should be as close as possible to the presentation of the autumn pre-Budget report.

⁽⁵⁶⁾ Austria and Portugal cannot comply at this stage with this schedule, but they will submit their stability programmes no later than 15 December.

⁽⁵⁷⁾ Ireland will be regarded as meeting this commitment by submitting its stability programme update on its annual Budget day, which traditionally takes place on the first Wednesday of December.

ANNEX 1

MODEL STRUCTURE FOR THE STABILITY AND CONVERGENCE PROGRAMMES

1. Overall policy framework and objectives

2. Economic outlook

(on the basis of Tables 1a-1d, 5 and 8)

- *World economy/technical assumptions*
- *Cyclical developments and current prospects*
- *Medium-term scenario*
- *Sectoral balances*
- *Growth implications of 'major structural reforms'*

3. General government balance and debt

(on the basis of Tables 2, 3, 4 and 5)

- *Policy strategy*
- *Medium-term objectives*
- *Actual balances and implications of budget for next year*
- *Structural balance (cyclical component of the deficit, one-off and temporary measures), fiscal stance*
- *Debt levels and developments, analysis of below-the-line operations and stock-flow adjustments*
- *Budgetary implications of 'major structural reforms'*

4. Sensitivity analysis and comparison with previous update

(on the basis of Table 6)

- *Alternative scenarios and risks*
- *Sensitivity of budgetary projections to different scenarios and assumptions*
- *Comparison with previous update*

5. Quality of public finances

(on the basis of Tables 2 and 3)

- *Policy strategy*
- *Developments on the expenditure side*
- *Developments on the revenue side*

6. Sustainability of public finances

(on the basis of Table 7)

- *Policy strategy*
- *Long-term budgetary prospects, including the implications of ageing populations*

7. Institutional features of public finances

- *Implementation of national budgetary rules*
- *Budgetary procedures, including public finance statistical governance*
- *Other institutional developments in relation to public finances*

ANNEX 2

**TABLES TO BE CONTAINED IN THE STABILITY
AND CONVERGENCE PROGRAMMES AND THEIR UPDATES**

*Provision of data on variables in bold characters is a requirement.
Provision of data on other variables is optional but highly desirable*

Table 1a. Macroeconomic prospects

	ESA code	Year	Year	Year	Year	Year	Year
		X-1	X-1	X	X+1	X+2	X+3
		Level	rate of change				
1. Real GDP	B1* g						
2. Nominal GDP	B1* g						
Components of real GDP							
3. Private consumption expenditure	P.3						
4. Government consumption expenditure	P.3						
5. Gross fixed capital formation	P.51						
6. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53						
7. Exports of goods and services	P.6						
8. Imports of goods and services	P.7						

Contributions to real GDP growth							
9. Final domestic demand		-					
10. Changes in inventories and net acquisition of valuables	P.52 + P.53	-					
11. External balance of goods and services	B.11	-					

Table 1b. Price developments

	ESA code	Year X-1	Year X-1	Year X	Year X+1	Year X+2	Year X+3
		Level	rate of change				
1. GDP deflator							
2. Private consumption deflator							
3. HICP ⁽¹⁾							
4. Public consumption deflator							
5. Investment deflator							
6. Export price deflator (goods and services)							
7. Import price deflator (goods and services)							

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Table 1c. Labour-market developments

	ESA code	Year X-1	Year X-1	Year X	Year X+1	Year X+2	Year X+3
		Level	rate of change				
1. Employment, persons ⁽²⁾							
2. Employment, hours worked ⁽³⁾							
3. Unemployment rate (%) ⁽⁴⁾							
4. Labour productivity, persons ⁽⁵⁾							
5. Labour productivity, hours worked ⁽⁶⁾							
6. Compensation of employees	D.1						

⁽¹⁾ Optional for stability programmes.

⁽²⁾ Occupied population, domestic concept national accounts definition.

⁽³⁾ National accounts definition.

⁽⁴⁾ Harmonised definition, Eurostat, levels.

⁽⁵⁾ Real GDP per person employed.

⁽⁶⁾ Real GDP per hour worked.

Table 1d. Sectoral balances

% of GDP	ESA code	Year X-1	Year X	Year X+1	Year X+2	Year X+3
1. Net lending/ borrowing vis-à-vis the rest of the world	B.9				optional	optional
of which: — Balance on goods and services						
- Balance of primary incomes and transfers						
- Capital account						
2. Net lending/ borrowing of the private sector	B.9/ EDP B.9					
3. Net lending/ borrowing of general government	B.9					
4. Statistical discrepancy			optional	optional	optional	optional

Table 2. General government budgetary prospects

	ESA code	Year X-1	Year X-1	Year X-1	Year X-1	Year X+2	Year X+3
		Level	% of GDP				
Net lending (EDP B.9) by sub-sector							
1. General government	S.13						
2. Central government	S.1311						
3. State government	S.1312						
4. Local government	S.1313						
5. Social security funds	S.1314						
General government (S13)							
6. Total revenue	TR						
7. Total expenditure	TE ⁽⁷⁾						
8. Net lending/ borrowing	EDP B.9						
9. Interest expenditure (including FISIM)	EDP D.41 incl. FISIM						
p.m.: 9a. FISIM							
10. Primary balance	⁽⁸⁾						

⁽⁷⁾ Adjusted for the net flow of swap-related flows, so that TR-TE=EDP B.9.

⁽⁸⁾ The primary balance is calculated as (EDP B.9, item 8) plus (EDP D.41 + FISIM recorded as intermediate consumption, item 9).

Selected components of revenue							
11. Total taxes (11=11a+11b+11c)							
11a. Taxes on production and imports	D.2					optional	optional
11b. Current taxes on income, wealth, etc.	D.5					optional	optional
11c. Capital taxes	D.91					optional	optional
12. Social contributions	D.61					optional	optional
13. Property income	D.4					optional	optional
14. Other (14=15-(11+12+13))						optional	optional
15=6. Total revenue	TR						
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995) ⁽⁹⁾							

⁽⁹⁾ Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D.995), if appropriate.

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Selected components of expenditure						
16. Collective consumption	P.32					
17. Total social transfers	D.62 + D.63					
17a. Social transfers in kind	P.31 =D.63					
17b. Social transfers other than in kind	D.62					
18.=9. Interest expenditure (including FISIM)	EDP D.41 incl. FISIM					
19. Subsidies	D.3					
20. Gross fixed capital formation	P.51					
21. Other (21=22-(16+17+18+19+20))						
22=7. Total expenditure	TE (¹⁰)					
p.m.: compensation of employees	D.1					

(¹⁰) Adjusted for the net flow of swap-related flows, so that TR-TE=EDP B.9.

Table 3. General government expenditure by function

% of GDP	COFOG code	Year X-2	Year X +3
1. General public services	1		
2. Defence	2		
3. Public order and safety	3		
4. Economic affairs	4		
5. Environmental protection	5		
6. Housing and community amenities	6		
7. Health	7		
8. Recreation, culture and religion	8		
9. Education	9		
10. Social protection	10		
11. Total expenditure (= item 7=26 in Table 2)	TE ⁽¹⁾		

⁽¹⁾ Adjusted for the net flow of swap-related flows, so that TR-TE=EDP B.9.

Table 4. General government debt developments

% of GDP		Year X-1	Year X	Year X+1	Year X+2	Year X+3
1. Gross debt ⁽¹²⁾						
2. Change in gross debt ratio						
Contributions to changes in gross debt						
3. Primary balance ⁽¹³⁾						
4. Interest expenditure (including FISIM) ⁽¹⁴⁾						
5. Stock-flow adjustment						
of which: — Differences between cash and accruals ⁽¹⁵⁾						
- Net accumulation of financial assets ⁽¹⁶⁾ of which: — privatisation proceeds						
- Valuation effects and other ⁽¹⁷⁾						
p.m. implicit interest rate on debt ⁽¹⁸⁾						

⁽¹²⁾ As defined in Regulation (EC) No 3605/93 (not an ESA concept).

⁽¹³⁾ Cf. item 10 in Table 2.

⁽¹⁴⁾ Cf. item 9 in Table 2.

⁽¹⁵⁾ The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant.

⁽¹⁶⁾ Liquid assets, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant.

⁽¹⁷⁾ Changes due to exchange rate movements, and operation in secondary market could be distinguished when relevant.

⁽¹⁸⁾ Proxied by interest expenditure (including FISIM recorded as consumption) divided by the debt level of the previous year.

Other relevant variables						
6. Liquid financial assets ⁽¹⁹⁾						
7. Net financial debt (7=1-6)						

Table 5. Cyclical developments

% of GDP	ESA code	Year X-1	Year X	Year X+1	Year X+2	Year X+3
1. Real GDP growth (%)						
2. Net lending of general government	EDP B.9					
3. Interest expenditure (including FISIM recorded as consumption)	EDPD.41 + FISIM					
4. Potential GDP growth (%) *						
contributions: — labour — capital — total factor productivity						
5. Output gap						
6. Cyclical budgetary component						
7. Cyclically-adjusted balance (2-6)						
8. Cyclically-adjusted primary balance (7-3)						

* Until an agreement on the production function method is reached, Member States can use their own figures (SP).

⁽¹⁹⁾ AF1, AF2, AF3 (consolidated at market value), AF5 (if quoted in stock exchange, including mutual fund shares).

Table 6. Divergence from previous update

	ESA code	Year X-1	Year X	Year X+1	Year X+2	Year X+3
Real GDP growth (%)						
Previous update						
Current update						
Difference						
General government net lending (% of GDP)	EDP B.9					
Previous update						
Current update						
Difference						
General government gross debt (% of GDP)						
Previous update						
Current update						
Difference						

Table 7. Long-term sustainability of public finances

% of GDP	2000	2005	2010	2020	2030	2050
Total expenditure						
Of which: age-related expenditure						
Pension expenditure						
Social security pension						
Old-age and early pensions						
Other pensions (disability, survivors)						
Occupational pensions (if in general government)						
Health care						
Long-term care (this was earlier included in health care)						
Education expenditure						
Other age-related expenditure						
Interest expenditure						
Total revenue						
Of which: property income						
Of which: from pensions contributions (or social contributions if appropriate)						
Pension reserve fund assets						
Of which: consolidated public pension fund assets (assets other than government liabilities)						
Assumptions						
Labour productivity growth						
Real GDP growth						
Participation rate males (aged 20-64)						
Participation rates females (aged 20-64)						
Total participation rates (aged 20-64)						
Unemployment rate						
Population aged 65+ over total population						

2. Economic policy coordination

Table 8. Basic assumptions

This table should preferably be included in the programme itself; if not, these assumptions should be transmitted to the Council and the Commission together with the programme.

	Year X-1	Year X	Year X+1	Year X+2	Year X+3
Short-term interest rate ⁽²⁰⁾ (annual average)					
Long-term interest rate (annual average)					
USD/EUR exchange rate (annual average) (euro area and ERM2 countries)					
Nominal effective exchange rate					
(for countries not in euro area or ERM2) exchange rate vis-à-vis the euro (annual average)					
World excluding EU, GDP growth					
EU GDP growth					
Growth of relevant foreign markets					
World import volumes, excluding EU					
Oil prices, (Brent, USD/ barrel)					

⁽²⁰⁾ If necessary, purely technical assumptions.

3. Introduction of the euro

**Madrid European Council
15 and 16 December 1995
Presidency conclusions
(extract)**

**Economic revitalisation of Europe
in a socially integrated framework**

A. Economic and monetary union

1. The scenario for the changeover to the single currency

1. The European Council confirms that 1 January 1999 will be the starting date for Stage III of economic and monetary union, in accordance with the convergence criteria, timetable, protocols and procedures laid down in the Treaty.

The European Council confirms that a high degree of economic convergence is a precondition for the Treaty objective to create a stable single currency.

2. The name of the new currency is an important element in the preparation of the transition to the single currency, since it partly determines the public acceptability of economic and monetary union. The European Council considers that the name of the single currency must be the same in all the official languages of the European Union, taking into account the existence of different alphabets; it must be simple and symbolise Europe.

The European Council therefore decides that, as of the start of Stage III, the name given to the European currency shall be euro. This name is meant as a full name, not as a prefix to be attached to the national currency names.

The specific name euro will be used instead of the generic term 'ecu' used by the Treaty to refer to the European currency unit.

The Governments of the 15 Member States have achieved the common agreement that this decision is the agreed and definitive interpretation of the relevant Treaty provisions.

3. As a decisive step in the clarification of the process of introduction of the single currency, the European Council adopts the changeover scenario attached in Annex 1 ⁽⁵⁸⁾ which is based on the scenario elaborated at its request by the Council, in consultation with the Commission and the European Monetary

⁽⁵⁸⁾ OJ C 22, 26.1.1996, p. 2.

3. Introduction of the euro

Institute. It notes with satisfaction that the scenario is compatible with the EMI report on the changeover.

4. The scenario provides for transparency and acceptability, strengthens credibility and underlines the irreversibility of the process. It is technically feasible and aims to provide for the necessary legal certainty, to minimise adjustment costs and to avoid competitive distortions. Under the scenario, the Council, in the composition of Heads of State or Government, will confirm as early as possible in 1998 which Member States fulfil the necessary conditions for the adoption of the single currency. The European Central Bank (ECB) will have to be created early enough so as to allow preparations to be completed and full operation to start on 1 January 1999.

5. Stage III will begin on 1 January 1999 with the irrevocable fixing of conversion rates among the currencies of participating countries and against the euro. From that date, monetary policy and the foreign exchange rate policy will be conducted in euro, the use of the euro will be encouraged in foreign exchange markets and new tradable public debt will be issued in euro by the participating Member States.

6. A Council Regulation, whose technical preparatory work shall be completed at the latest by the end of 1996, will enter into force on 1 January 1999 and provide the legal framework for the use of the euro, which, from this date, will become a currency in its own right, and the official ecu basket will cease to exist. This regulation will establish, as long as different monetary units still exist, a legally enforceable equivalence between the euro and the national units. The substitution of the euro for national currencies should not of itself alter the continuity of contracts, unless otherwise provided in the contract. In the case of contracts denominated by reference to the official ecu basket of the European Community, in accordance with the Treaty, substitution by the euro will be at the rate of one to one, unless otherwise provided in the contract.

7. By 1 January 2002 at the latest, euro banknotes and coins will start to circulate alongside national notes and coins. At most six months later, the national currencies will have been completely replaced by the euro in all participating Member States, and the changeover will be complete. Thereafter, national banknotes and coins may still be exchanged at the national Central Banks.

8. The European Council calls on the Ecofin Council to speed up all the additional technical work necessary to implement the changeover scenario adopted today. The labelling of euro banknotes and coins in the different alphabets of the Union will also be defined.

