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I

(Information)

COUNCIL

RESOLUTION OF THE EUROPEAN COUNCIL

on the Stability and Growth Pact

Amsterdam, 17 June 1997

(97/C 236/01)

- I. Meeting in Madrid in December 1995, the European Council confirmed the crucial importance of securing budgetary discipline in stage three 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 three of EMU, Member States shall avoid excessive general government deficits: this is a clear Treaty obligation⁽¹⁾. 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 three 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 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

⁽¹⁾ 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.

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;
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 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 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 always to 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.

RESOLUTION OF THE EUROPEAN COUNCIL

on growth and employment

Amsterdam, 16 June 1997

(97/C 236/02)

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 macro-economic 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 modernized 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.

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 recognize 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 macro-economic 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.
 - 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-term loans, primarily for the large priority projects adopted in Essen.
 6. This enhanced coordination of economic policies will complement the procedure as envisaged in the new Title on Employment in the Treaty, which provides 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 utilizing its own resources, to the balanced and steady development of the common market in the interest of the Community, we recognize 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,
 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 maximize 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

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

Amsterdam, 16 June 1997

(97/C 236/03)

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

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

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

The exchange-rate mechanism will link currencies of Member States outside the euro area to the euro. The euro will be the centre of the new mechanism. The mechanism will function within the requisite framework of stability-oriented policies in accordance 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 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 organized, *inter alia*, with a view to avoiding such misalignments or fluctuations.

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

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

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

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

1.7. The exchange-rate mechanism will be based on central rates against the euro. The standard fluctuation band will be relatively wide. Through the 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 if it implied narrower fluctuation bands, would be without prejudice to the interpretation of the exchange-rate criterion of Article 109j of the Treaty.

2. MAIN FEATURES

- 2.1. A central rate against the euro will be defined for the currency of each Member State outside the euro area participating in the exchange-rate mechanism. There will be one standard fluctuation band of plus or minus 15 % around the central rate. Intervention at the margins will in principle be automatic and unlimited, with very short-term financing available. However, the ECB and the central banks of the other participants could suspend intervention if this were to conflict with their primary objective. In their decision they would take due account of all relevant factors and in particular of the need to maintain price stability and the credible functioning of the exchange-rate mechanism.
- 2.2. As is made clear in the agreement laying down the operating procedures of the exchange-rate mechanism which is expected to be concluded between the ECB and the national central banks, the flexible use of interest rates will be an important feature of the mechanism and there will be the possibility of coordinated intra-marginal intervention.
- 2.3. Decisions on central rates and the standard fluctuation band shall be taken by mutual agreement of the ministers of the euro-area Member States, the ECB and the ministers and central bank governors of the non-euro area Member States participating in the new mechanism, following a common procedure involving the European Commission, and after consultation of the Economic and Financial Committee. The ministers and governors of the central banks of the Member States not participating in the exchange-rate mechanism will take part but will not have the right to vote in the procedure. All parties to the mutual agreement, including the ECB, will have the right to initiate a confidential procedure aimed at reconsidering central rates.
- 2.4. On a case-by-case basis, formally agreed fluctuation bands narrower than the standard one and backed up in principle by automatic intervention and financing may be set at the request of the non-euro area Member 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.

RESOLUTION OF THE EUROPEAN COUNCIL
of 7 July 1997
on the legal framework for the introduction of the euro
(97/C 236/04)

THE COUNCIL,

Whereas the Council adopted on 17 June 1997 Regulation (EC) No 1103/97 on certain provisions relating to the introduction of the euro (OJ No L 162, 19. 6. 1997) on the basis of Article 235 of the Treaty and in the interest of legal certainty in order to regulate the urgent aspects of the legal framework for the introduction of the euro;

Whereas the Council agreed on 7 July 1997 a draft regulation on the introduction of the euro set out in the Annex which will regulate the other relevant aspects necessary for the introduction of the euro; whereas this regulation will be adopted on the basis of Article 109 L (4) of the Treaty immediately after the decision on Member States adopting the euro has been taken as early as possible in 1998 and will then become legally binding;

Whereas the above texts will together establish the legal framework for the introduction of the euro; whereas the European Council in Amsterdam agreed on 17 June 1997 to publish this complete legal framework in the interest of transparency,

— AGREES TO PUBLISH THIS RESOLUTION AND ITS ANNEX FOR INFORMATION IN THE *OFFICIAL JOURNAL OF THE EUROPEAN COMMUNITIES*.

