

Medlemmerne af Folketingets
Europaudvalg og deres stedfortrædere

Asiatisk Plads 2
DK-1448 København K
Tlf. +45 33 92 00 00
Fax +45 31 54 05 33
Telex 31292 ETR DK
Telegr. adr. Etrangeres
Girokonto 3 00 18 06



Bilag
1

Kontor
N.1

Journal nr.
400.C.2-0

Dato
14. juni 1996

./.
Til underretning for Folketingets Europaudvalg
fremsendes vedlagt Kommissionens statusrapport til Det
Europæiske Råd vedrørende forberedelsen af
ØMU'ens 3. fase samt en pressemeddelelse om rapporten.

Poul Nyrup Rasmussen

C

O



COMISIÓN EUROPEA
Servicio del Portavoz

Brussels, 12 June 1996

Talsmandstjenesten

EUROPÄISCHE KOMMISSION
Dienst des Sprechers

ΕΥΡΩΠΑΪΚΗ ΕΠΙΤΡΟΠΗ
Υπηρεσία Εκπροσώπου Τύπου

EUROPEAN COMMISSION
Spokesman's Service

COMMISSION EUROPÉENNE
Service du Porte-Parole

COMMISSIONE EUROPEA
Servizio del Portavoce

EUROPESE COMMISSIE
Dienst van de Woordvoerder

COMISSÃO EUROPEIA
Serviço do Porta-Voz

EUROOPAN KOMISSIO
Tiedotuspäällikön yksikkö

EUROPEISKA KOMMISSIONEN
Talesmannätjänsten

Preparing for Stage 3 of EMU

On the initiative of President Santer and Mr Yves-Thibault de Silguy, Commissioner with special responsibility for economic, financial and monetary affairs, the Commission today adopted a communication to the European Council meeting in Florence on the status of preparatory work for Stage 3 of EMU. The document gives an overview of progress so far, in fields such as the budget stability pact, relations between the euro area and the countries not initially taking part in the single currency, the legal status of the euro and communication, as well as a summary of the economic situation and progress in achieving convergence. In line with the timetable set by the informal Ecofin Council in Verona on 13 April, all the technical aspects of the changeover to the euro will thus be settled before the end of 1996.

Economic situation and convergence

Despite the slowdown in economic activity in most Member States at the end of 1995, the fundamentals of the European economy remain sound. The Commission's spring 1996 forecasts point to a gradual upturn during the second half of 1996 and in 1997. Growth stood at 2.5% of GDP across the EU in 1995, and the Commission forecasts an average growth rate of 1.5% in 1996 followed by a return to the 2.5% level in 1997.

Convergence is making headway as regards inflation, long-term interest rates and the public deficit. The average inflation rate in the European Community has fallen to a historic low, at less than 3%, with ten Member States meeting the corresponding convergence criterion. The same applies to long-term interest rates.

As regards public finances, all Member States are making sustained efforts to control their deficits, but only three countries (Denmark, Ireland and Luxembourg) are not currently running an excessive deficit. There will therefore not be a majority of Member States in 1996 that fulfil the necessary conditions for the changeover to the euro. Consequently, without prejudice to the normal application of Article 109j at the end of this year, it is already clear that the list of countries taking part in the single currency will be drawn up as early as possible in 1998 in line with the conclusions of the Madrid European Council.

Given the Member States' determination to take the necessary steps for the switch to the euro on 1 January 1999, the Commission is confident that there will be a significant number of Member States capable of fulfilling the necessary conditions for moving to Stage 3 when the decisions are taken by the European Council in early 1998 on the basis of the definitive data for 1997.

Procedures and policies for achieving greater convergence

Since the beginning of Stage 2 of EMU (on 1 January 1994), the new procedures for achieving greater convergence - in particular the broad economic policy guidelines (Article 103) and the excessive deficit procedure (Article 104c) - have been implemented effectively and according to schedule. The forthcoming European Council meeting in Florence will examine a recommendation to the finance ministers on broad economic policy guidelines which stresses the need for price and exchange-rate stability, sound public finances and job creation. Under the excessive deficit procedure, the Commission has put forward draft Council recommendations addressed individually to the 12 Member States which are running an excessive deficit.