Council Regulation (EC) No 2866/98 of 31 December 1998 on the conversion rates between the euro and the currencies of the Member States adopting the euro ⁽⁵⁹⁾

Amended by:

- Council Regulation (EC) No 1478/2000 of 19 June 2000 ⁽⁶⁰⁾
- Council Regulation (EC) No 1086/2006 of 11 July 2006 ⁽⁶¹⁾

[No 2866/98 of 31 December 1998]

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 109l(4), first sentence thereof,

Having regard to the proposal from the Commission,

Having regard to the opinion of the European Central Bank ⁽⁶²⁾,

(1) Whereas according to Article 109j(4) of the Treaty, the third stage of economic and monetary union shall start on 1 January 1999; whereas the Council, meeting in the composition of Heads of State or Government, has confirmed on 3 May 1998 that Belgium, Germany, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland fulfil the necessary conditions for the adoption of a single currency on 1 January 1999 ⁽⁶³⁾;

(2) Whereas according to Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro ⁽⁶⁴⁾, the euro shall be the currency of the Member States which adopt the single currency as from 1 January 1999; whereas the introduction of the euro requires the adoption of the conversion rates at which the euro will be substituted for the national currencies and at which rates the euro will be divided into national currency units; whereas the conversion rates in Article 1 are the conversion rates referred to in the third indent of Article 1 of Regulation (EC) No 974/98;

(3) Whereas according to Council Regulation (EC) No 1103/97 of 17 June 1997 on certain provisions relating to the introduction of the euro ⁽⁶⁵⁾, every reference to the ecu in a legal instrument shall be replaced by a reference to the euro at a rate of one euro to one ecu; whereas Article 109l(4), second sentence, of the Treaty, provides that the adoption of the conversion rates shall by itself

⁽⁵⁹⁾ OJ L 359, 31.12.1998, p. 1.

⁽⁶⁰⁾ OJ L 167, 7.7.2000, p. 1.

⁽⁶¹⁾ OJ L 195, 15.7.2006, p. 1.

⁽⁶²⁾ OJ C 412, 31.12.1998, p. 1.

⁽⁶³⁾ Council Decision 98/317/EC of 3 May 1998 in accordance with Article 109j(4) of the Treaty (OJ L 139, 11.5.1998, p. 30).

⁽⁶⁴⁾ OJ L 139, 11.5.1998, p. 1.

⁽⁶⁵⁾ OJ L 162, 19.6.1997, p. 1.

3. Introduction of the euro

not modify the external value of the ecu; whereas this is ensured by adopting as the conversion rates, the exchange rates against the ecu of the currencies of the Member States adopting the euro, as calculated by the Commission on 31 December 1998 according to the established procedure for the calculation of the daily official ecu rates;

(4) Whereas the Ministers of the Member States adopting the euro as their single currency, the Governors of the Central Banks of these Member States, the Commission and the European Monetary Institute/the European Central Bank, have issued two Communiqués on the determination and on the adoption of the irrevocable conversion rates for the euro dated 3 May 1998 ⁽⁶⁶⁾ and 26 September 1998, respectively;

(5) Whereas Regulation (EC) No 1103/97 stipulates that the conversion rates shall be adopted as one euro expressed in terms of each of the national currencies of the Member States adopting the euro; whereas in order to ensure a high degree of accuracy, these rates will be adopted with six significant figures and no inverse rates nor bilateral rates between the currencies of the Member States adopting the euro will be defined,

HAS ADOPTED THIS REGULATION:

Article 1

The irrevocably fixed conversion rates between the euro and the currencies of the Member States adopting the euro are:

1 euro =	40,3399	Belgian francs
=	1,95583	German marks
=	340,750	Greek drachma
=	166,386	Spanish pesetas
=	6,55957	French francs
=	0,787564	Irish pounds
=	1936,27	Italian lire
=	40,3399	Luxembourg francs
=	2,20371	Dutch guilders
=	13,7603	Austrian schillings
=	200,482	Portuguese escudos
=	239,640	Slovenian tolars
=	5,94573	Finnish marks

⁽⁶⁶⁾ OJ C 160, 27.5.1998, p. 1.

Article 2

This Regulation shall enter into force on 1 January 1999.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Council Regulation (EC) No 1103/97 of 17 June 1997 on certain provisions relating to the introduction of the euro ⁽⁶⁷⁾

Amended by:

- Council Regulation (EC) No 2595/2000 of 27 November 2000 ⁽⁶⁸⁾

[No 1103/97 of 17 June 1997]

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 235 thereof,

Having regard to the proposal of the Commission ⁽⁶⁹⁾,

Having regard to the opinion of the European Parliament ⁽⁷⁰⁾,

Having regard to the opinion of the European Monetary Institute ⁽⁷¹⁾,

(1) Whereas, at its meeting held in Madrid on 15 and 16 December 1995, the European Council confirmed that the third stage of Economic and Monetary Union will start on 1 January 1999 as laid down in Article 109j(4) of the Treaty; whereas the Member States which will adopt the euro as the single currency in accordance with the Treaty will be defined for the purposes of this Regulation as the ‘participating Member States’;

(2) Whereas, at the meeting of the European Council in Madrid, the decision was taken that the term ‘ecu’ used by the Treaty to refer to the European currency unit is a generic term; whereas the Governments of the 15 Member States have achieved the common agreement that this decision is the agreed and definitive interpretation of the relevant Treaty provisions; whereas the name given to the European currency shall be the ‘euro’; whereas the euro as the currency of the participating Member States will be divided into one hundred sub-units with the name ‘cent’; whereas the European Council furthermore considered that the name of the single currency must be the same in all the official languages of the European Union, taking into account the existence of different alphabets;

(3) Whereas a Regulation on the introduction of the euro will be adopted by the Council on the basis of the third sentence of Article 109l(4) of the Treaty as soon as the participating Member States are known in order to define the legal framework of the euro; whereas the Council, when acting at the starting date

⁽⁶⁷⁾ OJ L 162, 19.6.1997, p. 1.

⁽⁶⁸⁾ OJ L 300, 29.11.2000, p. 1.

⁽⁶⁹⁾ OJ C 369, 7.12.1996, p. 8.

⁽⁷⁰⁾ OJ C 380, 16.12.1996, p. 49.

⁽⁷¹⁾ Opinion delivered on 29 November 1996.

of the third stage in accordance with the first sentence of Article 109l(4) of the Treaty, shall adopt the irrevocably fixed conversion rates;

(4) Whereas it is necessary, in the course of the operation of the common market and for the changeover to the single currency, to provide legal certainty for citizens and firms in all Member States on certain provisions relating to the introduction of the euro well before the entry into the third stage; whereas this legal certainty at an early stage will allow preparations by citizens and firms to proceed under good conditions;

(5) Whereas the third sentence of Article 109l(4) of the Treaty, which allows the Council, acting with the unanimity of participating Member States, to take other measures necessary for the rapid introduction of the single currency is available as a legal basis only when it has been confirmed, in accordance with Article 109j(4) of the Treaty, which Member States fulfil the necessary conditions for the adoption of a single currency; whereas it is therefore necessary to have recourse to Article 235 of the Treaty as a legal basis for those provisions where there is an urgent need for legal certainty; whereas therefore this Regulation and the aforesaid Regulation on the introduction of the euro will together provide the legal framework for the euro, the principles of which legal framework were agreed by the European Council in Madrid; whereas the introduction of the euro concerns day-to-day operations of the whole population in participating Member States; whereas measures other than those in this Regulation and in the Regulation which will be adopted under the third sentence of Article 109l(4) of the Treaty should be examined to ensure a balanced changeover, in particular for consumers;

(6) Whereas the ecu as referred to in Article 109g of the Treaty and as defined in Council Regulation (EC) No 3320/94 of 22 December 1994 on the consolidation of the existing Community legislation on the definition of the ecu following the entry into force of the Treaty on European Union ⁽⁷²⁾ will cease to be defined as a basket of component currencies on 1 January 1999 and the euro will become a currency in its own right; whereas the decision of the Council regarding the adoption of the conversion rates shall not in itself modify the external value of the ecu; whereas this means that one ecu in its composition as a basket of component currencies will become one euro; whereas Regulation (EC) No 3320/94 therefore becomes obsolete and should be repealed; whereas for references in legal instruments to the ecu, parties shall be presumed to have agreed to refer to the ecu as referred to in Article 109g of the Treaty and as defined in the aforesaid Regulation; whereas such presumption should be rebuttable taking into account the intentions of the parties;

(7) Whereas it is a generally accepted principle of law that the continuity of contracts and other legal instruments is not affected by the introduction of a new currency; whereas the principle of freedom of contract has to be

⁽⁷²⁾ OJ L 350, 31.12.1994, p. 27.

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respected; whereas the principle of continuity should be compatible with anything which parties might have agreed with reference to the introduction of the euro; whereas, in order to reinforce legal certainty and clarity, it is appropriate explicitly to confirm that the principle of continuity of contracts and other legal instruments shall apply between the former national currencies and the euro and between the ecu as referred to in Article 109g of the Treaty and as defined in Regulation (EC) No 3320/94 and the euro; whereas this implies, in particular, that in the case of fixed interest rate instruments the introduction of the euro does not alter the nominal interest rate payable by the debtor, whereas the provisions on continuity can fulfil their objective to provide legal certainty and transparency to economic agents, in particular for consumers, only if they enter into force as soon as possible;

(8) Whereas the introduction of the euro constitutes a change in the monetary law of each participating Member State; whereas the recognition of the monetary law of a State is a universally accepted principle; whereas the explicit confirmation of the principle of continuity should lead to the recognition of continuity of contracts and other legal instruments in the jurisdictions of third countries;

(9) Whereas the term ‘contract’ used for the definition of legal instruments is meant to include all types of contracts, irrespective of the way in which they are concluded;

(10) Whereas the Council, when acting in accordance with the first sentence of Article 109l(4) of the Treaty, shall define the conversion rates of the euro in terms of each of the national currencies of the participating Member States; whereas these conversion rates should be used for any conversion between the euro and the national currency units or between the national currency units; whereas for any conversion between national currency units, a fixed algorithm should define the result; whereas the use of inverse rates for conversion would imply rounding of rates and could result in significant inaccuracies, notably if large amounts are involved;

(11) Whereas the introduction of the euro requires the rounding of monetary amounts; whereas an early indication of rules for rounding is necessary in the course of the operation of the common market and to allow a timely preparation and a smooth transition to economic and monetary union; whereas these rules do not affect any rounding practice, convention or national provisions providing a higher degree of accuracy for intermediate computations;

(12) Whereas, in order to achieve a high degree of accuracy in conversion operations, the conversion rates should be defined with six significant figures; whereas a rate with six significant figures means a rate which, counted from the left and starting by the first non-zero figure, has six figures,

HAS ADOPTED THIS REGULATION:

Article 1

For the purpose of this Regulation:

- ‘legal instruments’ shall mean legislative and statutory provisions, acts of administration, judicial decisions, contracts, unilateral legal acts, payment instruments other than banknotes and coins, and other instruments with legal effect,
- ‘participating Member States’ shall mean those Member States which adopt the single currency in accordance with the Treaty,
- ‘conversion rates’ shall mean the irrevocably fixed conversion rates which the Council adopts in accordance with the first sentence of Article 109l(4) of the Treaty or in accordance with paragraph 5 of that Article,
- ‘national currency units’ shall mean the units of the currencies of participating Member States, as those units are defined on the day before the start of the third stage of Economic and Monetary Union or, as the case may be, on the day before the euro is substituted for the currency of a Member State which adopts the euro at a later date,
- ‘euro unit’ shall mean the unit of the single currency as defined in the Regulation on the introduction of the euro which will enter into force at the starting date of the third stage of economic and monetary union.

Article 2

1. Every reference in a legal instrument to the ecu, as referred to in Article 109g of the Treaty and as defined in Regulation (EC) No 3320/94, shall be replaced by a reference to the euro at a rate of one euro to one ecu. References in a legal instrument to the ecu without such a definition shall be presumed, such presumption being rebuttable taking into account the intentions of the parties, to be references to the ecu as referred to in Article 109g of the Treaty and as defined in Regulation (EC) No 3320/94.
2. Regulation (EC) No 3320/94 is hereby repealed.
3. This Article shall apply as from 1 January 1999 in accordance with the decision pursuant to Article 109j(4) of the Treaty.

Article 3

The introduction of the euro shall not have the effect of altering any term of a legal instrument or of discharging or excusing performance under any legal instru-

3. Introduction of the euro

ment, nor give a party the right unilaterally to alter or terminate such an instrument. This provision is subject to anything which parties may have agreed.

Article 4

1. The conversion rates shall be adopted as one euro expressed in terms of each of the national currencies of the participating Member States. They shall be adopted with six significant figures.
2. The conversion rates shall not be rounded or truncated when making conversions.
3. The conversion rates shall be used for conversions either way between the euro unit and the national currency units. Inverse rates derived from the conversion rates shall not be used.
4. Monetary amounts to be converted from one national currency unit into another shall first be converted into a monetary amount expressed in the euro unit, which amount may be rounded to not less than three decimals and shall then be converted into the other national currency unit. No alternative method of calculation may be used unless it produces the same results.

Article 5

Monetary amounts to be paid or accounted for when a rounding takes place after a conversion into the euro unit pursuant to Article 4 shall be rounded up or down to the nearest cent. Monetary amounts to be paid or accounted for which are converted into a national currency unit shall be rounded up or down to the nearest sub-unit or in the absence of a sub-unit to the nearest unit, or according to national law or practice to a multiple or fraction of the sub-unit or unit of the national currency unit. If the application of the conversion rate gives a result which is exactly half-way, the sum shall be rounded up.

Article 6

This Regulation shall enter into force on the day following that of its publication in the *Official Journal of the European Communities*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro ⁽⁷³⁾

Amended by:

- Council Regulation (EC) No 2596/2000 of 27 November 2000 ⁽⁷⁴⁾
- Council Regulation (EC) No 2169/2005 of 21 December 2005 ⁽⁷⁵⁾
- Council Regulation (EC) No 1647/2006 of 7 November 2006 ⁽⁷⁶⁾

[No 974/98 of 3 May 1998]

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 109l(4), third sentence thereof,

Having regard to the proposal from the Commission ⁽⁷⁷⁾,

Having regard to the opinion of the European Monetary Institute ⁽⁷⁸⁾,

Having regard to the opinion of the European Parliament ⁽⁷⁹⁾,

(1) Whereas this Regulation defines monetary law provisions of the Member States which have adopted the euro; whereas provisions on continuity of contracts, the replacement of references to the ecu in legal instruments by references to the euro and rounding have already been laid down in Council Regulation (EC) No 1103/97 of 17 June 1997 on certain provisions relating to the introduction of the euro ⁽⁸⁰⁾; whereas the introduction of the euro concerns day-to-day operations of the whole population in participating Member States; whereas measures other than those in this Regulation and in Regulation (EC) No 1103/97 should be examined to ensure a balanced changeover, in particular for consumers;

(2) Whereas, at the meeting of the European Council in Madrid on 15 and 16 December 1995, the decision was taken that the term ‘ecu’ by the Treaty to refer to the European currency unit is a generic term; whereas the Governments of the 15 Member States have reached the common agreement that this decision is the agreed and definitive interpretation of the relevant Treaty provisions; whereas the name given to the European currency shall be the ‘euro’; whereas the euro as the currency of the participating Member States shall be divided

⁽⁷³⁾ OJ L 139, 11.5.1998, p. 1.

