COUNCIL OF THE EUROPEAN UNION

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PROPOSAL

from:	Commission
dated:	6 June 2013
No Cion doc.:	COM(2013) 345 final
Subject:	Proposal for a COUNCIL DECISION on the adoption by Latvia of the euro on 1 January 2014

Delegations will find attached a proposal from the Commission, submitted under a covering letter from Jordi AYET PUIGARNAU, Director, to Mr Uwe CORSEPIUS, Secretary-General of the Council of the European Union.

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EUROPEAN
COMMISSION

Brussels, 5.6.2013
COM(2013) 345 final

2013/0190 (NLE)

Proposal for a

COUNCIL DECISION

on the adoption by Latvia of the euro on 1 January 2014

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

On 3 May 1998 the Council decided that Belgium, Germany, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Austria and Finland fulfilled the necessary conditions for the adoption of the euro on 1 January 1999. Denmark and the United Kingdom made use of their opt-out clauses and were not, therefore, assessed by the Council. Greece and Sweden were considered by the Council as Member States with a derogation. On 19 June 2000, the Council decided that Greece fulfilled the necessary conditions to adopt the euro on 1 January 2001. The countries which joined the European Union on 1 May 2004 (the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia) became Member States with a derogation in accordance with Article 4 of the respective Act of Accession. On 11 July 2006, the Council decided that Slovenia fulfilled the necessary conditions to adopt the euro on 1 January 2007. Bulgaria and Romania, who joined the European Union on 1 January 2007, became Member States with a derogation in accordance with Article 5 of the respective Act of Accession. On 10 July 2007, the Council decided that Cyprus and Malta fulfilled the necessary conditions to adopt the euro on 1 January 2008. On 8 July 2008, the Council decided that Slovakia fulfilled the necessary conditions for adopting the euro as of 1 January 2009. On 13 July 2010, the Council decided that Estonia fulfilled the necessary conditions for adopting the euro as of 1 January 2011. Croatia will join the European Union on 1 July 2013 and will become a Member State with a derogation in accordance with Article 5 of the Act of Accession.

Articles 140(1) of the Treaty on the Functioning of the European Union ('the Treaty') provides that at least once every two years or at the request of a Member State with a derogation, the Commission and the European Central Bank have to report to the Council on the progress made in the fulfilment by Member States with a derogation of their obligations regarding the achievement of economic and monetary union. Based on its own report and that of the ECB, the Commission can submit to the Council a proposal for a Council decision, in accordance to the procedure laid down in Article 140(2) of the Treaty, to abrogate the derogation of the Member States fulfilling the necessary conditions.

The previous Commission and ECB regular Convergence Reports were adopted in May 2012. On 5 March 2013, Latvia submitted a request for a new convergence assessment with a view to introduce the euro on 1 January 2014 in case the derogation were to be abrogated. As a response to this request, the Commission and the ECB prepared Convergence Reports for Latvia.

The Commission Convergence Report 2013 on Latvia was adopted by the College on 5 June 2013. The ECB adopted its report on 3 June. The reports include an examination of the compatibility between Latvia's national legislation, including the statutes of its national central bank, with Articles 130 and 131 of the Treaty and the Statute of the ESCB and of the ECB. The reports also examine the achievement of a high degree of sustainable convergence by reference to the fulfilment of the convergence criteria and take account of several other factors required under the final sub-paragraph of Article 140(1) of the Treaty.

In its Convergence Report, the Commission concludes that Latvia fulfils the conditions for the adoption of the euro.

On the basis of its report and that of the ECB, the Commission has adopted the attached proposal for a Council decision to abrogate the derogation of Latvia with effect from 1 January 2014.

2. RESULTS OF CONSULTATIONS WITH THE INTERESTED PARTIES AND IMPACT ASSESSMENT

Discussions with Member States on economic policy challenges in Member States are held under various headings on a regular basis in the Economic and Financial Committee and ECOFIN/Eurogroup. These include informal discussions on issues specifically relevant to the preparation of eventual euro area entry (incl. exchange rate policies). Dialogue with academics and other interested groups takes place in the context of conferences/seminars and on an ad-hoc basis.