Despite the encouraging track record of these procedures, the Commission is examining with the Ecofin Council ways and means of coordinating economic policies more closely and further strengthening budgetary discipline in Stage 3 in accordance with the Treaty.

Preparing for Stage 3 of EMU

(1) *Ensuring fiscal discipline in Stage 3 of EMU - the stability pact*

Following the initial proposal for a stability pact put forward by the German authorities, the European Council in Madrid welcomed the Commission's intention to present in 1996 its conclusions on ways and means of ensuring budgetary discipline and coordination in EMU in accordance with the procedures and principles laid down in the Treaty. Since then, work on this issue has been pursued by Commission staff, in conjunction with the Monetary Committee.

Three general principles should underpin any agreement on a stability pact:

- * it should be achieved in the context of and according to the procedures laid down in the Treaty;
- * it should be agreed at Union level, even though its full application would only concern the Member States participating in the single currency; and
- * it should confirm that the requirements for participation in EMU, either in the first group or at a later date, should in no way be changed.

A budgetary target of close to balance, as set in the broad economic policy guidelines, but still allowing for some differentiation to account for specific factors (for example, the structure of public expenditure, budgetary sensitivities to the economic cycle, and demographic prospects) seems appropriate to allow public budgets to react to economic developments without breaching the 3% ceiling.

The necessary mechanisms have to be put in place in order to attain this goal. At national level, appropriate "auto-corrective" mechanisms need to be devised. At EU level, an early warning system, based on the intensification of existing convergence programmes and multilateral surveillance procedures, would help to identify and correct slippages well before the 3% reference value is reached. To this end, it is proposed that participating Member States should submit "stability programmes".

Secondary legislation, adopted on the basis of Article 103(5), could define some of the key elements of the stability programmes and lay down surveillance procedures at Union level.

If Member States were to run excessive deficits, the full force of the excessive deficit procedure would be brought into play. The steps leading to the imposition of sanctions need to be carried out expeditiously and in a predictable manner. To this end, secondary legislation under Article 104c(14) could specify the maximum period between the successive steps in the procedure so as to contain the time span of the overall process. At the same time it would be possible to clarify the conditions under which sanctions are imposed and define the type, scale and timing of sanctions.

In accordance with the conclusions of the Madrid European Council, the Commission will present later this year its conclusions on these issues for discussion by the European Council in Dublin.

(2) Relationship between Member States participating in the euro area and non-participating Member States in Stage 3 of EMU

Significant progress has been made in defining a new monetary relationship between participant and non-participant Member States. There is now a broad consensus that the new relationship should be based on an exchange-rate arrangement linking the currencies of the non-participant Member States to the euro.

The euro will be the anchor of the new arrangement with the onus of adjustment being predominantly on countries not in the euro zone. In order to cater for differences in convergence among Member States and to minimize the risk of market speculation, the new arrangement will need to be flexible - as reflected in sufficiently wide fluctuation margins around the central parities. In addition, the management of the new arrangement should be aimed at preventing exchange-rate tensions. For instance, the Member States, the ECB and the Commission could take the initiative of launching consultations on the appropriate policy response.

Work on many of the more technical aspects of the new exchange-rate arrangement cannot be finalized before the ECB is set up in early 1998. However, work will continue with a view to reaching agreement on the main features of the new arrangement at the European Council meeting in Dublin at the end of this year.

In order to ensure the degree of exchange-rate stability needed for the smooth functioning of the single market and to facilitate the process of economic convergence, the Ecofin Council asked the Commission to assess the possibilities for reinforcing of the convergence process and procedures.

Firstly, the Commission is exploring ways and means of improving the current format of convergence programmes. In this context it would seem essential to secure a higher degree of political commitment from Member States on the implementation of their respective programmes and the achievement of the relevant convergence targets. As a counterpart to reinforced convergence efforts at national level, the Ecofin Council would be expected politically to endorse each Member State's convergence programme on the basis of a positive recommendation from the Commission.

Convergence procedures might be further strengthened by emphasizing country-specific recommendations and targets in the broad economic policy guidelines.