⁽⁷⁴⁾ OJ L 300, 29.11.2000, p. 2.

⁽⁷⁵⁾ OJ L 346, 29.12.2005, p. 1.

⁽⁷⁶⁾ OJ L 309, 9.11.2006, p. 2.

⁽⁷⁷⁾ OJ C 369, 7.12.1996, p. 10.

⁽⁷⁸⁾ OJ C 205, 5.7.1997, p. 18.

⁽⁷⁹⁾ OJ C 380, 16.12.1996, p. 50.

⁽⁸⁰⁾ OJ L 162, 19.6.1997, p. 1.

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into one hundred sub-units with the name 'cent'; whereas the definition of the name 'cent' does not prevent the use of variants of this term in common usage in the Member States; whereas the European Council furthermore considered that the name of the single currency must be the same in all the official languages of the European Union, taking into account the existence of different alphabets;

(3) Whereas the Council when acting in accordance with the third sentence of Article 109l(4) of the Treaty shall take the measures necessary for the rapid introduction of the euro other than the adoption of the conversion rates;

(4) Whereas whenever under Article 109k(2) of the Treaty a Member State becomes a participating Member State, the Council shall according to Article 109l(5) of the Treaty take the other measures necessary for the rapid introduction of the euro as the single currency of this Member State;

(5) Whereas according to the first sentence of Article 109l(4) of the Treaty the Council shall at the starting date of the third stage adopt the conversion rates at which the currencies of the participating Member States shall be irrevocably fixed and at which irrevocably fixed rate the euro shall be substituted for these currencies;

(6) Whereas given the absence of exchange rate risk either between the euro unit and the national currency units or between these national currency units, legislative provisions should be interpreted accordingly;

(7) Whereas the term 'contract' used for the definition of legal instruments is meant to include all types of contracts, irrespective of the way in which they are concluded;

(8) Whereas in order to prepare a smooth changeover to the euro a transitional period is needed between the substitution of the euro for the currencies of the participating Member States and the introduction of euro banknotes and coins; whereas during this period the national currency units will be defined as subdivisions of the euro; whereas thereby a legal equivalence is established between the euro unit and the national currency units;

(9) Whereas in accordance with Article 109g of the Treaty and with Regulation (EC) No 1103/97, the euro will replace the ecu as from 1 January 1999 as the unit of account of the institutions of the European Communities; whereas the euro should also be the unit of account of the European Central Bank (ECB) and of the central banks of the participating Member States; whereas, in line with the Madrid conclusions, monetary policy operations will be carried out in the euro unit by the European System of Central Banks (ESCB); whereas this does not prevent national central banks from keeping accounts in their national currency unit during the transitional period, in particular for their staff and for public administrations;

(10) Whereas each participating Member State may allow the full use of the euro unit in its territory during the transitional period;

(11) Whereas during the transitional period contracts, national laws and other legal instruments can be drawn up validly in the euro unit or in the national currency unit; whereas during this period, nothing in this Regulation should affect the validity of any reference to a national currency unit in any legal instrument;

(12) Whereas, unless agreed otherwise, economic agents have to respect the denomination of a legal instrument in the performance of all acts to be carried out under that instrument;

(13) Whereas the euro unit and the national currency units are units of the same currency; whereas it should be ensured that payments inside a participating Member State by crediting an account can be made either in the euro unit or the respective national currency unit; whereas the provisions on payments by crediting an account should also apply to those cross-border payments, which are denominated in the euro unit or the national currency unit of the account of the creditor; whereas it is necessary to ensure the smooth functioning of payment systems by laying down provisions dealing with the crediting of accounts by payment instruments credited through those systems; whereas the provisions on payments by crediting an account should not imply that financial intermediaries are obliged to make available either other payment facilities or products denominated in any particular unit of the euro; whereas the provisions on payments by crediting an account do not prohibit financial intermediaries from coordinating the introduction of payment facilities denominated in the euro unit which rely on a common technical infrastructure during the transitional period;

(14) Whereas in accordance with the conclusions reached by the European Council at its meeting held in Madrid, new tradeable public debt will be issued in the euro unit by the participating Member States as from 1 January 1999; whereas it is desirable to allow issuers of debt to redenominate outstanding debt in the euro unit; whereas the provisions on redenomination should be such that they can also be applied in the jurisdictions of third countries; whereas issuers should be enabled to redenominate outstanding debt if the debt is denominated in a national currency unit of a Member State which has redenominated part or all of the outstanding debt of its general government; whereas these provisions do not address the introduction of additional measures to amend the terms of outstanding debt to alter, among other things, the nominal amount of outstanding debt, these being matters subject to relevant national law; whereas it is desirable to allow Member States to take appropriate measures for changing the unit of account of the operating procedures of organised markets;

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(15) Whereas further action at the Community level may also be necessary to clarify the effect of the introduction of the euro on the application of existing provisions of Community law, in particular concerning netting, set-off and techniques of similar effect;

(16) Whereas any obligation to use the euro unit can only be imposed on the basis of Community legislation; whereas in transactions with the public sector participating Member States may allow the use of the euro unit; whereas in accordance with the reference scenario decided by the European Council at its meeting held in Madrid, the Community legislation laying down the time frame for the generalisation of the use of the euro unit might leave some freedom to individual Member States;

(17) Whereas in accordance with Article 105a of the Treaty the Council may adopt measures to harmonise the denominations and technical specifications of all coins;

(18) Whereas banknotes and coins need adequate protection against counterfeiting;

(19) Whereas banknotes and coins denominated in the national currency units lose their status of legal tender at the latest six months after the end of the transitional period; whereas limitations on payments in notes and coins, established by Member States for public reasons, are not incompatible with the status of legal tender of euro banknotes and coins, provided that other lawful means for the settlement of monetary debts are available;

(20) Whereas as from the end of the transitional period references in legal instruments existing at the end of the transitional period will have to be read as references to the euro unit according to the respective conversion rates; whereas a physical redenomination of existing legal instruments is therefore not necessary to achieve this result; whereas the rounding rules defined in Regulation (EC) No 1103/97 shall also apply to the conversions to be made at the end of the transitional period or after the transitional period; whereas for reasons of clarity it may be desirable that the physical redenomination will take place as soon as appropriate;

(21) Whereas paragraph 2 of Protocol 11 on certain provisions relating to the United Kingdom of Great Britain and Northern Ireland stipulates that, *inter alia*, paragraph 5 of that Protocol shall have effect if the United Kingdom notifies the Council that it does not intend to move to the third stage; whereas the United Kingdom gave notice to the Council on 30 October 1997 that it does not intend to move to the third stage; whereas paragraph 5 stipulates that, *inter alia*, Article 109l(4) of the Treaty shall not apply to the United Kingdom;

(22) Whereas Denmark, referring to paragraph 1 of Protocol 12 on certain provisions relating to Denmark has notified, in the context of the Edinburgh decision of 12 December 1992, that it will not participate in the third stage; whereas,

therefore, in accordance with paragraph 2 of the said Protocol, all Articles and provisions of the Treaty and the Statute of the ESCB referring to a derogation shall be applicable to Denmark;

(23) Whereas, in accordance with Article 109l(4) of the Treaty, the single currency will be introduced only in the Member States without a derogation;

(24) Whereas this Regulation, therefore, shall be applicable pursuant to Article 189 of the Treaty, subject to Protocols 11 and 12 and Article 109k(1),

[No 2169/2005 of 21 December 2005]

(3) Regulation (EC) No 974/98 sets out a timetable for transition to the euro in the Member States currently participating. In order to provide clarity and certainty with regard to the rules governing the Introduction of the euro in other Member States, it is necessary to lay down general provisions specifying how the various periods in the transition to the euro are to be determined in the future.

(4) It is appropriate to provide for a list of participating Member States which may be extended when further Member States adopt the euro as the single currency.

(5) In order to prepare a smooth changeover the the euro, Regulation (EC) No 374/98 provides for a transitional period between the substitution of the euro for the currencies of the participating Member States and the introduction of euro banknotes and coins. The transitional period should last three years at the most, but should be as short as possible.

(6) The transitional period can be reduced to zero, in which case the euro adoption date and the cash changeover date fall on the same day, if a Member State considers that a longer transitional period is not necessary. In that case, euro banknotes and coins will become legal tender in that Member State on the euro adoption date. However, it should be possible for such a Member State to benefit from a “phasing-out” period of one year, during which it would be possible to continue to make reference to the national currency unit in new legal instruments. This would give economic actors in such a Member State more time to adapt to the introduction of the euro and therefore ease the transition.

(7) It should be possible for the general public to exchange banknotes and coins denominated in the national currency unit for euro banknotes and coins free of charge during the dual circulation period, subject to certain ceilings.

HAS ADOPTED THIS REGULATION:

PART I
DEFINITIONS

Article 1

For the purpose of this Regulation:

- (a) ‘participating Member States’ shall mean the Member States listed in the table in the Annex;
- (b) ‘legal instruments’ shall mean legislative and statutory provisions, acts of administration, judicial decisions, contracts, unilateral legal acts, payment instruments other than banknotes and coins, and other instruments with legal effect;
- (c) ‘conversion rate’ shall mean the irrevocably fixed conversion rate adopted for the currency of each participating Member State by the Council in accordance with the first sentence of Article 123(4) of the Treaty or with paragraph 5 of that Article;
- (d) ‘euro adoption date’ shall mean either the date on which the respective Member State enters the third stage under Article 121(3) of the Treaty or the date on which the abrogation of the respective Member State’s derogation under Article 122(2) of the Treaty enters into force, as the case may be;
- (e) ‘cash changeover date’ shall mean the date on which euro banknotes and coins acquire the status of legal tender in a given participating Member State;
- (f) ‘euro unit’ shall mean the currency unit as referred to in the second sentence of Article 2;
- (g) ‘national currency units’ shall mean the units of the currency of a participating Member State, as those units are defined on the day before the adoption of the euro in that Member State;
- (h) ‘transitional period’ shall mean a period of three years at the most beginning at 00.00 hours on the euro adoption date and ending at 00.00 hours on the cash changeover date;
- (i) ‘phasing-out period’ shall mean a period of one year at the most beginning on the euro adoption date, which can only apply to Member States where the euro adoption date and the cash changeover date fall on the same day;

- (j) ‘redenominate’ shall mean changing the unit in which the amount of outstanding debt is stated from a national currency unit to the euro unit, but which does not have through the act of redenomination the effect of altering any other term of the debt, this being a matter subject to relevant national law;
- (k) ‘credit institutions’ shall mean credit institutions as defined in Article 1(1) of Directive 2000/12/EC of the European Parliament and of the Council of 20 March 2000 relating to the taking up and pursuit of the business of credit institutions⁽⁸¹⁾. For the purpose of this Regulation, the institutions listed in Article 2(3) of that Directive with the exception of post office giro institutions shall not be considered as credit institutions.

Article 1a

The euro adoption date, the cash changeover date, and the phasing-out period, if applicable, for each participating Member State shall be as set out in the Annex.

PART II

**SUBSTITUTION OF THE EURO FOR THE CURRENCIES
OF THE PARTICIPATING MEMBER STATES**

Article 2

With effect from the respective euro adoption dates, the currency of the participating Member States shall be the euro. The currency unit shall be one euro. One euro shall be divided into one hundred cent.

Article 3

The euro shall be substituted for the currency of each participating Member State at the conversion rate.

Article 4

The euro shall be the unit of account of the European Central Bank (ECB) and of the central banks of the participating Member States.

⁽⁸¹⁾ OJ L 126, 26.5.2000, p. 1. Directive as last amended by Directive 2005/1/EC of the European Parliament and of the Council (OJ L 79, 24.3.2005, p. 9).

PART III
TRANSITIONAL PROVISIONS

Article 5

Articles 6, 7, 8 and 9 shall apply during the transitional period.

Article 6

1. The euro shall also be divided into the national currency units according to the conversion rates. Any subdivision thereof shall be maintained. Subject to the provisions of this Regulation the monetary law of the participating Member States shall continue to apply.
2. Where in a legal instrument reference is made to a national currency unit, this reference shall be as valid as if reference were made to the euro unit according to the conversion rates.

Article 7

The substitution of the euro for the currency of each participating Member State shall not in itself have the effect of altering the denomination of legal instruments in existence on the date of substitution.

Article 8

1. Acts to be performed under legal instruments stipulating the use of or denominated in a national currency unit shall be performed in that national currency unit. Acts to be performed under legal instruments stipulating the use of or denominated in the euro unit shall be performed in that unit.
2. The provisions of paragraph 1 are subject to anything which parties may have agreed.
3. Notwithstanding the provisions of paragraph 1, any amount denominated either in the euro unit or in the national currency unit of a given participating Member State and payable within that Member State by crediting an account of the creditor, can be paid by the debtor either in the euro unit or in that national currency unit. The amount shall be credited to the account of the creditor in the denomination of his account, with any conversion being effected at the conversion rates.

4. Notwithstanding the provisions of paragraph 1, each participating Member State may take measures which may be necessary in order to:
 - redenominate in the euro unit outstanding debt issued by that Member State's general government, as defined in the European system of integrated accounts, denominated in its national currency unit and issued under its own law. If a Member State has taken such a measure, issuers may redenominate in the euro unit debt denominated in that Member State's national currency unit unless redenomination is expressly excluded by the terms of the contract; this provision shall apply to debt issued by the general government of a Member State as well as to bonds and other forms of securitised debt negotiable in the capital markets, and to money market instruments, issued by other debtors,
 - (a) enable the change of the unit of account of their operating procedures from a national currency unit to the euro unit by:
 - (b) markets for the regular exchange, clearing and settlement of any instrument listed in section B of the Annex to Council Directive 93/22/EEC of 10 May 1993 on investment services in the securities field ⁽⁸²⁾ and of commodities; and
 - systems for the regular exchange, clearing and settlement of payments.
5. Provisions other than those of paragraph 4 imposing the use of the euro unit may only be adopted by the participating Member States in accordance with any time-frame laid down by Community legislation.
6. National legal provisions of participating Member States which permit or impose netting, set-off or techniques with similar effects shall apply to monetary obligations, irrespective of their currency denomination, if that denomination is in the euro unit or in a national currency unit, with any conversion being effected at the conversion rates.