Economic developments in the euro area and the Member States are assessed in the framework of the various procedures of economic policy co-ordination and surveillance (notably under Art. 121 of the Treaty), as well as in the context of the Commission's regular monitoring and analysis of country-specific and area-wide developments (incl. forecasts, regular publication series, input to EFC and ECOFIN/Eurogroup). In accordance with the proportionality principle and in line with past practice, the Commission proposes not to develop a formal impact assessment.

3. LEGAL ELEMENTS OF THE PROPOSAL

3.1. Legal basis

The legal basis for the present proposal is Article 140(2) of the Treaty, which lays down the procedure for a Council decision on euro adoption and for abrogation of the derogation in the concerned Member States.

The Council shall act on a proposal from the Commission, after consulting the European Parliament, after discussion in the European Council and after having received a recommendation of a qualified majority of those among its members representing Member States whose currency is the euro.

3.2. Subsidiarity and proportionality

The proposal falls under the exclusive competence of the Union. The subsidiarity principle therefore does not apply.

The present initiative does not go beyond what is necessary to achieve its objective and, therefore, complies with the proportionality principle.

3.3. Choice of the legal instrument

The Decision instrument is the only appropriate legal instrument according to Article 140(2) of the Treaty.

4. BUDGETARY IMPLICATION

The proposal has no implications for the budget of the Union.

2013/0190 (NLE)

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 140(2) thereof,

Having regard to the proposal from the European Commission,

Having regard to the report from the European Commission[1],

Having regard to the report from the European Central Bank[2],

Having regard to the opinion of the European Parliament,

Having regard to the discussion in the European Council,

Having regard to the recommendation of the members of the Council representing Member States whose currency is the euro,

Whereas:

(1) The third stage of economic and monetary union ('EMU') started on 1 January 1999. The Council, meeting in Brussels on 3 May 1998 in the composition of Heads of State or Government, decided that Belgium, Germany, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland fulfilled the necessary conditions for adopting the euro on 1 January 1999[3].

(2) By Decision 2000/427/EC[4] the Council decided that Greece fulfilled the necessary conditions for adopting the euro on 1 January 2001. By Decision 2006/495/EC[5] the Council decided that Slovenia fulfilled the necessary conditions for adopting the euro on 1 January 2007. By Decisions 2007/503/EC[6] and 2007/504/EC[7] the Council decided that Cyprus and Malta fulfilled the necessary conditions for adopting the euro on 1 January 2008. By decision 2008/608/EC[8] the Council decided that Slovakia

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3 Decision 1998/317/EC (OJ L 139, 11.5.1998, p. 30).

4 OJ L 167 of 7.7.2000, p. 19.

5 OJ L 195 of 15.7.2006, p. 25.

6 OJ L 186 of 18.7.2007, p. 29.

7 OJ L 186 of 18.7.2007, p. 32.

8 OJ L 195, 24.7.2008, p. 24.

fulfilled the necessary conditions for adopting the euro. By decision 2010/416/EU[9] the Council decided that Estonia fulfilled the necessary conditions for adopting the euro.

(3) In accordance with paragraph 1 of the Protocol on certain provisions relating to the United Kingdom of Great Britain and Northern Ireland annexed to the Treaty establishing the European Community ('EC Treaty'), the United Kingdom notified the Council that it did not intend to move to the third stage of EMU on 1 January 1999. This notification has not been changed. In accordance with paragraph 1 of the Protocol on certain provisions relating to Denmark annexed to the EC Treaty and the Decision taken by the Heads of State or Government in Edinburgh in December 1992, Denmark has notified the Council that it will not participate in the third stage of EMU. Denmark has not requested that the procedure referred to in Article 140(2) of the Treaty on the Functioning of the European Union ('the Treaty') be initiated.

(4) By virtue of Decision 98/317/EC Sweden has a derogation as defined in Article 139(1) of the Treaty. In accordance with Article 4 of the 2003 Act of Accession[10], the Czech Republic, Latvia, Lithuania, Hungary and Poland have a derogation as defined in Article 139(1) of the Treaty. In accordance with Article 5 of the 2005 Act of Accession[11], Bulgaria and Romania have a derogation as defined in Article 139(1) of the Treaty. In accordance with Article 5 of the Act of Accession[12], Croatia has a derogation as defined in Article 139(1) of the Treaty.

