Conclusions of the Madrid European Council: extract concerning Economic and Monetary Union (15 and 16 December 1995)

Caption: On 16 December 1995, the Madrid European Council adopts a road map for the introduction of the single currency and decides that 'euro' will be the name of the currency on which Economic and Monetary Union (EMU) will be based, the third stage of which is to begin on 1 January 1999.

Source: Bulletin of the European Union. December 1995, n° 12. Luxembourg: Office for Official Publications of the European Union. "Conclusions of the Madrid European Council (15 and 16 December 1995)", p. 11-12; 27-28.

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Madrid European Council (15 and 16 December 1995)
Conclusions of the Presidency

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A. Economic and Monetary Union

I. The scenario for the changeover to the single currency

1. The European Council confirms that 1 January 1999 will be the starting date for Stage 3 of Economic and Monetary Union, in accordance with the convergence criteria, timetable, protocols and procedures laid down in the Treaty.

The European Council confirms that a high degree of economic convergence is a precondition for the Treaty objective to create a stable single currency.

2. The name of the new currency is an important element in the preparation of the transition to the single currency, since it partly determines the public acceptability of Economic and Monetary Union. The European Council considers that the name of the single currency must be the same in all the official languages of the European Union, taking into account the existence of different alphabets; it must be simple and symbolize Europe.

The European Council therefore decides that, as of the start of Stage 3, the name given to the European currency shall be Euro. This name is meant as a full name, not as a prefix to be attached to the national currency names.

The specific name Euro will be used instead of the generic term "ECU" used by the Treaty to refer to the European currency unit.

The Governments of the fifteen Member States have achieved the common agreement that this decision is the agreed and definitive interpretation of the relevant Treaty provisions.

3. As a decisive step in the clarification of the process of introduction of the single currency, the European Council adopts the changeover scenario attached in Annex 1 which is based on the scenario elaborated at its request by the Council, in consultation with the Commission and the European Monetary Institute. It notes with satisfaction that the scenario is compatible with the EMI report on the changeover.

4. The scenario provides for transparency and acceptability, strengthens credibility and underlines the irreversibility of the process. It is technically feasible and aims to provide for the necessary legal certainty, to minimize adjustment costs and to avoid competitive distortions. Under the scenario, the Council, in the composition of Heads of State or Government, will confirm as early as possible in 1998 which Member States fulfil the necessary conditions for the adoption of the single currency. The European Central Bank (ECB) will have to be created early enough so as to allow preparations to be completed and full operation to start on 1 January 1999.

5. Stage 3 will begin on 1 January 1999 with the irrevocable fixing of conversion rates among the currencies of participating countries and against the Euro. From that date, monetary policy and the foreign exchange rate policy will be conducted in Euro, the use of the Euro will be encouraged in foreign exchange markets and new tradable public debt will be issued in Euro by the participating Member States.

6. A Council Regulation, whose technical preparatory work shall be completed at the latest by the end of 1996, will enter into force on 1 January 1999 and provide the legal framework for the use of the Euro, which, from this date, will become a currency in its own right, and the official ECU basket will cease to exist. This regulation will establish, as long as different monetary units still exist, a legally enforceable equivalence between the Euro and the national units. The substitution of the Euro for national currencies

should not of itself alter the continuity of contracts, unless otherwise provided in the contract. In the case of contracts denominated by reference to the official ECU basket of the European Community, in accordance with the Treaty, substitution by the Euro will be at the rate of one to one, unless otherwise provided in the contract.

7. By 1 January 2002 at the latest, Euro banknotes and coins will start to circulate alongside national notes and coins. At most 6 months later, the national currencies will have been completely replaced by the Euro in all participating Member States, and the changeover will be complete. Thereafter, national banknotes and coins may still be exchanged at the national Central Banks.

8. The European Council calls on the ECOFIN Council to speed up all the additional technical work necessary to implement the changeover scenario adopted today. The labelling of Euro banknotes and coins in the different alphabets of the Union will also be defined.