Apart from improved convergence programmes and reinforced multilateral surveillance, several Member States have asked the Commission to study the feasibility of linking certain payments from the Community budget to exchange-rate developments and of introducing macroeconomic conditionality with respect to Structural Fund payments. A report on these matters will be produced before the summer recess.

(3) Legal framework for the use of the euro

With respect to the legal framework for the use of the euro, complete legal certainty must be established well in advance of the introduction of the new currency. Technical preparatory work on a Council regulation is currently under way with a view to ensuring legally enforceable equivalence between the euro and national currencies. The Commission has today approved a working document on a draft text which will now be discussed in the Monetary Committee. The main topics covered are:

- * establishing that the euro is to be the single currency of participating Member States, with the euro being also divided, during the transitional period (1 January 1999 until 30 June 2002 at the latest), into the national currency units, thus ensuring a legally enforceable equivalence between the euro and the national currency units;
- * confirming the continuity of contracts denominated in national currencies and in the ECU basket;
- * rules on legal tender and rounding.

The Commission is also taking steps in accordance with the remit issued by the Madrid European Council to facilitate the changeover to the euro by the Member States' public administrations. A first meeting on this subject with Member State experts was held by the Commission on 11 June.

Furthermore, the Commission intends to begin work on other issues particularly affecting consumers (for example dual pricing) ahead of the introduction of notes and coins denominated in euros.

(4) Promoting public awareness of the euro

Lastly, the Commission's report summarizes progress made in the field of communication about the introduction of the euro. Following the Commission's Round Table on this issue in January, organized in cooperation with the European Parliament, the Commission has published a communication plan which is based on three main guiding principles: decentralization and consistency, partnership with national and regional administrations and institutions, and progressive implementation.

Patrick Child	296.97.50
Lone Mikkelsen	296.05.67

**COMMUNICATION FROM THE
COMMISSION
TO THE
EUROPEAN COUNCIL**

PREPARATION OF EMU: CURRENT STATE OF PLAY

I Economic developments and convergence

- 1) The development of economic activity in the European economy since mid-1995 has been disappointing. The vigorous recovery seen in 1994 came almost to a halt, as a result of factors such as the higher long-term interest rates in 1994, the currency turbulence in early 1995 and uncertainties about policy commitment in some Member States, which have all undermined business and consumer confidence.

However, fundamentals remain sound and there are some signs that growth in demand and output is beginning to pick up. The latest Commission forecasts expect the recovery to strengthen gradually in the second half of 1996 and in 1997. Following growth of real output now estimated at 2.5% in 1995, average growth in 1996 is now expected to be 1½% with a return to almost 2½% next year.

Weaker output growth has slowed the increase in employment and interrupted the decline in unemployment seen through most of 1995. As a result the average unemployment rate in the Community is expected to remain at close to 11% this year before declining again gradually in 1997.

- 2) Against this background of weak growth, continued progress is being made with convergence:

- inflation rates have remained low or have declined and the EU average rate is clearly below 3%. Using the recently introduced interim indices of consumer prices and comparing the average index in the last 12 months (to March 1996) with the average in the previous twelve months, 10 Member States have inflation rates below the reference value set by the three best performing countries (Finland, the Netherlands and Belgium), and inflation is tending to decline in those Member States not yet satisfying the criterion;
- long-term interest rate differentials have narrowed in recent months. Looking at comparable (10-year) government bond rates averaged over the 12 months to March 1996, 10 Member States have rates less than the reference value set by three best performing countries in terms of inflation;
- following the turbulence in exchange markets in the early part of 1995, there have more recently been no severe tensions in exchange rates, and several of those currencies which had earlier depreciated have recovered in value. Five Member States do not at present participate in the exchange rate mechanism, but some of these are preparing themselves to enter or re-enter;
- regarding public finances, all Member States are making efforts to achieve fiscal consolidation. Deficits were reduced in 10 Member States in 1995 and, on the basis of the Commission's latest forecasts, are expected to be reduced in 12 Member States this year despite the weaker economic growth. However, only three Member States achieved government deficits below 3% of GDP in 1995 and it does not seem likely that this number will increase this year. While some Member States have achieved reductions in their debt ratio in recent