ANNEX

Draft

COUNCIL REGULATION (EC) No .../97

of ...

on the introduction of the euro

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 ⁽¹⁾,

Having regard to the opinion of the European Central Bank ⁽²⁾,

Having regard to the opinion of the European Parliament ⁽³⁾,

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' ⁽⁴⁾; 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' used by the Treaty to refer to the European currency unit is a generic term; whereas the Governments of the fifteen 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 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

⁽¹⁾ OJ No C 369, 7. 12. 1996, p. 10.

⁽²⁾ Opinion delivered on ... (not yet published in the Official Journal).

⁽³⁾ Opinion delivered on ... (not yet published in the Official Journal).

⁽⁴⁾ OJ No L 162, 19. 6. 1997, p. 1.

during this period the national currency units will be defined as sub-divisions 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 organized markets;
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 generalization 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 harmonize 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 imitations 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 No 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 16 October 1996 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 No 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 No 11 and No 12 and Article 109k (1),

HAS ADOPTED THIS REGULATION:

PART I

DEFINITIONS

Article 1

For the purpose of this Regulation:

- 'participating Member States' shall mean (Countries A, B ..),
- 'legal instruments' shall mean legislative and statutory provisions, acts of administration, judicial decisions, contracts, unilateral legal acts, payment instruments other than bank-notes and coins, and other instruments with legal effect,
- 'conversion rate' shall mean the irrevocably fixed conversion rate adopted for the currency of each participating Member State by the Council according to the first sentence of Article 109l (4) of the Treaty,
- 'euro unit' shall mean the currency unit as referred to in the second sentence of Article 2,
- '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,
- 'transitional period' shall mean the period beginning on 1 January 1999 and ending on 31 December 2001,
- 'redenominate' shall mean changing the unit in which the amount of outstanding debt is stated from a national currency unit to the euro unit, as defined in Article 2, 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.

PART II

SUBSTITUTION OF THE EURO FOR THE CURRENCIES OF THE PARTICIPATING MEMBER STATES

Article 2

As from 1 January 1999 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 cents.

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.

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 securitized debt negotiable in the capital markets, and to money market instruments, issued by other debtors,

— enable the change of the unit of account of their operating procedures from a national currency unit to the euro unit by:

(a) 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 ⁽¹⁾ and of commodities; and

(b) 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 of the day before the entry into force of this Regulation.

⁽¹⁾ OJ No L 141, 11. 6. 1993, p. 27. Directive as amended by Directive 95/26/EC of the European Parliament and of the Council (OJ No L 168, 18. 7. 1995, p. 7).

PART IV

Article 14

EURO BANKNOTES AND COINS

Article 10

On ...^(*), the ECB and the central banks of the participating Member States shall put into circulation banknotes denominated in euros. Without prejudice to Article 15, these banknotes denominated in euros shall be the only banknotes which have the status of legal tender in all these Member States.

Article 11

On ...^(*), the participating Member States shall issue coins denominated in euros or in cents and complying with the denominations and technical specifications which the Council may lay down in accordance with the second sentence of Article 105a (2) of the Treaty. Without prejudice to Article 15, these coins shall be the only coins which have the status of legal tender in all these 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 fifty 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 14, 15 and 16 shall apply as from the end of the transitional period.

This Regulation shall be binding in its entirety and directly applicable in all Member States, in accordance with the Treaty, subject to Protocols No 11 and No 12 and Article 109k (1).

Done at Brussels, ...

Where in legal instruments existing at the end of the transitional period 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 after the end of the transitional period 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 after the end of the transitional period, 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.

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 euros 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.

For the Council
The President

^(*) A precise date to be decided, in accordance with the Madrid scenario, when this Regulation is adopted.