Article 9

Banknotes and coins denominated in a national currency unit shall retain their status as legal tender within their territorial limits as from the day before the euro adoption date in the participating Member State concerned.

⁽⁸²⁾ OJ L 141, 11.6.1993, p. 27. Directive as amended by Directive 95/26/EC of the European Parliament and of the Council (OJ L 168, 18.7.1995, p. 7).

Article 9a

The following shall apply in a Member State with a ‘phasing-out’ period. In legal instruments created during the phasing-out period and to be performed in that Member State, reference may continue to be made to the national currency unit. These references shall be read as references to the euro unit according to the respective conversion rates. Without prejudice to Article 15, the acts performed under these legal instruments shall be performed only in the euro unit. The rounding rules laid down in Regulation (EC) No 1103/97 shall apply.

The Member State concerned shall limit the application of the first subparagraph to certain types of legal instrument, or to legal instruments adopted in certain fields.

The Member State concerned may shorten the period.

PART IV

EURO BANKNOTES AND COINS

Article 10

With effect from the respective cash changeover dates, the ECB and the central banks of the participating Member States shall put into circulation banknotes denominated in euro in the participating Member States.

Without prejudice to Article 15, these banknotes denominated in euro shall be the only banknotes which have the status of legal tender in participating Member States.

Article 11

With effect from the respective cash changeover date, the participating Member States shall issue coins denominated in euro or in cent and complying with the denominations and technical specifications which the Council may lay down in accordance with the second sentence of Article 106(2) of the Treaty. Without prejudice to Article 15 and to the provisions of any agreement under Article 111(3) of the Treaty concerning monetary matters, those coins shall be the only coins which have the status of legal tender in participating Member States. Except for the issuing authority and for those persons specifically designated by the national legislation of the issuing Member State, no party shall be obliged to accept more than 50 coins in any single payment.

Article 12

Participating Member States shall ensure adequate sanctions against counterfeiting and falsification of euro banknotes and coins.

PART V

FINAL PROVISIONS

Article 13

Articles 10, 11, 14, 15 and 16 shall apply with effect from the respective cash changeover date in each participating Member State.

Article 14

Where, in legal instruments existing on the day before the cash changeover date, reference is made to the national currency units, these references shall be read as references to the euro unit according to the respective conversion rates. The rounding rules laid down in Regulation (EC) No 1103/97 shall apply.

Article 15

1. Banknotes and coins denominated in a national currency unit as referred to in Article 6(1) shall remain legal tender within their territorial limits until six months from the respective cash changeover date at the latest; this period may be shortened by national law.
2. Each participating Member State may, for a period of up to six months from the respective cash changeover date, lay down rules for the use of the banknotes and coins denominated in its national currency unit as referred to in Article 6(1) and take any measures necessary to facilitate their withdrawal.
3. During the period referred to in paragraph 1, credit institutions in participating Member States adopting the euro after 1 January 2002 shall exchange their customers' banknotes and coins denominated in the national currency unit of that Member State for banknotes and coins in euro, free of charge, up to a ceiling which may be set by national law. Credit institutions may require that notice be given if the amount to be exchanged exceeds a ceiling set by national law or, in the absence of such provisions, by themselves and corresponding to a household amount.

The credit institutions referred to in the first subparagraph shall exchange banknotes and coins denominated in the national currency unit of that Member

3. Introduction of the euro

State of persons other than their customers, free of charge up to a ceiling set by national law or, in the absence of such provisions, by themselves.

National law may limit the obligation under the preceding two subparagraphs to specific types of credit institutions. National law may also extend this obligation upon other persons.

Article 16

In accordance with the laws or practices of participating Member States, the respective issuers of banknotes and coins shall continue to accept, against euro at the conversion rate, the banknotes and coins previously issued by them.

PART VI

ENTRY INTO FORCE

Article 17

This Regulation shall enter into force on 1 January 1999.

This Regulation shall be binding in its entirety and directly applicable in all Member States, in accordance with the Treaty, subject to Protocols 11 and 12 and Article 109k(1).

ANNEX

Member State	Euro adoption date	Cash changeover date	Member State with a 'phasing-out' period
Belgium	1 January 1999	1 January 2002	n/a
Germany	1 January 1999	1 January 2002	n/a
Greece	1 January 2001	1 January 2002	n/a
Spain	1 January 1999	1 January 2002	n/a
France	1 January 1999	1 January 2002	n/a
Ireland	1 January 1999	1 January 2002	n/a
Italy	1 January 1999	1 January 2002	n/a
Luxembourg	1 January 1999	1 January 2002	n/a
Netherlands	1 January 1999	1 January 2002	n/a
Austria	1 January 1999	1 January 2002	n/a
Portugal	1 January 1999	1 January 2002	n/a
Slovenia	1 January 2007	1 January 2007	No
Finland	1 January 1999	1 January 2002	n/a

4. Exchange rate mechanism in the third stage of EMU

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 ⁽⁸³⁾

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 with 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

⁽⁸³⁾ OJ C 236, 2.8.1997, pp. 5 and 6.

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 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 implementation 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

4. Exchange rate mechanism in the third stage of EMU

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 co-ordinated 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 State 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 State 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.

Report by the (Ecofin) Council to the European Council in Nice on the exchange rate aspects of enlargement 8 November 2000

1. This report presents the views of the Council (Ecofin) on exchange rate strategies for the 12 candidate countries with which accession negotiations are under way (hereafter 'accession countries').
2. The Council (Ecofin) has drawn on a report prepared by the services of the Commission, a contribution of the European Central Bank and the report which the Economic and Financial Committee had presented to the Informal Ecofin meeting in Versailles and which had met with a broad consensus.
3. The Council (Ecofin) identified three distinct stages for the full monetary integration of candidate countries: the pre-accession stage; the accession stage, covering the period from accession to the Union to the adoption of the euro, and finally the adoption of the euro. The implications of each stage for the choice of the exchange rate policy are discussed below.

PRIOR TO ACCESSION, THERE ARE NO FORMAL RESTRICTIONS ON THE CHOICE OF AN EXCHANGE RATE REGIME.

4. Exchange rate regimes should not be looked at in isolation, as they are part of the overall economic and monetary policy framework of candidate countries. Policies should be oriented towards achieving real and thereby sustainable nominal convergence. They need to focus on structural adjustment and microeconomic reform so as to facilitate the fulfilment of the (economic) Copenhagen criterion of 'the existence of a functioning market economy able to cope with competitive pressures and market forces within the Union'. Without such policies, there is a risk that any exchange rate strategy will run into serious difficulties and macroeconomic stability will be difficult to achieve and maintain.
5. The consistency of economic policies, including the choice of exchange rate regime, and their suitability to the economic situation of the accession country are crucial. The choice of an exchange rate regime on the path from pre-accession to accession must therefore take into account several factors. Among these are: achieving macroeconomic stability, facilitating transition, growth and real convergence, preparing for integration into the EU and participation in the single market, adjusting to real shocks, maintaining external balance, and dealing with capital flows. Given the diversity of these factors, the appropriate policies are those aimed at creating the right conditions for the proper functioning of markets and for the success of the economic transformation process. In this context, the choice of the exchange rate regime should

be consistent with and support an overall economic strategy geared towards achieving these goals.

6. During the pre-accession stage, the choice of a specific exchange rate regime is the responsibility of the individual candidate country. A plurality of approaches (i.e. different exchange rate regimes) seems to be feasible, as was already the practice with the countries that have already joined the EU. Exchange rate regimes should be compatible with the economic situation and characteristics of the country concerned and the state of transition. This does not mean the EU would treat these choices with indifference. In the context of the European Agreements, the EU monitors closely whether economic policies, including the exchange rate regime, are contributing to macroeconomic stability and promoting real and nominal convergence.

7. Fixed exchange rate regimes, including Currency Board arrangements, can be sustainable in small and open economies with sufficient wage and price flexibility, strict fiscal discipline and sound financial systems. The existence of some successful experiences with Currency Board arrangements thus far, however, does not imply that such arrangements should be generally seen as a panacea. Indeed, much of their future success depends on the willingness of the countries involved to cope with the internal discipline imposed by this particular exchange rate arrangement. All 12 accession countries will undergo, to different degrees in the years ahead, a process of catching-up (i.e. real convergence). This should go along with improvements in their terms of trade and thus is likely to imply some trend real exchange rate appreciation. In the case of a fixed exchange rate regime this would result in a somewhat higher level of inflation than would be the case if the nominal exchange rate were allowed to appreciate. A clear path towards lower inflation will facilitate future nominal convergence.

8. Accession countries will also have to cope with increasing capital inflows, in particular given the orderly capital movement liberalisation that the adoption of the EMU acquis requires already in the pre-accession phase. Capital flows may be easier to tackle with some exchange rate flexibility. When dealing with external imbalances in a context of free capital movements, fiscal policy is generally a most appropriate instrument of adjustment.

9. Potential EU members wishing to join ERM2 relatively swiftly after accession are already now expected to consider their policies with a view to their prospective membership in ERM2. In this context, it should be made clear that any unilateral adoption of the single currency by means of 'euroisation' would run counter to the underlying economic reasoning of EMU in the Treaty, which foresees the eventual adoption of the euro as the endpoint of a structured convergence process within a multilateral framework. Therefore, unilateral 'euroisation' would not be a way to circumvent the stages foreseen by the Treaty for the adoption of the euro.

UPON ACCESSION, NEW MEMBER STATES SHALL TREAT THEIR EXCHANGE RATE POLICY AS A MATTER OF COMMON INTEREST

10. Candidate countries will enter the EU as Member States with a derogation. In principle, it should be possible for them to bring in with them their existing exchange rate regime. Most, if not all, of the economic policy considerations that determine the choice of an exchange rate regime in the pre-accession phase will continue to apply.

11. In accordance with Article 124 of the Treaty, the new Member States shall be required to treat their exchange rates as a matter of common concern. In practice, this means that, in order to protect the smooth functioning of the single market, competitive devaluations are not allowed. As Member States with a derogation, the new countries will also participate in the coordination of economic policies to the extent required by the Treaty and will be expected to work towards fulfilling the Maastricht convergence criteria.

AFTER ACCESSION, ALTHOUGH NOT NECESSARILY IMMEDIATELY, ACCESSION COUNTRIES ARE EXPECTED TO JOIN THE ERM₂

12. The new Member States will be expected to enter ERM₂, established by the European Council Resolution of 16 June 1997. The key features of the ERM₂ are that it has stable but adjustable central rates to the euro for the participating currency with fluctuation bands of +/- 15 % around the central rate and that it uses a common procedure for the main decisions relating to the conditions of participation of a country in the mechanism. A new Member State may join ERM₂, upon request, any time after accession, subject to agreement on the central parity and fluctuation band in accordance with the common procedure referred to above. Most accession countries have stated their intention to join the mechanism as soon as possible after entry into the EU.

13. The multilateral nature of the abovementioned common procedure implies that, ultimately, final decisions related to a request for participation can only be taken on a case-by-case basis at the time of entry in the mechanism. At the same time, the ERM₂ is flexible enough to accommodate the features of a number of existing exchange rate strategies. The only clear incompatibilities with the ERM₂ that can be identified already at this stage are the cases of free floating (or managed floats without a mutually agreed central rate), crawling pegs, and pegs against anchors other than the euro.

14. When a country with a Currency Board pegged to the euro wants to join ERM₂, the decision on the compatibility of a particular Currency Board arrangement with participation in ERM₂ could only be taken on the basis of a careful assessment of the appropriateness and sustainability of the Cur-

rency Board in question. This conclusion follows logically from the procedure foreseen in the ERM2 Resolution concerning the adoption of central rates. Although Currency Board arrangements cannot be regarded as an acceptable substitute for participation in ERM2, they may in some circumstances constitute an appropriate unilateral commitment within ERM2. Such a unilateral commitment would not impose any additional obligation on the ECB beyond those deriving from the ERM2 resolution and the Central Bank Agreement.

AFTER APPLICATION OF THE PROCEDURE PROVIDED FOR IN THE RELEVANT PARTS OF THE TREATY, THE NEW MEMBER STATES WILL ADOPT THE EURO IN A MANNER THAT ENSURES EQUAL TREATMENT WITH THE INITIAL PARTICIPANTS IN THE EURO AREA

15. Finally, the participation in the euro area of the new Member States will be decided as soon as it complies with the conditions for the adoption of the single currency, defined by the Treaty establishing the European Community. The assessment process will ensure equal treatment between future Member States and the current participants in the euro area. The Council will adopt the rate at which the euro will be substituted for the currency of the Member State and the Member State will prepare for the introduction of the euro.

Common Statement on acceding countries and ERM2 Athens, 5 April 2003

1. The Ecofin Council on 8 November 2000 forwarded a report to the Nice European Council on the exchange-rate aspects of enlargement, which continues to describe the position of the EU-15 on these aspects, in particular ERM2. Ministers, the ECB President, Governors, and the Commissioner in Athens on 5 April confirmed the Ecofin position and agreed to the following.
2. Upon accession, new Member States shall treat their exchange-rate policy as a matter of common interest (Treaty Article 124). Lasting convergence of economic fundamentals is a prerequisite for sustainable exchange rate stability. To this end, new Member States must pursue disciplined and responsible monetary policy directed towards price stability. Sound fiscal and structural policies are, at least, equally essential for sustainable exchange rate stability.
3. Acceding countries will enter the EU as Member States with a derogation. This means, *inter alia*, that:
 - they would be able in principle to bring in with them their existing exchange-rate regimes;
 - competitive devaluations will not be allowed⁽⁸⁴⁾;
 - they will participate in the coordination of economic policies (notably by virtue of Articles 99 and 104 of the Treaty and the SGP) and will be expected to work towards real and nominal convergence;
 - they are expected to join the ERM2, although not necessarily immediately after accession, and eventually the euro.
4. Economic policies of acceding Member States should be oriented towards achieving real and sustainable nominal convergence. Exchange-rate regimes should not be looked at in isolation, rather they should be part of the overall economic, financial and monetary framework of acceding countries. Participation in ERM2 should help to achieve real and nominal convergence, and should not be seen as a mere waiting room for the adoption of the euro. ERM2 provides a degree of flexibility to accommodate the varying degrees, pace and strategies of economic convergence. However, in certain cases, staying outside the ERM2 for some time may be useful in light of large and volatile capital flows, large fiscal imbalances, and/or risks of large economic shocks.