II. Further preparation of Stage 3 of EMU

Durable economic convergence

Budgetary discipline is of crucial significance both for the success of the Economic and Monetary Union and for the acceptance of the single currency by the public. It is therefore necessary to ensure that, after moving to Stage 3, public finances are kept on a sound track in line with Treaty obligations.

The European Council notes with interest the Commission's intention to present in 1996 its conclusions on ways to ensure budgetary discipline and coordination in the monetary union in accordance with the procedures and principles of the Treaty.

The relationship between Member States participating in the Euro area and non-participating Member States

The future relationships between Member States participating in the Euro area and non-participating Member States will have to be defined prior to the move to Stage 3.

The European Council requests that the ECOFIN Council, together with, in their respective fields of competence, the Commission and the EMI, study the range of issues raised by the fact that some countries may not initially participate in the Euro area. In particular, the study should cover those issues related to monetary instability.

Work ahead

The European Council requests the ECOFIN Council to report on the two foregoing questions as soon as possible.

Work on both questions should respect the Treaty requirement that Member States entering the Euro area after 1999 should be able to do so on the same terms and conditions as those applied in 1998 to the initial participating Member States.

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Annex 1: Economic and Monetary Union

The scenario for the changeover to the single currency

1. At its meeting in Cannes on 27 June 1995, the European Council requested the Ecofin Council to define,

in consultation with the Commission and the European Monetary Institute (EMI), a reference scenario for the changeover to the single currency and to report back to the European Council at its meeting in December 1995 in Madrid with a view to its adoption.

2. Since the entry into force of the Treaty on European Union ("Maastricht Treaty"), particularly since the start of Stage 2 of the process of moving to an Economic and Monetary Union, the Member States, the European bodies and representatives of many private organizations have been studying the different aspects of the changeover. Preparations have now reached a level which allows the presentation of a reference changeover scenario containing clearly defined measures to be implemented within pre-set dates or deadlines.

3. The preparations underway are guided by the overriding Treaty objective to create a stable single currency. One precondition for this is to achieve a high degree of convergence of economic performance before locking exchange rates irrevocably. A strict application of the convergence criteria in assessing which Member States fulfil the necessary conditions for the adoption of a single currency will establish confidence in the new currency and convince the public at large as well as markets that it will be strong and stable. After moving to Stage 3 of Economic and Monetary Union, convergence will have to be maintained. In particular public finances must be kept on a sound track in line with Treaty obligations. Therefore work has to be done on ways to secure budgetary discipline among participants in the Euro area in accordance with the procedures and the principles of the Treaty. In addition, the future relationship between the Member States participating in the Euro area and the others will need to be defined prior to the move to Stage 3 with a view, inter alia, to safeguarding monetary stability within the single market.

4. The removal of uncertainties requires careful technical preparation of the move to Stage 3. This preparation will also contribute to public acceptability of the new currency. The changeover scenario presented below has been defined in consultation with the Commission and the EMI and has benefited from the Commission's Green Paper and the EMI report on the changeover to the single currency. It is in line with the timetable, procedures and criteria laid down in the Treaty. It provides for transparency, strengthens credibility and underlines the irreversibility of the process. It is technically feasible and aims to provide for the necessary legal certainty, to minimize adjustment costs and to avoid competitive distortions. The changeover scenario, by announcing concrete measures to be taken within a clear timetable, offers the users of money the information necessary for them to adapt to the introduction of the single currency. The scenario is compatible with the EMI report on the changeover.

5. This changeover scenario is based on 1 January 1999 as the starting date for the third stage. The steps to be taken during the different stages of the changeover process are presented below and summarized in the annexed tables which set out the timing and the various dates and deadlines for the participating Member States.

6. The Council in the composition of Heads of State and Government will confirm which Member States fulfill the necessary conditions for the adoption of the single currency. The date of this decision marks the beginning of an interim period prior to the entry into Stage 3, during which decisions are to be taken to complete the preparations. On the one hand, the magnitude of the workload would suggest that this interim period lasts for about one year; but, on the other, the Heads of State and Government should base their decision on participating Member States on the most recent and reliable actual data for 1997. Thus, special efforts will be made so that the Heads of State and Government make their decision as soon as possible in 1998. Advance preparation will help to ensure that all the necessary measures will be in place for the start of Stage 3 of Economic and Monetary Union. Several of these measures fall within the competence of the European Central Bank (ECB).