(5) The European Central Bank ('ECB') was established on 1 July 1998. The European Monetary System has been replaced by an exchange rate mechanism, the setting-up of which was agreed by a resolution of the European Council on the establishment of an exchange-rate mechanism in the third stage of economic and monetary union of 16 June 1997[13]. The procedures for an exchange-rate mechanism in stage three of economic and monetary union (ERM II) were laid down in the Agreement of 16 March 2006 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[14].

(6) Article 140(2) of the Treaty lays down the procedures for abrogation of the derogation of the Member States concerned. At least once every two years, or at the request of a Member State with a derogation, the Commission and the ECB shall report to the Council in accordance with the procedure laid down in Article 140(1) of the Treaty. On 5 March 2013, Latvia submitted a formal request for a convergence assessment.

(7) National legislation in the Member States including the statutes of national central banks, is to be adapted as necessary with a view to ensuring compatibility with Articles 130 and 131 of the Treaty and the Statute of the European System of Central Banks and of the European Central Bank ('Statute of the ESCB and of the ECB'). The reports of the Commission and the ECB provide a detailed assessment of the

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9 OJ L 196, 28.7.2010, p. 24.
10 OJ L 236, 23.9.2003, p. 33.
11 OJ L 157, 21.6.2005, p. 203.
12 OJ L 112, 24.4.2012, p. 21.
13 OJ C 236, 2.8.1997, p. 5.
14 OJ C 73, 25.3.2006, p. 21. Agreement as amended by the Agreement of 14 December 2007 (OJ C 319, 29.12.2007, p. 7).

compatibility of the legislation of Latvia with Articles 130 and 131 of the Treaty and the Statute of the ESCB and of the ECB.

(8) According to Article 1 of the Protocol No 13 on the convergence criteria referred to in Article 140 of the Treaty, the criterion on price stability referred to in the first indent of Article 140(1) of the Treaty means that a Member State has a price performance that is sustainable and an average rate of inflation, observed over a period of one year before the examination, that does not exceed by more than one and a half percentage points that of, at most, the three best performing Member States in terms of price stability. For the purpose of the criterion on price stability, inflation will be measured by the harmonised indices of consumer prices (HICPs) defined in Council Regulation (EC) No 2494/95 of 23 October 1995 concerning harmonised indices of consumer prices[15]. In order to assess the price stability criterion a Member State's inflation is measured by the percentage change in the arithmetic average of 12 monthly indices relative to the arithmetic average of 12 monthly indices of the previous period. A reference value calculated as the simple arithmetic average of the inflation rates of the three best-performing Member States in terms of price stability plus 1.5 percentage points was considered in the reports of the Commission and the ECB. In the one-year period ending in April 2013, the inflation reference value was calculated to be 2.7 percent, with Sweden, Latvia and Ireland as the three best-performing Member States in terms of price stability, with inflation rates of, respectively 0.8 percent, 1.3 percent and 1.6 percent. It is warranted to exclude from the best performers countries whose inflation rates could not be seen as a meaningful benchmark for other Member States. Such outliers were in the past identified in the 2004 and 2010 Convergence Reports. At the current juncture, it is warranted to exclude Greece from the best performers, as its inflation rate and profile deviate by a wide margin from the euro area average, mainly reflecting the severe adjustment needs and exceptional situation of the Greek economy, and including it would unduly affect the reference value and thus the fairness of the criterion[16].

(9) According to Article 2 of the Protocol No 13, the criterion on the government budgetary position referred to in the second indent of Article 140(1) of the Treaty shall mean that at the time of the examination the Member State is not the subject of a Council decision under Article 126(6) of the Treaty that an excessive deficit exists.