⁽⁸⁴⁾ See section 1.2 of the Amsterdam Resolution of 16 June 1997: 'The single market must not be endangered by real exchange rate misalignments, or by excessive nominal exchange rate fluctuations between the euro and other EU currencies, which would disrupt trade flows between Member States. The surveillance of Member States' macroeconomic policies in the Council under Article 103 (*i.e. the BEPGs, now under Article 99*) of the Treaty will be organised, *inter alia*, with a view to avoiding such misalignments or fluctuations'.

5. ERM2 is based on the European Council Resolution on the establishment of an exchange rate mechanism in the third stage of economic and monetary union (Amsterdam, 16 June 1997) and the Central Bank Agreement of 1 September 1998 laying down the operating procedures. Its key features are: (i) stable but adjustable central rates to the euro for the participating currencies (with standard fluctuation bands being $\pm 15\%$ around the central rate); and (ii) a common procedure for the main decisions relating to the conditions of participation in the mechanism (central rate and fluctuation band).

6. A new Member State may join ERM2 upon request any time after accession, subject to the agreement on the central parity and fluctuation band in accordance with the common procedure. Differences in the economic situation among new Member States, as well as the voluntary and multilateral nature of the procedure also imply that decisions are taken on a case-by-case basis at the time of entry in the mechanism. They shall ensure equal treatment between new and current Member States. While ERM2 is flexible enough to accommodate the features of a number of exchange rate strategies, some regimes have been already identified at this stage as incompatible with ERM2, namely free floating (or managed float without a mutually agreed central rate), crawling pegs and pegs against anchors others than the euro. The countries concerned will therefore need to change those regimes for participation in ERM2. Compatibility of Currency Board arrangements with participation in ERM2 will be assessed case-by-case. Unilateral 'euroisation' is not compatible with the Treaty.

7. 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.

8. The assessment of the fulfilment of the Maastricht convergence criteria and the procedures to be followed for the introduction of the euro will ensure equal treatment between future Member States and the current participants in the euro area. A minimum stay of two years in the mechanism prior to the convergence assessment without severe tensions is expected. Moreover, the assessment of exchange-rate stability against the euro will focus on the exchange rate being close to the central rate while also taking into account factors that may have led to an appreciation, in line with what was done in the past.

**Agreement
of 16 March 2006
between the European Central Bank and the national
central banks of the Member States outside the euro area
laying down the operating procedures for an exchange
rate mechanism in Stage III of economic
and monetary union ⁽⁸⁵⁾**

THE EUROPEAN CENTRAL BANK (ECB) AND THE NATIONAL CENTRAL BANKS OF THE MEMBER STATES THAT ARE OUTSIDE THE EURO AREA ON 16 MARCH 2006 (HEREINAFTER THE 'NON-EURO AREA NCBs'),

Whereas:

(1) The Agreement of 1 September 1998 between the European Central Bank and the national central banks of the Member States outside the euro area laying down the operating procedures for an exchange rate mechanism in Stage III of economic and monetary union ⁽⁸⁶⁾ (hereinafter the 'Agreement of 1 September 1998') has been amended three times. The introduction of a new criterion for counterparties eligible to conduct interventions at the margins directly with the ECB would require a further amendment of Annex I to the Agreement of 1 September 1998. In the interests of clarity and transparency therefore, the Agreement of 1 September 1998 should be replaced by a new Agreement.

(2) The European Council agreed in its Resolution of 16 June 1997 (hereinafter the 'Resolution') to set up an exchange rate mechanism (hereinafter 'ERM2') when the third stage of economic and monetary union began on 1 January 1999.

(3) Under the terms of the Resolution,

- ERM2 replaces the European Monetary System;
- 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 124 of the Treaty establishing the European Community, each Member State has an obligation to treat its exchange-rate policy as a matter of common interest;

⁽⁸⁵⁾ OJ C 73, 25.3.2006, p. 21.

⁽⁸⁶⁾ OJ C 345, 13.11.1998, p. 6. Agreement as last amended by the Agreement of 16 September 2004 (OJ C 281, 18.11.2004, p. 3).

- ERM2 helps to ensure that non-euro area Member States participating in ERM2 (hereinafter ‘participating non-euro area Member States’) orient their policies to stability, foster convergence and thereby help them in their efforts to adopt the euro;
- participation in ERM2 is voluntary for the non-euro area Member States. Nevertheless, Member States with a derogation can be expected to join the mechanism. A Member State which does not participate from the outset in ERM2 may participate at a later date;
- ERM2 functions without prejudice to the primary objective of the ECB and the non-euro area NCBs to maintain price stability;
- for the currency of each participating non-euro area Member State (hereinafter ‘participating non-euro area currency’) a central rate against the euro is defined;
- there is one standard fluctuation band of ± 15 % around the central rates;
- it should be ensured that any adjustment of central rates is conducted in a timely fashion so as to avoid significant misalignments. Thus, all parties to the mutual agreement on the central rates, including the ECB, have the right to initiate a confidential procedure aimed at reconsidering central rates;
- intervention at the margins is in principle automatic and unlimited, with very short-term financing available. However, the ECB and the non-euro area NCBs participating in ERM2 (hereinafter ‘participating non-euro area NCBs’) could suspend intervention if this were to conflict with their primary objective of price stability. In their decision they would take due account of all relevant factors and in particular of the need to maintain stability and the credible functioning of ERM2;
- exchange rate policy cooperation may be further strengthened, for example by allowing closer exchange rate links between the euro and the participating non-euro area currencies, where, and to the extent that, these are appropriate in the light of progress towards convergence.

(4) Intervention should be used as a supportive instrument in conjunction with other policy measures, including appropriate monetary and fiscal policies conducive to economic convergence and exchange rate stability. There is the possibility of coordinated intramarginal intervention decided by mutual agreement between the ECB and the respective participating non-euro area NCB, in parallel with other appropriate policy responses, including the flexible use of interest rates, by the latter.

(5) Sufficient flexibility needs to be allowed, in particular to accommodate the varying degrees, paces and strategies of economic convergence of the non-euro area Member States.

4. Exchange rate mechanism in the third stage of EMU

(6) This Agreement does not preclude the establishment, on a bilateral basis, of additional fluctuation bands and intervention arrangements between non-euro area Member States,

HAVE AGREED AS FOLLOWS:

I. CENTRAL RATES AND FLUCTUATION BANDS

Article 1

Bilateral central rates and intervention rates between the euro and the participating non-euro area currencies

1.1. The parties to this Agreement shall participate in a joint notification to the market of the bilateral central rates, and any changes to them, between the participating non-euro area currencies and the euro as agreed following the common procedure specified in paragraph 2.3 of the Resolution.

1.2. In accordance with the fluctuation bands fixed pursuant to paragraphs 2.1, 2.3 and 2.4 of the Resolution, the ECB and each participating non-euro area NCB shall establish, by common accord, the bilateral upper and lower rates between the euro and the participating non-euro area currencies for automatic intervention. The ECB and the participating non-euro area NCBs shall jointly notify the market of these rates, which shall be quoted in accordance with the convention set forth in Annex I.

II. INTERVENTION

Article 2

General provisions

2.1. Intervention shall in principle be effected in euro and the participating non-euro area currencies. The ECB and the participating non-euro area NCBs shall inform each other about all foreign exchange intervention intended to safeguard the cohesion of ERM2.

2.2. The ECB and the non-euro area NCBs shall inform each other about all other foreign exchange intervention.

Article 3

Intervention at the margins

3.1. Intervention at the margins shall in principle be automatic and unlimited. However, the ECB and the participating non-euro area NCBs could suspend

automatic intervention if this were to conflict with their primary objective of maintaining price stability.

3.2. In deciding whether to suspend intervention, the ECB or a participating non-euro area NCB shall also take due account of all other relevant factors, including the credible functioning of ERM2. The ECB and/or the participating non-euro area NCB concerned shall base any decision on factual evidence and, in this context, also give consideration to any conclusion which may have been reached by other competent bodies. The ECB and/or the participating non-euro area NCB concerned shall notify, as long in advance as possible and on a strictly confidential basis, the other monetary authorities concerned and the monetary authorities of all other participating non-euro area Member States of any intention to suspend intervention.

3.3. A payment after payment procedure shall be applied in the event of intervention at the margins, as set forth in Annex I.

Article 4

Coordinated intramarginal intervention

The ECB and participating non-euro area NCBs may agree to coordinated intramarginal intervention.

Article 5

Procedures for intervention and other transactions

5.1. Prior agreement of the non-euro area NCB issuing the intervention currency shall be obtained when another central bank of the European System of Central Banks intends to use the former's currency in amounts exceeding mutually agreed limits in connection with all non-compulsory intervention, including unilateral intramarginal intervention.

5.2. A non-euro area NCB shall give immediate notification to the ECB when it has used the euro in amounts exceeding mutually agreed limits in connection with all non-compulsory intervention, including unilateral intramarginal intervention.

5.3. Before carrying out transactions other than intervention which involve at least one non-euro area currency or the euro and which exceed mutually agreed limits, the party intending to carry out such transactions shall give prior notification to the central bank(s) concerned. In such cases the central banks concerned shall agree on an approach which minimises potential problems, including the possibility of settling the transaction, wholly or in part, directly between the two central banks.

III. VERY SHORT-TERM FINANCING FACILITY

Article 6

General provisions

6.1. For the purpose of intervention in euro and in the participating non-euro area currencies, the ECB and each participating non-euro area NCB shall open for each other very short-term credit facilities. The initial maturity for a very short-term financing operation shall be three months.

6.2. The financing operations under these facilities shall take the form of spot sales and purchases of participating currencies giving rise to corresponding claims and liabilities, denominated in the creditor's currency, between the ECB and the participating non-euro area NCBs. The value date of the financing operations shall be identical to the value date of the intervention in the market. The ECB shall keep a record of all transactions conducted in the context of these facilities.

Article 7

Financing of intervention at the margins

7.1. The very short-term financing facility is in principle automatically available and unlimited in amount for the purpose of financing intervention in participating currencies at the margins.

7.2. The debtor central bank shall make appropriate use of its foreign reserve holdings prior to drawing on the facility.

7.3. The ECB and the participating non-euro area NCBs could suspend further automatic financing if it were to conflict with their primary objective of maintaining price stability. The suspension of further automatic financing will be subject to the provisions of Article 3.2 of this Agreement.

Article 8

Financing of intramarginal intervention

For the purpose of intramarginal intervention, the very short-term financing facility may, with the agreement of the central bank issuing the intervention currency, be made available subject to the following conditions:

- (a) the cumulative amount of such financing made available to the debtor central bank shall not exceed the latter's ceiling as laid down in Annex II;
- (b) the debtor central bank shall make appropriate use of its foreign reserve holdings prior to drawing on the facility.

Article 9

Remuneration

9.1. Outstanding very short-term financing balances shall be remunerated at the representative domestic three-month money market rate of the creditor's currency prevailing on the trade date of the initial financing operation or, in the event of a renewal pursuant to Articles 10 and 11 of this Agreement, the three-month money market rate of the creditor's currency prevailing two business days before the date on which the initial financing operation to be renewed falls due.

9.2. Accrued interest shall be paid in the creditor's currency on the date of the initial maturity of the facility, or, if applicable, on the date of the advance liquidation of a debtor balance. In the event of a renewal of the facility pursuant to Articles 10 and 11 of this Agreement, interest shall be capitalised at the end of every three-month period and shall be paid on the date of the final repayment of the debtor balance.

9.3. For the purpose of Article 9.1 of this Agreement, each participating non-euro area NCB shall notify the ECB of its representative domestic three-month money market rate. A representative domestic three-month money market rate in euro shall be used by the ECB and notified to the participating non-euro area NCBs.

Article 10

Automatic renewal

At the request of the debtor central bank, the initial maturity for a financing operation may be extended for a period of three months.

However:

- (a) the initial maturity may only be automatically extended once for a maximum of three months;
- (b) the total amount of indebtedness resulting from application of this Article may at no time exceed the debtor central bank's ceiling as laid down for each central bank in Annex II.

Article 11

Renewal by mutual agreement

11.1. Any debt exceeding the ceiling laid down in Annex II may be renewed once for three months subject to the agreement of the creditor central bank.

4. Exchange rate mechanism in the third stage of EMU

11.2. Any debt already renewed automatically for three months may be renewed a second time for a further three months subject to the agreement of the creditor central bank.

Article 12

Advance repayment

Any debtor balance recorded in accordance with Articles 6, 10 and 11 of this Agreement may be settled at any time in advance at the request of the debtor central bank.

Article 13

Netting-out of mutual claims and liabilities

Mutual claims and liabilities between the ECB and a participating non-euro area NCB arising from the operations provided for in Articles 6 to 12 of this Agreement may be netted out against each other by mutual agreement between the two parties involved.

Article 14

Means of settlement

14.1. When a financing operation falls due or in the event of advance repayment, settlement shall in principle be carried out by means of holdings in the creditor's currency.

14.2. This provision shall be without prejudice to other forms of settlement agreed between creditor and debtor central banks.

IV. CLOSER EXCHANGE RATE COOPERATION

Article 15

Closer exchange rate cooperation

15.1. The exchange rate policy cooperation between participating non-euro area NCBs and the ECB may be further strengthened; in particular, closer exchange rate links may be agreed on a case-by-case basis at the initiative of the interested participating non-euro area Member State.

15.2. 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 participating non-euro area Member State concerned, according to the procedure laid down in paragraph 2.4 of the Resolution.

15.3. Other types of closer exchange rate arrangements of an informal nature may also be established between the ECB and participating non-euro area NCBs.

V. MONITORING THE FUNCTION OF THE SYSTEM

Article 16

Tasks of the General Council of the ECB

16.1. The General Council of the ECB shall monitor the functioning of ERM2 and serve as the forum for monetary and exchange rate policy coordination as well as for the administration of the intervention and financing mechanism specified in this Agreement. It shall closely monitor, on a permanent basis, the sustainability of bilateral exchange rate relations between each participating non-euro area currency and the euro.

16.2. The General Council of the ECB shall periodically review the operation of this Agreement in the light of experience gained.

Article 17

Reconsideration of central rates and participation in narrower fluctuation bands

17.1. All parties to the mutual agreement reached pursuant to paragraph 2.3 of the Resolution, including the ECB, shall have the right to initiate a confidential procedure aimed at reconsidering central rates.

17.2. In the event of formally agreed fluctuation bands narrower than the standard one, all parties to the joint decision made pursuant to paragraph 2.4 of the Resolution, including the ECB, shall have the right to initiate a confidential re-examination of the appropriateness of the respective currency's participation in the narrower band.

VI. NON-PARTICIPATION

Article 18

Applicability

The provisions of Articles 1, 2.1, 3, 4, 6 to 15 and 17 of this Agreement shall not apply to non-euro area NCBs which do not participate in ERM2.

