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*(Information)*

## COUNCIL

## RESOLUTION OF THE EUROPEAN COUNCIL

of 13 December 1997

on economic policy coordination in stage 3 of EMU and on Treaty Articles 109 and 109b of the EC Treaty

(98/C 35/01)

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

Having regard to the Treaty establishing the European Community,

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

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

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

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

HAS RESOLVED AS FOLLOWS:

**I. Coordination of economic policies in stage 3 of economic and monetary union (EMU)**

1. EMU will link the economies of the euro-area Member States more closely together. They will

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

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

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

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

Enhanced economic policy coordination must adhere to the Treaty principle of subsidiarity, respect the prerogatives of national governments in determining their structural and budgetary policies subject to the provisions of the Treaty and the Stability and Growth Pact, respect the independence of the European System of Central Banks (ESCB) in pursuing its primary objective of price stability and the role of the Ecofin Council as the central decision-making body for economic coordination, and respect national traditions and the competences and responsibilities of the social partners in the wage formation process.

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

To this end, the broad economic policy guidelines adopted in accordance with Article 103(2) of the Treaty should be developed into

an effective instrument for ensuring sustained convergence of Member States. They should provide more concrete and country-specific guidelines and focus more on measures to improve Member States' growth potential, thus increasing employment. Therefore, more attention should henceforth be paid in them to improving competitiveness, labour-, product- and services-market efficiency, education and training, and to making taxation and social protection systems more employment-friendly.

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

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

6. Under the terms of the Treaty, the Ecofin Council <sup>(1)</sup> is the centre for the coordination of the Member States' economic policies and is empowered to act in the relevant areas. In particular, the Ecofin Council is the only body empowered to formulate and adopt the broad economic policy guidelines which constitute the main instrument of economic coordination.

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

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

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

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

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

7. The European Council recognises the responsibility which will fall to the Community with the introduction of the euro, one of the major currencies in the world monetary system. The contribution of the Community through the ESCB, in strict accordance with the competences and procedures established by the Treaty, will be to provide a centre of price stability. For its part, the European Council is resolved to play its full part in helping to lay the foundations for a prosperous and efficient economy in the Community, in accordance with the principle of an open economy with free competition, favouring an efficient allocation of

resources, and in compliance with the principles set out in Article 3a of the Treaty. The European Council is convinced that this will provide the bases for a currency which is strong and respected.

8. The Council should monitor the development of the exchange rate of the euro in the light of a wide range of economic data. The Commission should provide analyses to the Council, and the Economic and Financial Committee should prepare the Council's reviews. It is important to make full use of the Treaty provisions to ensure an exchange of information and views between the Council and the ECB on the exchange rate of the euro. While in general exchange rates should be seen as the outcome of all other economic policies, the Council may, in exceptional circumstances, for example in the case of a clear misalignment, formulate general orientations for exchange-rate policy in relation to non-EC currencies in accordance with Article 109(2) of the Treaty. These general orientations should always respect the independence of the ESCB and be consistent with the primary objective of the ESCB to maintain price stability.

9. The Council should decide on the position of the Community at international level as regards issues of particular relevance to economic and monetary union, in accordance with Article 109(4) of the Treaty. These positions will be relevant both to bilateral relations between the European Union and individual third countries and to proceedings in international organizations or informal international groupings. The scope of this provision is necessarily limited as only euro-area Member States vote under Article 109.

10. The Council and the European Central Bank will carry out their tasks in representing the Community at international level in an efficient manner and in compliance with the allocation of powers laid down in the Treaty. On elements of economic policy other than monetary and exchange-rate policy, the Member States should continue to present their policies outside the Community framework, while taking full account of the Community interest. The Commission will be involved in external

<sup>(1)</sup> Declaration No 3 to the Treaty on European Union affirms that for the purpose of applying the provisions set out in Title VI on economic and monetary policy of the Treaty establishing the European Community, the usual practice, according to which the Council meets in the composition of Economic and Finance Ministers, shall be continued, without prejudice in Article 109j(2) to (4) and Article 109k(2) of the Treaty.

representation to the extent required to enable it to perform the role assigned to it by the Treaty.

Representation in international organizations should take account of those organizations' rules. With particular regard to the Community's relations with the International Monetary Fund (IMF), they should be predicated upon the provision in that Fund's Articles of Agreement that only countries can be members of that institution. The Member States, in their capacities as members of the IMF, should help to establish pragmatic arrangements which would facilitate the conduct of IMF surveillance and the presentation of Community positions, including the views of the ESCB, in IMF fora.

12. The Council should therefore play its full part in exploiting the channels of communication provided by the Treaty. The President of the Council, using his position under Article 109b of the Treaty, should report to the Governing Council of the ECB on the Council's assessment of the economic situation of the Union and on economic policies of the Member States and could discuss with the ECB the views of the Council on exchange-rate developments and prospects. The Treaty provides in turn for the ECB President to attend Council meetings whenever the Council is discussing matters relating to the objectives and tasks of the ESCB, for instance when the broad economic policy guidelines are being developed. Importance also attaches to the annual reports which the ECB will make to the European Parliament, the Council and the Commission, as well as to the European Council.

### III. Dialogue between the Council and the ECB

11. In the light of the allocation of responsibilities laid down in the Treaty, the harmonious economic development of the Community in Stage 3 of EMU will call for continuous and fruitful dialogue between the Council and the ECB, involving the Commission and respecting all aspects of the independence of the ESCB.

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