years (especially marked in Ireland and Denmark, but also in Belgium) and others have stabilised the ratio, a continued upward trend is still evident in most countries. If the Council confirms the recommendations made by the Commission for the excessive deficit procedure (to decide that Germany is in excessive deficit, but to abrogate the earlier decision on Denmark) then only Denmark, Ireland and Luxembourg will not be considered to be in excessive deficit. Despite the efforts being made in the 12 other Member States and the progress being achieved, this will not be sufficient in 1996 to satisfy the public finance criterion. However, many Member States have already announced or are in the process of introducing consolidation measures aiming at achieving the deficit reference value in 1997.

Thus, despite the generally favourable convergence situation in relation to inflation, interest rates and exchange rates, there still remain too large imbalances in the public finances for the majority of Member States to fulfil the necessary conditions for participation in the single currency this year. Consequently, notwithstanding the normal application of article 109j, later this year, the final decision will be taken as early as possible in 1998 in accordance with the conclusions of the European Council in Madrid.

II Procedures and policies to improve convergence and growth conditions

The new procedures for economic policy co-ordination introduced by the Maastricht Treaty (broad economic policy guidelines and excessive deficit procedure) have been implemented regularly and effectively since the beginning of stage two of EMU. They have helped to re-inforce the consensus on the need to pursue stability-oriented economic policies which strengthen the conditions for growth of output and employment. They have also increased the pressure on individual Member States to introduce appropriate policies and measures.

The European Council at Florence is being asked to discuss a conclusion on this year's broad economic policy guidelines, based on a report from the Ecofin Council on a recommendation from the Commission. The broad guidelines set policy orientations for the range of economic policies, including price and exchange rate stability, sound public finances, the necessary structural reforms and the mix of policies to improve growth and employment. In this year's application of the excessive deficit procedure, the Commission will send to the Council for adoption recommendations addressed to the 12 Member States still in excessive deficit. These recommendations are focused on budgetary policy only and urge the Member States to implement in a determined way (and in several cases to take additional measures) their policies to achieve targets for reduced government deficit and debt ratios.

Experience with the new procedures has been positive, but the Commission (as well as the Monetary Committee and Ecofin Council) is now actively considering how policy co-ordination and budgetary discipline can be strengthened further in stage three of EMU within the context of the Treaty.

III Preparation for Stage 3 of Economic and Monetary Union

In accordance with the conclusions of the European Council in Madrid, further work is underway in order to ensure the smooth functioning of EMU in Stage 3 and the implementation of the agreed scenario for the introduction of the euro.

1) Ensuring fiscal discipline in Stage 3 of EMU

Maintaining fiscal discipline is a necessary pre-requisite to allow budgetary policy to play fully its role in EMU and still comply with the 3% reference value even in an unfavourable economic conjuncture. It is generally agreed that public finances should be put on a sound footing. Most Member States would therefore, under normal circumstances, have to come back to a situation close to balance on the public finances, a situation which was prevailing in a majority of Member States before the first oil price shocks. The introduction of a single currency increases the role and responsibility of national budgetary policies. However, it also highlights the need for close co-ordination, if budgetary policies are to play a positive role both in supporting monetary policy, thereby ensuring adequately low interest rates, and contributing to smoothen out the consequences of economic fluctuations.

Following the initial proposal of a stability pact by the German authorities, the European Council in Madrid welcomed the intention of the Commission to present in 1996 its conclusions on ways to ensure budgetary discipline and co-ordination in EMU in accordance with the procedures and principles of the Treaty. Since then, work on this issue has been pursued by Commission services, in conjunction with the Monetary Committee.

Three general principles should underpin any agreement on a stability pact. This agreement should:

- i) be achieved in the context of and according to the procedures of the Treaty;
- ii) be agreed at the level of the Union, even though its full application would only concern the Member States participating in the single currency; and
- iii) confirm that the requirements for the participation in EMU, either in the first group or at a later date, should in no way be changed.

