EUROPEAN CENTRAL BANK

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 three of Economic and Monetary Union

(98/C 345/05)

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 the European Council has in its Resolution of 16 June (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 begins on 1 January 1999;

Whereas, under the terms of the Resolution,

— ERM II will replace the present 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 109m 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;

— ERM II will help to ensure that non-euro area Member States participating in ERM II (hereinafter referred to as '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 ERM II will be 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 ERM II may participate at a later date;

— ERM II will function 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 referred to as 'participating non-euro currency') a central rate against the euro will be defined;

— there will be 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, will have the right to initiate a confidential procedure aimed at reconsidering central rates;

— intervention at the margins will in principle be automatic and unlimited, with very short-term financing available. However, the ECB and the non-euro area NCBs participating in ERM II (hereinafter referred to as '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 ERM II;

— exchange rate policy co-operation 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;

Whereas intervention shall 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 will be 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;

Whereas 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;

Whereas this Agreement shall 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 ERM II.

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 ERM II. 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 co-ordinated intramarginal intervention.

Article 5

Prior agreement for intervention and other transactions

5.1. Prior agreement of the central bank issuing the intervention currency shall be required when a central bank intends to use the former's currency in amounts exceeding mutually agreed limits in connection with all non-compulsory intervention, including unilateral intramarginal intervention, involving the sale or purchase of participating currencies.

5.2. Prior agreement shall also be required for transactions other than intervention which involve at least one participating non-euro area currency or the euro and are of a magnitude which makes them likely to influence the exchange rate of the two currencies concerned. In such cases the two respective central banks 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 on the date on which the initial financing operation to be renewed falls due.

9.2. Accrued interest shall be paid in the creditor's curreny 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.

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 ERM II 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 Article 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 ERM II.

Article 19

Cooperation in the concentration

Non-euro area NCBs not participating in ERM II shall cooperate with the ECB and the participating non-euro area NCBs in the concertation and the other exchanges of information necessary for the proper functioning of ERM II.

VII. FINAL PROVISIONS

Article 20

Final provisions

20.1. This Agreement replaces, with effect from 1 January 1999, the Agreement of 13 March 1979, as amended by the Instrument of 10 June 1985 and the Instrument of 10 November 1987, laying down the operating procedures of the European Monetary System.

20.2. This Agreement shall be drawn up in duly signed versions in English, French and German. A certified copy of the original in each language shall be sent to each central bank by the ECB, which is required to retain the originals. 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 Communities.*

ANNEX I

QUOTATION CONVENTION FOR CURRENCIES PARTICIPATING IN ERM II 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 ERM II, 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 ERM II. 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 ERM II 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 ERM II may, at their discretion, adopt the same payment after payment procedure when setting intervention at the margins that such NCBs have carried out on their own behalf.

(i) *General principles*

— The payment after payment procedure shall be applied when intervention at the margins in ERM II takes place between the euro and the currencies of the non-euro area Member States participating in ERM II.

— To be eligible for intervention at the margins in ERM II, 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. In addition, eligible counterparties may conduct intervention at the margins in ERM II directly with the ECB.

— The non-euro area NCBs participating in ERM II 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 predefined 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.

ANNEX II

CEILINGS ON ACCESS TO THE VERY SHORT-TERM FINANCING FACILITY REFERRED TO IN ARTICLES 8, 10 AND 11 OF THE AGREEMENT OF 1 SEPTEMBER 1998

with effect from 1 January 1999

(in millions of euro)

Central banks party to this Agreement	Ceilings [1]
Danmarks Nationalbank	520
Bank of Greece	300
Sveriges Riksbank	990
Bank of England	3 480
European Central Bank	nil

Euro area NCBs	Ceilings
Nationale Bank van België/Banque Nationale de Belgique	nil
Deutsche Bundesbank	nil
Banco de España	nil
Banque de France	nil
Central Bank of Ireland	nil
Banca d'Italia	nil
Banque centrale de 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 ERM II.