Article 19

Cooperation in the concertation

Non-euro area NCBs not participating in ERM2 shall cooperate with the ECB and the participating non-euro area NCBs in the concertation and/or the other exchanges of information necessary for the proper functioning of ERM2.

VII. FINAL PROVISIONS

Article 20

Final provisions

20.1. This Agreement shall enter into force on 1 April 2006.

20.2. The Agreement of 1 September 1998 is repealed with effect from 1 April 2006. References to the repealed Agreement shall be construed as references to this Agreement.

20.3. This Agreement shall be drawn up in English and duly signed by the parties. The ECB, which is required to retain the original Agreement, shall send a certified copy thereof to each euro area and non-euro area NCB. The Agreement shall be translated into all other official Community languages and be published in the C series of the *Official Journal of the European Union*.

Done at Frankfurt am Main, on 16 March 2006.

For and on behalf of **The European Central Bank**

For and on behalf of **Magyar Nemzeti Bank**

For and on behalf of **Česká národní banka**

For and on behalf of **Central Bank of Malta**

For and on behalf of **Danmarks Nationalbank**

For and on behalf of **Narodowy Bank Polski**

For and on behalf of **Eesti Pank**

For and on behalf of **Banka Slovenije**
For and on behalf of **Central Bank of Cyprus**
For and on behalf of **Národná banka Slovenska**
For and on behalf of **Latvijas Banka**
For and on behalf of **Sveriges Riksbank**
For and on behalf of **Lietuvos bankas**
For and on behalf of **The Bank of England**

ANNEX I

QUOTATION CONVENTION FOR CURRENCIES PARTICIPATING IN ERM2 AND THE PAYMENT AFTER PAYMENT PROCEDURE IN THE EVENT OF INTERVENTION AT THE MARGINS

A. Quotation convention

For all the currencies of the non-euro area Member States participating in ERM2, the exchange rate for the bilateral central rate vis-à-vis the euro shall be quoted using the euro as the base currency. The exchange rate shall be expressed as the value of E1 using six significant digits for all currencies.

The same convention shall 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 ERM2. The intervention rates shall be determined by adding or subtracting the agreed bandwidth, expressed as a percentage, to or from the bilateral central rates. The resulting rates shall be rounded to six significant digits.

B. Payment after payment procedure

A payment after payment procedure shall be applied by both the ECB and the euro area NCBs in the event of intervention at the margins. The non-euro area NCBs participating in ERM2 shall apply the payment after payment procedure when acting as correspondents of the euro area NCBs and the ECB in accordance with this Annex; the non-euro area NCBs participating in ERM2 may, at their discretion, adopt the same payment after payment procedure when settling intervention at the margins that such NCBs have carried out on their own behalf.

4. Exchange rate mechanism in the third stage of EMU

(i) General principles

- The payment after payment procedure shall be applied when intervention at the margins in ERM2 takes place between the euro and the currencies of the non-euro area Member States participating in ERM2.
- To be eligible for intervention at the margins in ERM2, counterparties shall be required to keep an account with the NCB concerned. Counterparties shall also be required to maintain SWIFT addresses and/or to exchange authenticated telex keys with the NCB concerned or with the ECB.
- Counterparties eligible for intervention at the margins in ERM2 may also conduct such intervention directly with the ECB, provided that they also have the status of eligible counterparties for executing foreign exchange transactions with the ECB pursuant to Guideline ECB/2000/1 of 3 February 2000 on the management of the foreign reserve assets of the European Central Bank by the national central banks and the legal documentation for operations involving the foreign reserve assets of the European Central Bank ⁽⁸⁷⁾.
- The non-euro area NCBs participating in ERM2 shall act as the correspondents of the euro area NCBs and the ECB.
- When intervention at the margins takes place, the NCB concerned or the ECB shall release its payment for a given transaction only after receiving confirmation from its correspondent that the amount due has been credited to its account. Counterparties shall be required to pay in due time so as to enable the NCBs and the ECB to fulfil their respective payment obligations. Consequently, counterparties shall be required to pay before a pre-defined deadline.

(ii) Deadline for the receipt of funds from counterparties

Counterparties shall pay intervention amounts at the latest by 1 p.m. ECB (CET) time on value date.

⁽⁸⁷⁾ OJ L 207, 17.8.2000, p. 24. Guideline as last amended by Guideline ECB/2005/15 (OJ L 345, 28.12.2005, p. 33).

ANNEX II

**Ceilings on access to the very short-term financing facility referred
to in Articles 8, 10 and 11 of the Central Bank Agreement**

with effect from 1 May 2004
(in millions of EUR)

Central banks party to this Agreement	Ceilings ⁽¹⁾
Česká národní banka	700
Danmarks Nationalbank	730
Eesti Pank	300
Central Bank of Cyprus	290
Latvijas Banka	340
Lietuvos bankas	390
Magyar Nemzeti Bank	680
Central Bank of Malta	270
Narodowy Bank Polski	1 830
Banka Slovenije	350
Národná banka Slovenska	470
Sveriges Riksbank	990
Bank of England	4 660
European Central Bank	nil
Euro area NCBs	Ceilings
Nationale Bank van België/Banque Nationale de Belgique	nil
Deutsche Bundesbank	nil
Bank of Greece	nil
Banco de España	nil
Banque de France	nil
Central Bank and Financial Services Authority of Ireland	nil
Banca d'Italia	nil
Banque centrale du Luxembourg	nil
De Nederlandsche Bank	nil
Oesterreichische Nationalbank	nil
Banco de Portugal	nil
Suomen Pankki	nil

⁽¹⁾ The amounts indicated are notional for central banks which do not participate in ERM2.

AGREEMENT

of 21 December 2006

between the European Central Bank and the national central banks of the Member States outside the euro area amending the Agreement of 16 March 2006 between the European Central Bank and the national central banks of the Member States outside the euro area laying down the operating procedures for an exchange rate mechanism in stage three of economic and monetary union

THE EUROPEAN CENTRAL BANK (HEREINAFTER REFERRED TO AS THE 'ECB') AND THE NATIONAL CENTRAL BANKS OF THE MEMBER STATES OUTSIDE THE EURO AREA (HEREINAFTER REFERRED TO AS THE 'NON-EURO AREA NCBs' AND THE 'NON-EURO AREA MEMBER STATES' RESPECTIVELY),

Whereas:

- (1) The European Council in its Resolution of 16 June 1997 (hereinafter referred to as the 'Resolution') agreed to set up an exchange rate mechanism (hereinafter referred to as 'ERM II') when the third stage of economic and monetary union began on 1 January 1999.
- (2) Under the terms of the Resolution, ERM II is designed to help to ensure that non-euro area Member States participating in ERM II orient their policies to stability, foster convergence and thereby help them in their efforts to adopt the euro.
- (3) Slovenia, as a Member State with a derogation, has participated in ERM II since 28 June 2004 and Banka Slovenije is party to the Agreement of 16 March 2006 between the European Central Bank and the national central banks of the Member States outside the euro area laying down the operating procedures for an exchange rate mechanism in stage three of economic and monetary union ⁽⁸⁸⁾ (hereinafter referred to as the 'ERM II Central Bank Agreement').
- (4) Pursuant to Article 1 of Council Decision 2006/495/EC of 11 July 2006 in accordance with Article 122(2) of the Treaty on the adoption by Slovenia of the single currency on 1 January 2007 ⁽⁸⁹⁾, the derogation in favour of Slovenia referred to in Article 4 of the 2003 Act of Accession ⁽⁹⁰⁾ is abrogated

⁽⁸⁸⁾ OJ C 73, 25.3.2006, p. 21.

⁽⁸⁹⁾ OJ L 195, 15.7.2006, p. 25.

⁽⁹⁰⁾ OJ L 236, 23.9.2003, p. 33.

with effect from 1 January 2007. Banka Slovenije should therefore no longer be party to the ERM II Central Bank Agreement with effect from that date and the ERM II Central Bank Agreement should be amended accordingly.

- (5) In view of the accession of Romania and Bulgaria to the European Union, their respective national central banks (NCBs) become part of the European System of Central Banks on 1 January 2007. The ERM II Central Bank Agreement should be amended accordingly,

HAVE AGREED AS FOLLOWS:

Article 1

**Amendment to the ERM II Central Bank Agreement
in view of the abrogation of Slovenia's derogation**

Banka Slovenije shall no longer be party to the ERM II Central Bank Agreement with effect from 1 January 2007.

Article 2

**Amendments to the ERM II Central Bank Agreement
in view of the accession of Romania and Bulgaria**

The Bulgarian National Bank and Banca Națională a României shall become parties to the ERM II Central Bank Agreement with effect from 1 January 2007.

Article 3

Replacement of Annex II to the ERM II Central Bank Agreement

Annex II to the ERM II Central Bank Agreement is replaced by the text set out in the Annex to this Agreement.

Article 4

Final provisions

- 4.1 This Agreement shall enter into force on 1 January 2007.
- 4.2 This Agreement shall be drawn up in the English and duly signed by the parties. The ECB, which is required to retain the original Agreement, shall send a certified copy thereof to each euro area and non-euro area NCB. The

4. Exchange rate mechanism in the third stage of EMU

Agreement shall be translated into all other official Community languages and be published in the C series of the *Official Journal of the European Union*.

Done at Frankfurt am Main, 21 December 2006.

For the European Central Bank	For the Magyar Nemzeti Bank
For the Bulgarian National Bank	For the Central Bank of Malta
For Česká národní banka	For Narodowy Bank Polski
For Danmarks Nationalbank	For Banca Națională a României
For Eesti Pank	For Banka Slovenije
For the Central Bank of Cyprus	For Národná banka Slovenska
For Latvijas Banka	For Sveriges Riksbank
For Lietuvos bankas	For the Bank of England

ANNEX

‘ANNEX II

**CEILINGS ON ACCESS TO THE VERY SHORT-TERM FINANCING
FACILITY REFERRED TO IN ARTICLES 8, 10 AND 11
OF THE CENTRAL BANK AGREEMENT**

with effect from 1 January 2007

<i>(EUR million)</i>	
Central banks party to this Agreement	Ceilings (¹)
Bulgarian National Bank	490
Ceská národní banka	640
Danmarks Nationalbank	670
Eesti Pank	300
Central Bank of Cyprus	280
Latvijas Banka	330
Lietuvos bankas	370
Magyar Nemzeti Bank	620
Central Bank of Malta	270
Narodowy Bank Polski	1 610
Banca Națională a României	950
Národná banka Slovenska	440
Sveriges Riksbank	900
Bank of England	4 130
European Central Bank	nil
(¹) The amounts indicated are notional for central banks which do not participate in ERM II.	
Euro area NCBs	Ceilings
Nationale Bank van België/Banque Nationale de Belgique	nil
Deutsche Bundesbank	nil
Bank of Greece	nil
Banco de España	nil
Banque de France	nil
Central Bank and Financial Services Authority of Ireland	nil
Banca d'Italia	nil
Banque centrale du Luxembourg	nil
De Nederlandsche Bank	nil
Oesterreichische Nationalbank	nil
Banco de Portugal	nil
Banka Slovenije	nil
Suomen Pankki	nil'

5. External representation of the Community

Resolution of the European Council on economic policy coordination in Stage III of EMU and on Articles 109 and 109b of the EC Treaty ⁽⁹¹⁾

(The rest of the resolution is quoted in Chapter 2 of this publication — ‘Economic policy coordination, 2.1. General framework’)

II. Implementing the Treaty provisions on the exchange rate policy, external position and representation of the Community (Article 109 of the Treaty)

7. The European Council recognises the responsibility which will fall to the Community with the introduction of the euro, one of the major currencies in the world monetary system. The contribution of the Community through the ESCB, in strict accordance with the competences and procedures established by the Treaty, will be to provide a centre of price stability. For its part, the European Council is resolved to play its full part in helping to lay the foundations for a prosperous and efficient economy in the Community, in accordance with the principle of an open economy with free competition, favouring an efficient allocation of resources, and in compliance with the principles set out in Article 3a of the Treaty. The European Council is convinced that this will provide the basis for a currency which is strong and respected.

8. The Council should monitor the development of the exchange rate of the euro in the light of a wide range of economic data. The Commission should provide analyses to the Council, and the Economic and Financial Committee should prepare the Council’s reviews. It is important to make full use of the Treaty provisions to ensure an exchange of information and views between the Council and the ECB on the exchange rate of the euro. While in general exchange rates should be seen as the outcome of all other economic policies, the Council may, in exceptional circumstances, for example in the case of a clear misalignment, formulate general orientations for exchange rate policy in relation to non-EC currencies in accordance with Article 109(2) of the Treaty. These general orientations should always respect the independence of the ESCB and be consistent with the primary objective of the ESCB to maintain price stability.

9. The Council should decide on the position of the Community at international level as regards issues of particular relevance to economic and monetary union, in accordance with Article 109(4) of the Treaty. These positions will be relevant both to bilateral relations between the European Union and individual

⁽⁹¹⁾ OJ C 35, 2.2.1998, pp. 1-4.

third countries and to proceedings in international organisations or informal international groupings. The scope of this provision is necessarily limited as only euro-area Member States vote under Article 109.

10. The Council and the European Central Bank will carry out their tasks in representing the Community at international level in an efficient manner and in compliance with the allocation of powers laid down in the Treaty. On elements of economic policy other than monetary and exchange rate policy, the Member States should continue to present their policies outside the Community framework, while taking full account of the Community interest. The Commission will be involved in external representation to the extent required to enable it to perform the role assigned to it by the Treaty.

Representation in international organisations should take account of those organisations' rules. With particular regard to the Community's relations with the International Monetary Fund (IMF), they should be predicated upon the provision in that Fund's Articles of Agreement that only countries can be members of that institution. The Member States, in their capacities as members of the IMF, should help to establish pragmatic arrangements which would facilitate the conduct of IMF surveillance and the presentation of Community positions, including the views of the ESCB, in IMF fora.

Report to the European Council on the state of preparation for Stage III of EMU, in particular the external representation of the Community

After several years of intense preparation, the European Union is ready to enter into Stage III of EMU on 1 January 1999. Eleven of its Member States will adopt the euro as their currency. Significant work has been accomplished in reaching convergence. The Ecofin Council has also developed, for approval by the Heads of State or Government, the framework for a well functioning economic and monetary union, including the Stability and Growth Pact and procedures for economic policy coordination (see annex). The outstanding topic where decisions remain to be taken concerns the external representation of the Community. At the Luxembourg European Council of December 1997, the Heads of State or Government gave an important impetus to this work, and in Cardiff, they asked 'the Council to take the necessary measures to ensure the external representation of the euro-area Member States in an effective manner'.