(10) According to Article 3 of the Protocol No 13, the criterion on participation in the exchange-rate mechanism of the European Monetary System referred to in the third indent of Article 140(1) of the Treaty means that a Member State has respected the normal fluctuation margins provided for by the exchange-rate mechanism (ERM) of the European Monetary System without severe tensions for at least the last two years before the examination. In particular, the Member State must not have devalued its currency's bilateral central rate against the euro on its own initiative for the same period. Since 1 January 1999 the ERM II provides the framework for assessing the fulfillment of the exchange rate criterion. In assessing the fulfillment of this criterion in their reports, the Commission and the ECB have examined the two-year period ending on 16 May 2013.

15 OJ L 257, 27.10.1995, p. 1. Regulation as amended by Regulation (EC) No 1882/2003 of the European Parliament and the Council (OJ L 284, 31.10.2003, p. 1) and by Regulation (EC) No 596/2009 of the European Parliament and the Council.

16 In April 2013, the 12-month average inflation rate of Greece was 0.4% and that of the euro area 2.2%, with the gap between the two forecast to increase further in the months ahead.

(11) According to Article 4 of the Protocol No 13, the criterion on the convergence of interest rates referred to in the fourth indent of Article 140(1) of the Treaty means that, observed over a period of one year before the examination, a Member State has had an average nominal long-term interest rate that does not exceed by more than two percentage points that of, at most, the three best performing Member States in terms of price stability. For the purpose of the criteria on the convergence of interest rates, comparable interest rates on 10-year benchmark government bonds were used. In order to assess the fulfillment of the interest-rate criterion a reference value calculated as the simple arithmetic average of the nominal long-term interest rates of the three best performing Member States in terms of price stability plus two percentage points was considered in the reports of the Commission and the ECB. On this basis, the reference value in the one year period ending in April 2013 was 5.5 percent.

(12) In accordance with Article 5 of the Protocol No 13, the data used in the current assessment of the fulfillment of the convergence criteria will be provided by the Commission. For the preparation of this proposal the Commission provided data. Budgetary data were provided by the Commission after reporting by the Member States by 1 April 2013 in accordance with Council Regulation (EC) No 3605/93 of 22 November 1993 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community[17].

(13) On the basis of reports presented by the Commission and the ECB on the progress made in the fulfillment by Latvia of its obligations regarding the achievement of economic and monetary union, it is concluded that:

(a) in Latvia, national legislation, including the Statute of the national central bank, is compatible with Articles 130 and 131 of the Treaty and the Statute of the ESCB and of the ECB.

(b) regarding the fulfillment by Latvia of the convergence criteria mentioned in the four indents of Article 140(1) of the Treaty:

– the average inflation rate in Latvia in the year ending in April 2013 stood at 1.3 percent, which is well below the reference value, and it is likely to remain below the reference value in the months ahead,

– the budget deficit in Latvia has seen a credible and sustainable reduction to below 3 percent of GDP by the end of 2012; By Decision 2013/…/EU[18] the Council, acting on a recommendation from the Commission, abrogated Decision 2009/591/EC on the existence of an excessive deficit in Latvia,

– Latvia has been a member of ERM II since 2 May 2005; upon ERM II entry, the authorities unilaterally committed to keep the lats within the ±1% fluctuation margin around the central rate. During the two years preceding this assessment, the lats exchange rate did not deviate from its central rate by more than ±1% and it did not experience tensions,

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17 OJ L 332, 31.12.1993, p. 7. Regulation as last amended by Council Regulation (EC) No 2103/2005 (OJ L 337, 22.12.2005, p. 1).

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– in the year ending April 2013, the long-term interest rate in Latvia was, on average, 3.8 percent which is below the reference value.

(c) In the light of the assessment on legal compatibility and on the fulfilment of the convergence criteria as well as the additional factors, Latvia fulfils the necessary conditions for the adoption of the euro,

HAS ADOPTED THIS DECISION:

Article 1

Latvia fulfils the necessary conditions for the adoption of the euro. The derogation in favour of Latvia referred to in Article 4 of the 2003 Act of Accession is abrogated with effect from 1 January 2014.

Article 2

This Decision is addressed to the Member States.

Article 3

This Decision shall be published in the *Official Journal of the European Union*.

Done at Brussels,

For the Council
The President