A budgetary target of close to balance, as set in the broad economic policy guidelines, but still allowing for some differentiation to account for specific factors (for example, levels of economic development, budgetary sensitivities to the economic cycle, and demographic prospects) seems appropriate to allow public budgets to react to economic developments without breaching the 3% ceiling. Such a medium term target for national budgetary policies would provide guidance to markets and orientate adjustment efforts. The political endorsement by the Community of the national commitments would strengthen the credibility and the co-operative nature of this exercise.

The guiding principle is to try to prevent, as far as possible, member states from ending up in a situation of excessive deficit. First and foremost, any slippage should be avoided by the member states themselves. Second, the Union should support this process and also allow a coherent overall fiscal stance to adequately support monetary policy.

The necessary mechanisms have to be put in place in order to attain this goal. At national level, appropriate "auto-corrective" mechanisms need to be devised. At EU level, an early warning system, based upon the intensification of existing practice with convergence programmes and multilateral surveillance exercise,

would help to identify and correct slippages well before the 3% reference value is reached. To this end, it is proposed that participating Member States submit "stability programmes".

Secondary legislation, adopted on the basis of article 103(5), could define some of the key elements of the stability programmes and lay down the steps of surveillance at the level of the Union.

In the event that Member States, in spite of the early warnings, did run into an excessive deficit, the full force of the excessive deficit procedure would be brought into play. The different steps leading to the imposition of sanctions in case of no correction, need to be carried out expeditiously and in a predictable way. To this end, secondary legislation, adopted on the basis of article 104 C(14), could specify the delays between the successive steps of the procedure so as to limit as far as possible the time span of the overall process, clarify the conditions under which sanctions will be imposed and define the type, scale and timing of sanctions.

In accordance with the conclusions of the European Council in Madrid, the Commission will present later this year its conclusions on these issues in view of the European Council in Dublin.

2) Relationship between Member States participating in the euro area and non-participating Member States in Stage 3 of EMU.

1. Significant progress has been made in defining a new monetary relationship between the participant and non-participant Member States. In respect of this issue, the Commission is in broad agreement with the progress achieved by the Ecofin Council on the preparation for Stage 3 of economic and monetary union. There is now a broad consensus that the new relationship should be based on an exchange rate arrangement linking the currencies of the non-participant Member States to the euro. In the Commission's view, such an arrangement - combined with reinforced convergence procedures - will be essential in fostering nominal convergence among the non-participant Member States as well as in contributing to the smooth functioning of the single market. The existence of an arrangement in the third stage will also help in respecting the principle of equal treatment between Member States participating in the euro area from the outset and those participating from a later date. Generalized membership, although not compulsory, would be strongly desirable for the proper functioning of the arrangement.

The achievement and maintenance of price stability both in the euro area and in the non-participant Member States will remain an overriding priority in the design and in the subsequent operation of the new exchange rate arrangement. As the currency with the highest standards of stability, the euro will be the anchor of the new arrangement, also reflecting the fact that the non-participant Member States will be expected to converge toward the sound economic conditions prevailing in the euro area. Furthermore, the focus of the new arrangement on supporting convergence argues in favour of a relationship between the euro and the other currencies in the arrangement in which the onus of adjustment would be predominantly on the non-participant Member States.

In order to cater for differences in convergence among the non-participant Member States and to minimize the risk of market speculation, the new arrangement will need to be flexible - as reflected in sufficiently wide fluctuation margins around the central parities but with the possibility of closer links between the euro and individual currencies. In addition, the management of the new arrangement should be aimed at preventing exchange rate tensions. For instance, the member states, the ECB and the Commission could take the initiative of launching consultations on the appropriate policy response.

More generally, in any forum dealing with the exchange rate between the euro and other EU currencies, the euro area would be expected to speak with one voice.

Work on many of the more technical elements of the new exchange rate arrangement cannot be finalized before the creation of the ECB early in 1998. However, work will continue with a view to reaching agreement on the main features of the new arrangement at the European Council meeting in Dublin at the end of this year.

2. To ensure a durable and harmonious growth process within a well functioning Internal Market requires first and foremost that Member States respect the objective of economic convergence. In order to support these efforts, the Commission was asked by the Ecofin Council to assess the possibilities for a reinforcement of the convergence process and procedures, also at the level of the Union. Additional instruments for promoting convergence, consistent with the Treaty and compatible with an exchange rate arrangement, could be considered.