7. The ECB will have to be created early enough so as to allow preparations to be completed and full operation to start on 1 January 1999. Therefore, as early as possible in this interim period, the Council and the participating Member States will have to adopt a number of legal provisions and to appoint the Executive Board of the European Central Bank (ECB). As soon as the Executive Board of the ECB is appointed, the ECB and the European System of Central Banks (ESCB) will be established. The decision-

making bodies of the ECB will decide on, implement and test the framework needed for the ESCB/ECB to perform its task in Stage 3 of Economic and Monetary Union.

8. Stage 3 of Economic and Monetary Union will start on 1 January 1999, with the irrevocable fixing of conversion rates among currencies of participating countries and against the Euro and with the single monetary policy which will be defined and implemented by the ESCB in Euro. The ESCB will encourage the use of the Euro in the foreign exchange markets; its operations in these markets will be effected and settled in Euro. The payments system's infrastructure needs to be in place so as to ensure the smooth functioning of an area-wide money market based on the Euro. National central banks could provide conversion facilities for those financial institutions which have not been able to equip themselves with such facilities to translate amounts from Euro into national monetary units and vice-versa.

9. A Council regulation entering into force on 1 January 1999 will provide the legal framework for the use of the Euro. From that date, the Euro will be "a currency in its own right" and the official ECU basket will cease to exist. This Regulation will have the effect that the national currencies and the Euro will become different expressions of what is economically the same currency. As long as different national monetary units still exist, the Council Regulation will establish a legally enforceable equivalence between the Euro and the national currency units ("legally enforceable equivalence" means that each monetary amount is assigned, in a legally enforceable way, an unchangeable countervalue in terms of the Euro unit at the official conversion rate and vice-versa). For the period before the deadline set for the completion of the changeover, the Regulation will ensure that private economic agents will be free to use the Euro; at the same time they should not be obliged to do so. As far as possible, they should be allowed to develop their own mechanisms of adjustment to the changeover; however, the implementation of these principles should take into account market practices in terms of standardization. The Regulation will also provide that national banknotes will continue to remain legal tender within the boundaries of the respective national territories until the completion of the changeover to the single currency. The technical preparatory work for this Regulation shall be completed at the latest by the end of 1996.

10. The substitution of the Euro for national currencies should not of itself alter the continuity of contracts; amounts expressed in national currency will be converted into Euro at the rate of conversion laid down by the Council. In the case of fixed interest rate securities and loans, this substitution will not of itself alter the nominal interest rate payable by the debtor unless otherwise provided in the contract. In the case of contracts denominated by reference to the official ECU basket of the European Community, in accordance with the Treaty, substitution by the Euro will be at the 1:1 rate, subject to the particular terms of individual contracts.

11. New tradeable public debt - particularly debt coming to maturity after 1 January 2002 - will be issued in Euro by the participating Member States as from 1 January 1999. By 1 July 2002 at the latest, public debt denominated in the former national currencies will be redeemable only in the single currency.

12. The generalization of the use of the Euro for public sector operations will occur in all participating Member States at the latest when the Euro banknotes and coins are fully introduced. The time frame will be laid down in Community legislation and might leave some freedom to individual Member States.

13. The public authorities are invited to set in hand the arrangements for planning the adaptation of their administration to the Euro.

14. By 1 January 2002 at the latest, Euro banknotes and coins will start to circulate alongside national notes and coins. Euro notes and coins will have legal tender status. In line with the increasing circulation of Euro notes and coins, national notes and coins will be withdrawn. Member States should endeavour to keep this period of dual circulation of national and Euro notes and coins to the minimum. In any event, national notes and coins will cease to be legal tender at the latest 6 months after the introduction of Euro notes and coins. By that deadline, the changeover will be complete. Thereafter, national banknotes and coins may still be exchanged free of charge at the national central banks.