In its work on external representation, the Council has benefited from substantial help of the Commission and the ESCB/ECB in their respective fields of competence. In particular, it has been seized with a Commission proposal on 'the representation and position taking of the Community at international level in the context of Economic and Monetary Union'.

The external representation in Stage III of EMU will imply changes in the current organisation of international fora. Therefore, third countries and institutions will need to be persuaded to accept the solutions proposed by the European Union. The Council considers that a pragmatic approach might be the most successful which could minimise the adaptation of current rules and practices provided, of course, that such an approach resulted in an outcome which recognised properly the role of the euro.

It follows from the Treaty that a distinction has to be made between the representation:

- of the Community at international level as regards issues of particular relevance to economic and monetary union (Article 109(4)), and
- on matters which do not belong to the Community competence, but on which it may be appropriate for Member States to express common understandings.

As regards the first indent of paragraph 4 — the representation of the Community at international level as regards issues of particular relevance to EMU — the Council believes that, while trying to reach early solutions pragmatically with international partners, these solutions should be further developed over time adhering to the following principles:

- the Community must speak with one voice;
- the Community shall be represented at the Council / ministerial level and at the central banking level ⁽⁹²⁾;
- the Commission ‘will be involved in the Community external representation to the extent required to enable it to perform the role assigned to it by the Treaty’ ⁽⁹³⁾.

As regards the second indent — matters which do not belong to Community competence — the Council considered it useful to develop pragmatic solutions for the external representation.

In developing those pragmatic solutions, the Council concentrated its work on three important areas:

- representation at the G7 Finance Ministers’ and Governors’ Group;
- representation at the International Monetary Fund;
- composition of Ecofin delegations for missions to third countries.

1. Representation at the G7 Finance Ministers’ and Governors’ Group

Regarding the European Central Bank’s participation in the representation of the Community at the G7 Finance Ministers’ and Governors’ Group, non European partners have already accepted that the President of the ECB attends meetings of the Group for the discussions which relate to EMU, e.g. multilateral surveillance, exchange rate issues, and for agreement of the relevant sections of the published Statement.

Regarding the representation of the Community at ministerial level on EMU issues, the Council agreed to suggest to the other G7 partners to have the President of Ecofin, or if the President came from a non-euro area Member State, the President of the EUR-11 at the table. If the President came from a non G7 euro area state, he/she would attend in addition to the euro area Ecofin members already present.

In a transitional phase, one of the euro area ministers who are involved in the G7 Group on a permanent basis will, for the sake of greater continuity, provide support for the President of the Ecofin/EUR-11 on a rotating basis for a term of one year.

⁽⁹²⁾ Article 6.1 of the ESCB/ECB Protocol says that ‘In the field of international cooperation involving the tasks to the ESCB, the ECB shall decide how the ESCB shall be represented’. Article 6.3 adds: ‘Article(s) 6.1 (...) shall be without prejudice to Article 109(4) of (the) Treaty.’

⁽⁹³⁾ Paragraph 10, last sentence of the Luxembourg European Council Resolution.

5. External representation of the Community

Regarding the Commission's participation in the representation of the Community, the Council agreed to suggest to the other G7 partners that a Commission representative shall be a member of the Community delegation in the capacity of providing assistance to the President of Ecofin/EUR-11.

In light of the decisions on the previous paragraphs, further consideration will be given to attendance at preparatory (Deputy) meetings. The Council agreed that as an integral part of Community representation at the G7 Group, there should be an informal preparation on EMU issues in the EUR-11 before meetings. The Council also outlined the need for an efficient communication network between its members.

To this end, the possibility to set up a modern network of communication tools (audio and video conferences) between the 15 Economic and Finance Ministries, the European Commission, the ECB and the Secretariat of the Economic and Financial Committee will be studied and carried forward urgently. This of course cannot be used for adoption of any legally binding legislative acts.

Solutions found for the G7 Finance Ministers' and Governors' Group will provide a basis for finding solutions for other groupings.

The Council recognised that the G7 Group quite often will discuss international issues which go beyond the competence of the Community and beyond the particular interest of the 11 euro area Member States, and concern all Member States. Even on these issues, which fall to Member State competence, it may be appropriate to formulate and present common understandings. The discussions and formulation of common understandings at recent Ecofin meetings on such topics as Russia and the international financial system might serve as a model. Those common understandings shall in any case be the basis of positions to be taken in the G7 Group and other groups.

2. Representation at the International Monetary Fund

The Council considers that pragmatic solutions for presenting issues of particular relevance to EMU may have to be sought which do not require a change in the Articles of Agreement of the IMF:

- a first necessary step has already been taken; the IMF Executive Board agreed to grant the ECB an observer position at that Board;
- secondly, the views of the European Community / EMU would be presented at the IMF Board by the relevant member of the Executive Director's office of the Member State holding the EUR-11 Presidency, assisted by a representative from the Commission.

3. Composition of Ecofin/EUR-11 delegations for missions to third countries

The composition of Ecofin/EUR-11 delegations for missions to third countries may vary with the circumstances and the objectives. It is the responsibility of the President of the Council/EUR-11 to make the necessary arrangements.

6. Statutes of the Committees

Council Decision of 21 December 1998 on the detailed provisions concerning the composition of the Economic and Financial Committee (98/743/EC) ⁽⁹⁴⁾

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 109c(3) thereof,

Having regard to the proposal from the Commission ⁽⁹⁵⁾,

Having regard to the opinion of the European Central Bank ⁽⁹⁶⁾,

Having regard to the opinion of the Monetary Committee ⁽⁹⁷⁾,

(1) Whereas the Treaty provides that an Economic and Financial Committee should be set up at the start of the third stage of economic and monetary union;

(2) Whereas the Treaty requires the Council to adopt detailed provisions concerning the composition of the Economic and Financial Committee; whereas the Member States, the Commission and the European Central Bank are each to appoint no more than two members of the Committee;

(3) Whereas the tasks of the Economic and Financial Committee are set out in Article 109c(2) of the Treaty; whereas as part of those tasks the Economic and Financial Committee is to keep under review the economic and financial situation of the Member States and of the Community and to report regularly thereon to the Council and to the Commission in particular on financial relations with third countries and international institutions; whereas the Economic and Financial Committee is to contribute to the preparation of the work of the Council, *inter alia*, for recommendations required as part of multilateral surveillance and the broad economic guidelines set down in Article 103 of the Treaty, and for decisions required as part of the excessive deficit procedure set down in Article 104c of the Treaty; whereas given the nature and importance of those tasks, it is essential that members of the Committee and alternate members be selected from among experts possessing outstanding competence in the economic and financial field;

(4) Whereas in its Resolution ⁽⁹⁸⁾ on economic policy coordination in Stage III of EMU, the European Council of Luxembourg of 12 and 13 December

⁽⁹⁴⁾ OJ L 358, 31.12.1998, pp. 109-110.

⁽⁹⁵⁾ OJ C 125, 23.4.1998, p. 17.

⁽⁹⁶⁾ OJ C 077, 20.3.1999, p. 9.

⁽⁹⁷⁾ Opinion delivered on 17 November 1998 (not yet published in the Official Journal).

⁽⁹⁸⁾ OJ C 35, 2. 2. 1998, p. 1.

1997 concluded that the Economic and Financial Committee will provide the framework within which the dialogue between the Council and the European Central Bank can be prepared and continued at the level of senior officials; whereas those officials will come from the national central banks and the European Central Bank as well as from national administrations;

(5) Whereas 'administration' refers to the services of the ministers attending the Council when meeting in the composition of Economic and Finance ministers;

(6) Whereas the membership of the Committee of officials from the European Central Bank and national central banks is to be without prejudice to Article 107 of the Treaty,

HAS DECIDED AS FOLLOWS:

Article 1

The Member States, the Commission and the European Central Bank shall each appoint two members of the Economic and Financial Committee. They may also appoint two alternate members of the Committee.

Article 2

The members of the Committee and the alternates shall be selected from among experts possessing outstanding competence in the economic and financial field.

Article 3

The two members appointed by the Member States shall be selected respectively from among senior officials from the administration and the national central bank. The alternates shall be selected under the same conditions.

Article 4

This Decision shall be published in the *Official Journal of the European Communities*.

It shall take effect as from 1 January 1999.

Done at Brussels, 21 December 1998.

For the Council

The President

M. BARTENSTEIN

**Council Decision of 18 June 2003
on a revision of the Statutes of the Economic
and Financial Committee (2003/476/EC) ⁽⁹⁹⁾**

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 209 thereof,

Having regard to the opinion of the Commission ⁽¹⁰⁰⁾,

Whereas:

- (1) In accordance with Article 114(2) of the Treaty an Economic and Financial Committee was set up on 1 January 1999.
- (2) The Council adopted on 21 December 1998 Decision 98/743/EC on the composition of the Economic and Financial Committee ⁽¹⁰¹⁾.
- (3) The Council adopted on 31 December 1998 Decision 1999/8/EC on the Statutes of the Economic and Financial Committee ⁽¹⁰²⁾; these Statutes enabled the Committee to function properly so far.
- (4) Following the decision by Heads of State or Government taken at the December 2002 Copenhagen European Council, 10 new members signed on 16 April 2003 an Accession Treaty to the European Union and are expected to join on 1 May 2004.
- (5) The Economic and Financial Committee should continue to work effectively after the enlargement.
- (6) It is important to preserve the elements which have contributed to the Committee's efficiency.
- (7) This will require an adjustment of the Committee's working methods.
- (8) This adjustment will have a bearing on the participation of central bankers; it will be important to retain their expertise and analytical insight and to keep them involved in issues on which they carry responsibility.
- (9) The Statutes of the Economic and Financial Committee should therefore be revised,

⁽⁹⁹⁾ OJ L 158, 27.6.2003, p. 58.

⁽¹⁰⁰⁾ Opinion delivered on 21 May 2003 (OJ C 130, 4.6.2003, p. 9).

⁽¹⁰¹⁾ OJ L 358, 31.12.1998, p. 109.

⁽¹⁰²⁾ OJ L 5, 9.1.1999, p. 71.

HAS DECIDED AS FOLLOWS:

Article 1

The Statutes of the Economic and Financial Committee, as set out in the Annex to Decision 1999/8/EC, shall be replaced by the text set out in the Annex hereto.

Article 2

This Decision shall be published in the *Official Journal of the European Union*. It shall take effect as from 1 July 2003.

ANNEX

STATUTES OF THE ECONOMIC AND FINANCIAL COMMITTEE

Article 1

The Economic and Financial Committee (Committee) shall carry out the tasks described in paragraphs 2 and 4 of Article 114 of the Treaty establishing the European Community.

Article 2

The Committee may, *inter alia*:

- be consulted in the procedure leading to decisions relating to the exchange rate mechanism of the third stage of economic and monetary union,
- without prejudice to Article 207 of the Treaty, prepare the Council's reviews of the development of the exchange rate of the euro,
- provide the framework within which the dialogue between the Council and the European Central Bank (ECB) can be prepared and continued at the level of senior officials from ministries, national central banks, the Commission and the ECB.

Article 3

Members of the Committee and alternates shall be guided, in the performance of their duties, by the general interests of the Community.

Article 4

The Committee shall meet in two configurations: either with the members selected from the administrations, the national central banks, the Commission and the ECB, or with the members from administrations, the Commission and the ECB. The Committee in its full composition shall regularly review the list of the issues on which the national central bank members are expected to attend the meetings.

Article 5

Opinions, reports or communications shall be adopted by a majority of the members if a vote is requested. Each member of the Committee shall have one vote. However, when advice or an opinion is given on questions on which the Council may subsequently take a decision, members from central banks, when they are present, and the Commission may participate fully in the discussions but shall not participate in a vote. The Committee shall also report on minority or dissenting views expressed in the course of the discussion.

Article 6

The Committee shall elect from among its members, by a majority of its members, a President for a two-year term. The two-year term shall be renewable. The President shall be elected from among members who are senior officials in the national administrations. The President shall delegate his/her voting right to his/her alternate.

Article 7

In the event of being prevented from fulfilling his/her duties, the President shall be replaced by the Vice-President of the Committee who shall be elected according to the same rules.

Article 8

Unless the Committee decides otherwise, alternates may attend meetings of the Committee. The alternates shall not vote. Unless the Committee decides otherwise, they shall not take part in the discussions.

A member who is unable to attend a meeting of the Committee may delegate his/her functions to one of the alternates. He/she may also delegate them to another member. The Chairman and the Secretary should be informed in writing before a meeting. In exceptional circumstances the President may agree to alternative arrangements.

Article 9

The Committee may entrust the study of specific questions to its alternate members, to subcommittees or to working parties. In these cases, the Presidency shall be assumed by a member or an alternate member of the Committee, appointed by the Committee. The members of the Committee, its alternates, and its subcommittees or working parties may call upon experts to assist them.

Article 10

The Committee shall be convened by the President on his/her own initiative, or at the request of the Council, of the Commission or of at least four members of the Committee.

Article 11

As a rule, the President represents the Committee; in particular, the President may be authorised by the Committee to report on discussions and deliver oral comments on opinions and communications prepared by the Committee. The President shall have the responsibility of maintaining the Committee's relations with the European Parliament.

Article 12

The proceedings of the Committee shall be confidential. The same rule shall apply to the proceedings of its alternates, subcommittees or working parties.

Article 13

The Committee shall be assisted by a Secretariat under the direction of a Secretary. The Secretary and the staff needed for the Secretariat shall be supplied by the Commission. The Secretary shall be appointed by the Commission after consultation of the Committee. The Secretary and his/her staff shall act on the instructions of the Committee when carrying out their responsibilities to the Committee.

The expenses of the Committee shall be included in the estimates of the Commission.

Article 14

The Committee shall adopt its own procedural arrangements.

Council Decision of 29 September 2000 on the composition and the statutes of the Economic Policy Committee ⁽¹⁰³⁾

Amended by

- Council Decision 2003/475/EC of 18 June 2003 ⁽¹⁰⁴⁾

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community and in particular Article 209 thereof,

Having regard to the opinion of the Commission,

Whereas:

(1) The Economic Policy Committee (hereinafter ‘the Committee’) was set up by Council Decision 74/122/EEC ⁽¹⁰⁵⁾.

(2) The Committee has exercised all the functions hitherto assigned to the Short-term Economic Policy Committee set up by Council Decision of 9 March 1960 on coordination of the conjunctural Policies of the Member States ⁽¹⁰⁶⁾, the Budgetary Policy Committee set up by Council Decision of 8 May 1964 on cooperation between the competent government departments of Member States in the field of budgetary policy ⁽¹⁰⁷⁾, and the Medium-term Economic Policy Committee set up by Council Decision of 15 April 1964 setting up a Medium-term Economic Policy Committee ⁽¹⁰⁸⁾.

(3) The Committee is provided for in Article 272 of the Treaty.