Firstly, the Commission is exploring means to improve the current format of convergence programmes, which have proven effective, and should remain the pivot of the convergence process. It would be essential to secure a higher degree of political commitment from member states on the implementation of their respective programmes and the achievement of the relevant convergence targets. Accordingly, the current format of convergence programmes would need to be modified to include several important elements including (i) a statement of key objectives and time horizon for their achievement; (ii) assumptions about the macroeconomic environment; (iii) policy measures; (iv) contingency measures in the event of slippage from the specified adjustment path; (v) regular updating. Where necessary, a specific date for submitting a new programme should be decided. As a counterpart to reinforced convergence efforts at the national level, the Ecofin Council would be called upon to politically endorse the convergence programme of the member state on the basis of a positive recommendation from the Commission. Endorsement by the Council would presuppose vigilant surveillance at the Community level, which could be established using secondary legislation. The two main elements of Community surveillance proposed in respect of convergence programmes would be (i) regular monitoring and (ii) recommendations by the Ecofin for corrective action where appropriate. Convergence procedures might be further strengthened by emphasising country-specific recommendations in the broad economic policy guidelines. Secondly, the targets of the Broad Economic Policy Guidelines should be more country-specific.

Apart from improved convergence programmes and a reinforcement of multilateral surveillance, several member States have asked the Commission to study the feasibility of linking certain payments from the Community Budget to developments

in real exchange rates and of introducing macroeconomic conditionality with respect to Structural Fund payments. A report on these matters will be produced before the Summer recess.

3) Legal framework for the use of the euro

With respect to the legal framework for the use of the euro, complete legal certainty must be established well in advance of the introduction of the new currency. Technical preparatory work on a Council regulation is currently underway with a view to implementing a legally enforceable equivalence between the euro and national currencies. The main items addressed by the Council regulation will be:

- confirming the continuity of contracts denominated in national currencies and in the ECU basket;
- definition of the legal status of the euro and national currencies in the period between 1.1.1999 and 30.6.2002 at the latest;
- the replacement of national currencies by the euro from 1.1.2002 onwards;
- rules for rounding;

The Commission is also taking steps in accordance with the remit of the Madrid Summit with regard to the changeover to the euro within public administrations of the member states.

4) Promoting public awareness of the euro

Given the complexity of the issues involved in the conversion from various national currencies to a single currency, the Commission recognizes the need to devote substantial resources to the promotion of public awareness of the euro. With this in mind, the Commission organized - with the support of the European Parliament - a "round-table" bringing together representatives from all fields of economic and social life in January of this year to discuss the introduction of the euro. Participants in the "round-table" agreed on three important principles relating to the dissemination of information on the euro to the general public. These principles were that (i) the dissemination of information should be on a decentralized basis, but should be consistent between member states while taking account of cultural differences (ii); that actions to promote public awareness of the euro should be based on a partnership between the Commission and the member states; and (iii) that the intensity of these actions should increase progressively in the course of the introduction of the euro as set out in the scenario agreed at the Madrid Council. On the basis of these principles, actions to promote public awareness of the euro are now being launched.

IV Concluding remarks

The Commission has presented this Communication in accordance with the mandate of the European Council in Madrid which defined the scenario for the introduction of the euro and gave the Commission the remit to make progress in the necessary preparation for Stage 3. Work will continue in the Council, the EMI and the Commission - within their respective fields of competence - over the coming months

on preparing for Stage 3 of EMU, particularly in respect of:

- (i) defining the main elements of the relationship between the "ins" and the "pre-ins";
- (ii) ensuring fiscal discipline among participants in the third stage of EMU;
- (iii) completing the technical preparatory work concerning the legal status of the euro;
- (iv) laying down the design and detailed specification of notes and coins;
- (v) specifying the regulatory, organizational and logistical framework necessary for the ESCB to perform its tasks.

with a view to taking stock and reaching the necessary agreements at the European Council in Dublin at the end of this year.