(4) The statutes of the Committee should reflect the new institutional environment created by entry into the third stage of economic and monetary union; it seems advisable to maintain the basic structure of the Committee while making the necessary adjustments to improve its functioning and to describe its tasks more precisely.

(5) The task assigned to the Committee shall be without prejudice to the right of the Commission to formulate recommendations or deliver opinions on matters dealt with in the Treaty.

(6) The introduction of the euro reinforces the need for a close coordination of economic policies and sustained convergence of the economic performances of the Member States; according to the resolution of the European Council of

⁽¹⁰³⁾ OJ L 257, 11.10.2000, p. 28.

⁽¹⁰⁴⁾ OJ L 158, 27.6.2003, p. 55.

⁽¹⁰⁵⁾ OJ L 63, 5.3.1974, p. 21.

⁽¹⁰⁶⁾ OJ 31, 9.5.1960, p. 764/60.

⁽¹⁰⁷⁾ OJ 77, 21.5.1964, p. 1205/64.

⁽¹⁰⁸⁾ OJ 64, 22.4.1964, p. 1031/64.

13 December 1997 on economic policy coordination in Stage III of economic and monetary union ⁽¹⁰⁹⁾ enhanced economic policy coordination should include a closer monitoring of macroeconomic developments in Member States and of Member States structural policies in labour, product and services markets, as well as of cost and price trends, particularly in so far as they affect the chances of achieving sustained non-inflationary growth and job creation.

(7) The broad economic policy guidelines and the multilateral surveillance procedure as provided for in Article 99 of the Treaty are at the centre of economic policy coordination; without prejudice to the tasks of the Economic and Financial Committee, the Committee should provide support for the formulation of the guidelines and contribute to the multilateral surveillance procedure in the areas mentioned in this Decision.

(8) The European Council at its meeting in Cardiff on 16 June 1998 welcomed the decision of the Ecofin Council and the ministers meeting in that Council on 1 May 1998 ⁽¹¹⁰⁾ to establish a light procedure, fully respecting the subsidiarity principle, for monitoring progress on economic reform.

(9) The resolution of the European Council of 3 and 4 June 1999 launched a process of macroeconomic dialogue at Community level. This macroeconomic dialogue is aimed at improving the interaction between wage developments and macroeconomic policies. The European Council has concluded that the macroeconomic dialogue at technical level should take place in a working party set up in the framework of the Committee in collaboration with the Employment and Labour Market Committee, with the participation of representatives of both committees (including the European Central Bank), of the Commission and of the Macroeconomic Group of the Social Dialogue. The Committee should in particular organise the contribution of government representatives to the dialogue at this level.

(10) The resolution of the European Council of 16 June 1997 on growth and employment ⁽¹¹¹⁾ called for an enhanced coordination of economic policies to complement the procedure as envisaged on the new title on employment in the Treaty, and requested that the Employment Committee should work closely together with the Committee.

(11) The Treaty provides for the establishment of an Economic and Financial Committee. The tasks of the Economic and Financial Committee are set out in Article 114(2) of the Treaty. The statutes of the Economic and Financial Committee have been adopted by Council Decision of 31 December 1998 ⁽¹¹²⁾. The Committee should work in close cooperation with the Economic and Financial Committee when assisting the Council.

⁽¹⁰⁹⁾ OJ C 35, 2.2.1998, p. 1.

⁽¹¹⁰⁾ OJ L 139, 11.5.1998, p. 28.

⁽¹¹¹⁾ OJ C 236, 2.8.1997, p. 3.

⁽¹¹²⁾ OJ L 5, 9.1.1999, p. 71.

6. Statutes of the Committees

(12) The Treaty calls for the establishment of an employment committee. Close cooperation with that committee is also required.

(13) The description of the tasks of the Committee is to be without prejudice to any possible future secondary legislation on the multilateral surveillance procedure as provided for in Article 99(5) of the Treaty.

(14) The Member States, the Commission and the European Central Bank should be adequately represented in the Committee. They should each nominate two members.

(15) Members of the Committee should be appointed in their personal capacity and should be guided in performing their duties by the general interests of the Community.

(16) The President of the Committee should be elected for a period of two years. As a rule, this term should not be renewable. It should be possible to extend the term if there is no other candidate for the Presidency.

(17) The membership of the Committee of officials from the European Central Bank and national central banks is to be without prejudice to Article 108 of the Treaty,

HAS DECIDED AS FOLLOWS:

Article 1

The statutes of the Economic Policy Committee provided for in Article 272 of the Treaty ('the Committee') are hereby adopted.

The text of the statutes is set out in the Annex hereto.

Article 2

Decision 74/122/EEC is hereby repealed.

Article 3

This Decision shall take effect from the day following its publication.

ANNEX

STATUTES OF THE ECONOMIC POLICY COMMITTEE

PART I

TASKS OF THE COMMITTEE

Article 1

1. Without prejudice to Articles 114 and 207 of the Treaty, the Economic Policy Committee (hereinafter referred to as the Committee), shall contribute to the preparation of the work of the Council of coordinating the economic policies of the Member States and of the Community and provide advice to the Commission and the Council.
2. The Committee shall contribute to the preparation of the work of the Council by providing economic analyses, opinions on methodologies and draft formulations for policy recommendations, particularly on structural policies for improving growth potential and employment in the Community. In this context, it shall focus in particular on:
 - (a) the functioning of goods, capital, services and labour markets, including wage, productivity, employment and competitiveness developments,
 - (b) the role and efficiency of the public sector and the long-term sustainability of public finances,
 - (c) the economy-wide implications of specific policies, such as those relating to the environment, to research and development and to social cohesion.
3. In the areas mentioned above, the Committee shall, without prejudice to Articles 114 and 207 of the Treaty, provide support for the work of the Council, in particular in the formulation of the broad economic policy guidelines, and shall contribute to the multilateral surveillance procedure referred to in Article 99(3) of the Treaty. In this context, the Committee shall conduct regular country reviews focused in particular on structural reforms in Member States.
4. Without prejudice to Articles 130 and 207 of the Treaty, the Committee shall contribute to the work of the Council under the Employment Title of the Treaty.
5. The Committee shall support the Economic and Financial Committee, in particular in keeping under review the short and medium-term macroeconomic developments in the Member States and the Community by providing analysis and opinions mainly on methodological questions relating to the interaction between structural and macroeconomic policies and on wage developments in the Member States and the Community.

6. Statutes of the Committees

6. The Committee shall provide the framework within which the macro-economic dialogue involving representatives of the Committee (including the European Central Bank), the Economic and Financial Committee, the Employment Committee, the Commission and social partners shall take place at technical level.

7. The Committee shall be consulted by the Commission on the maximum rate of increase for non-compulsory expenditure of the general budget of the European Union as provided for in Article 272 of the Treaty.

Article 2

The Committee shall deliver opinions at the request of the Council, the Commission or the Economic and Financial Committee or on its own initiative.

Article 3

In the fulfilment of its tasks the Committee shall work in close relation with the Economic and Financial Committee when reporting to the Council. In contributing to the preparation of the broad economic policy guidelines, the Committee will report to the Economic and Financial Committee. It shall coordinate its work with the Employment Committee and other committees and working groups preparing the work of the Council in the areas where these committees and working groups are competent.

PART II

COMPOSITION

Article 4

1. The Member States, the Commission and the European Central Bank shall each appoint two members of the Committee.

2. The members of the Committee shall be selected from among senior officials possessing outstanding competence in the field of economic and structural policy formulation.

Article 5

Members of the Committee shall be guided, in the performance of their duties, by the general interests of the Community.

PART III

PRESIDENT AND SECRETARIAT

Article 6

1. The Committee shall elect from among its members, by a majority of its members, a president and up to three vice-presidents for a period of two years. As a rule, the two-year term shall not be renewable.
2. The president shall delegate his/her voting right to another member of his/her delegation.

Article 7

In the event of being unable to fulfil his/her duties, the president shall be replaced by one of the vice-presidents of the Committee.

Article 8

1. The Committee shall be assisted by a secretariat under the direction of a secretary. The secretary and the staff of the secretariat needed for carrying out the tasks of the secretariat shall be supplied by the Commission. The secretary shall be appointed by the Commission after consultation of the Committee. The secretary and his/her staff shall act on the instructions of the Committee when carrying out their responsibilities to the Committee.
2. The expenses of the Committee shall be included in the estimates of the Commission.

PART IV

PROCEEDINGS

Article 9

Opinions or reports shall be adopted by a majority of members if a vote is requested. Each member shall have one vote. However, when advice or an opinion is given on questions on which the Council may subsequently take a decision, members from central banks and the Commission may participate fully in the discussion but shall not participate in a vote. The Committee shall also report on minority or dissenting views expressed in the course of the discussion.

6. Statutes of the Committees

Article 10

As a rule only members may speak during the meetings of the Committee. In exceptional circumstances the president may agree to alternative arrangements.

Article 11

The Committee may entrust the study of specific questions to subcommittees or working parties. The presidency of such groups shall be assumed by a member of the Committee, appointed by the Committee.

Article 12

The Committee, the subcommittees or working parties may invite experts to assist them.

Article 13

The Committee shall be convened by the president on his/her own initiative, or at the request of the Council, the Commission or at least five members.

Article 14

1. As a rule the president shall represent the Committee; in particular the president may be authorised by the Committee to report on discussions and deliver oral comments on opinions and reports prepared by the Committee.
2. The president of the Committee shall have the responsibility of maintaining the Committee's relations with the European Parliament, which shall be kept informed of the Committee's work, as appropriate.

Article 15

1. Unless decided otherwise, the proceedings of the Committee shall be confidential. The same rule shall apply to the proceedings of its subcommittees or working parties.
2. Reports or opinions prepared by the Committee shall be publicly available after they have been transmitted to the addressee unless there are overriding reasons to keep them confidential.

Article 16

The Committee shall adopt its own procedural arrangements.

Council Decision of 18 February 2003 concerning the establishment of the Financial Services Committee (2003/165/EC) ⁽¹¹³⁾

THE COUNCIL OF THE EUROPEAN UNION,

1. Recalls that the Council in its conclusions of 3 December 2002 stated its willingness to take a decision on the establishment of a new committee with the purpose of providing advice and oversight for the Council and the Commission on a range of financial market issues;
2. accordingly establishes the Financial Services Committee (hereinafter called the 'Committee'), with the following tasks:
 - to provide for cross-sectoral strategic reflection, separate from the legislative process,
 - to help to define the medium- and long-term strategy for financial services issues,
 - to consider sensitive short-term issues,
 - to assess progress and implementation,
 - to provide political advice and oversight on both internal issues (e.g. single market, including implementation of the Financial Services action plan) and external issues (e.g. WTO);
3. agrees the following as for the composition, the chairmanship and the functioning of the Committee:
 - the Commission and each member of the Council shall appoint one high-level representative and one alternate to the Committee; a representative of the European Central Bank and the Chairs of the relevant Community committees of regulators will have observer status,
 - the Committee shall have one Chair and one Vice-Chair which it shall appoint from among the representatives of the Member States; the Chair and the Vice-Chair shall serve for two years; the first Chair shall be appointed by the Economic and Financial Committee,
 - the Member State whose representative is appointed Chairman shall have one additional representative on the Committee for the Chairman's period of office,
 - the Chairman and Vice-Chair, together with the representative from the Commission, the representative from the Member State holding the Presidency of the Council for the duration of its office, a representative of the General Secretariat of the Council and a representative from the Secretariat

⁽¹¹³⁾ OJ L 67, 12.3.2003, p. 17.

6. Statutes of the Committees

of the Economic and Financial Committee shall cooperate closely with a view to facilitating the work of the Committee,

- the Committee shall report to the Economic and Financial Committee in order to prepare advice to the Council (Ecofin), taking into account the established role of Coreper,
 - the Chairman of the Committee shall be available for a regular exchange of views on strategic developments related to financial markets with the Committee on Economic and Monetary Affairs of the European Parliament,
 - the Committee shall adopt its own Rules of Procedure in accordance with the Council's Rules of Procedure,
 - the secretariat shall be provided by the General Secretariat of the Council;
4. notes that the Committee's activities will be without prejudice to the Commission's right of initiative;
 5. decides to review this Decision in the second half of 2004.

Done at Brussels, 18 February 2003.

Tables of equivalences referred to in Article 12 of the Treaty of Amsterdam (extracts)

Tables of equivalences referred to in Article 12 of the Treaty of Amsterdam ⁽¹¹⁴⁾

(Extracts)

A. Treaty on European Union

Previous numbering	New numbering
Title I	Title I
...	...
Article B	Article 2
...	...

B. Treaty establishing the European Community

Previous numbering	New numbering
Part one	Part one
...	...
Article 2	Article 2
...	...
Article 3a	Article 4
...	...
Article 4a	Article 8
...	...
Part three	Part three
Title VI	Title VII
Chapter 1	Chapter 1
Article 102a	Article 98
Article 103	Article 99
Article 103a	Article 100
Article 104	Article 101
Article 104a	Article 102
Article 104b	Article 103
Article 104c	Article 104

⁽¹¹⁴⁾ OJ C 340, 10.11.1997, pp. 85-91.

<p>Chapter 2 Article 105 Article 105a Article 106 Article 107 Article 108 Article 108a Article 109</p>	<p>Chapter 2 Article 105 Article 106 Article 107 Article 108 Article 109 Article 110 Article 111</p>
<p>Chapter 3 Article 109a Article 109b Article 109c Article 109d</p>	<p>Chapter 3 Article 112 Article 113 Article 114 Article 115</p>
<p>Chapter 4 Article 109e Article 109f Article 109g Article 109h Article 109i Article 109j Article 109k Article 109l Article 109m</p>	<p>Chapter 4 Article 116 Article 117 Article 118 Article 119 Article 120 Article 121 Article 122 Article 123 Article 124</p>

Annex

List of other legal and political texts concerning economic and monetary union

This list comprises other legal and political texts which are relevant for economic and monetary union, but which have not been reproduced in this Compendium. The ECB's legal acts and instruments are not covered in this list ⁽¹¹⁵⁾.

I. Extracts from the Treaties, annexed Protocols and Declarations

Title III, Chapter 4 EC Treaty — Capital and payments — OJ C 325, 24.12.2002 (consolidated version)

Protocol amending the Protocol on the privileges and immunities of the European Communities — unofficial consolidated version see http://www.ecb.int/ecb/legal/pdf/ppi_en.pdf

Protocol on Denmark — OJ C 191, 29.7.1992, p. 86

Protocol on Portugal — OJ C 191, 29.7.1992, p. 86

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⁽¹¹⁵⁾ For the ECB's legal acts and instruments see <http://www.ecb.int/ecb/legal/1341/1342/html/index.en.html>.

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