



**COUNCIL OF  
THE EUROPEAN UNION**

**Brussels, 4 July 2013  
(OR. en)**

**11867/13**

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**Interinstitutional File:  
2013/0190 (NLE)**

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**ECOFIN 661  
UEM 278  
PE-RE 9**

**COVER NOTE**

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**From:** General Secretariat of the Council  
**To:** Council  
**Subject:** Proposal for a Council decision on the adoption by Latvia of the euro on 1 January 2014 - European Parliament legislative resolution of 3 July 2013

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The text of the European Parliament's legislative resolution, adopted on 3 July 2013, is set out in the Annex of this document.

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Encl.:

**European Parliament legislative resolution of 3 July 2013 on the proposal for a Council decision on the adoption by Latvia of the euro on 1 January 2014 (COM(2013)0345 – C7-0183/2013 – 2013/0190(NLE))**

**(Consultation)**

*The European Parliament,*

- having regard to the Commission proposal to the Council (COM(2013)0345),
  - having regard to the Commission Convergence Report 2013 (COM(2013)0341) and the European Central Bank Convergence Report of June 2013 as regards Latvia,
  - having regard to the Commission Staff Working Document accompanying the Commission Convergence report 2013 on Latvia (SWD(2013)0196),
  - having regard to its resolution of 1 June 2006 on the enlargement of the euro zone<sup>1</sup>,
  - having regard to its resolution of 20 June 2007 on improving the method for consulting Parliament in procedures relating to enlargement of the euro area<sup>2</sup>,
  - having regard to Article 140(2) of the Treaty on the Functioning of the European Union, pursuant to which the Council consulted Parliament (C7-0183/2013),
  - having regard to Rule 83 of its Rules of Procedure,
  - having regard to the report of the Committee on Economic and Monetary Affairs (A7-0237/2013),
- A. whereas Article 140 of the Treaty on the Functioning of the European Union (TFEU) provides for the achievement of a high degree of sustainable convergence by reference to the fulfilment by each Member State of the following criteria: the achievement of a high degree of price stability; the sustainability of the government's financial position; the observance of the normal fluctuation margins provided for by the exchange-rate mechanism; and the durability of convergence achieved by the Member State and of its participation in the exchange-rate mechanism of the European Monetary System being reflected in the long-term interest rate levels (the Maastricht criteria);
- B. whereas Latvia has complied with the Maastricht criteria in accordance with Article 140 TFEU and Protocol No 13 on the convergence criteria annexed to the Treaty on European Union and to the TFEU;

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<sup>1</sup> OJ C 298 E, 8.12.2006, p. 249.

<sup>2</sup> OJ C 146 E, 12.6.2008, p. 251.

- C. whereas the Rapporteur visited Latvia to assess the readiness of that country to enter the euro area;
- D. whereas the people of Latvia have taken extraordinary efforts to overcome the financial crisis and have returned to the path of competitiveness and growth;
1. Approves the Commission proposal;
  2. Favours the adoption of the euro by Latvia on 1 January 2014;
  3. Notes that the assessment of the Commission and the European Central Bank (ECB) has taken place against the background of the global financial crisis which has affected the prospects for nominal convergence of many other Member States and has in particular triggered a significant cyclical downward shift of inflation rates;
  4. Notes, in particular, that the global financial crisis has hit Latvia hard in terms of poverty, unemployment and demographic developments; urges Latvia and its partners in the Union to implement stringent macroprudential standards aiming at avoiding unsustainable capital flows and credit growth trends experienced ahead of the crisis;
  5. Notes that Latvia fulfils the criteria as a result of determined, credible and sustainable efforts by the Latvian Government and the Latvian people; points out that the overall sustainability of the macroeconomic and financial situation will depend on the implementation of balanced and far reaching reforms aiming at combining discipline with solidarity and long term sustainable investments not only in Latvia but also in the economic and monetary union as a whole;
  6. Notes that in its 2013 Convergence Report the ECB expressed some concerns with regard to the long-term sustainability of Latvia's economic convergence; stresses in particular the following statements and recommendations contained therein:
    - joining a currency union entails foregoing monetary and exchange rate instruments and implies an increased importance of internal flexibility and resilience; the authorities should, therefore, consider avenues to further strengthen the alternative counter-cyclical policy instruments at their disposal, in addition to what has been done since 2009;
    - Latvia needs to continue along a path of comprehensive fiscal consolidation in line with the requirements of the Stability and Growth Pact, and to implement and to comply with a fiscal framework that helps to avoid a return to pro-cyclical policies in the future;
    - both the need for a stronger institutional environment and the fact that the shadow economy, although declining, is estimated to still be relatively large are not only entailing public revenue losses but also distort competition, harm Latvia's competitiveness and reduce the country's attractiveness as a destination for foreign direct investment, thus hampering longer-term investment and productivity; considers that those concerns need to be taken seriously especially if the current trends regarding inflation and financial flows are reversed; deems however that these concerns do not change the overall positive assessment on the adoption of the euro by Latvia;

7. Calls on the Latvian Government to maintain its prudent fiscal policy stance, together with its overall stability-oriented policies, anticipating potential future macroeconomic imbalances and risks to price stability as well as correcting the imbalances indentified by the Commission in the framework of the alert mechanism report; notes that price stability in Latvia is very dependent on the dynamics of commodity prices due to low energy efficiency and high level of energy imports from a single source in the composition of its consumer basket; calls on the Latvian Government to make improvements in this regard and to enhance its general efforts to reach all EU 2020 national targets;
8. Is concerned by the current low support of the Latvian citizens for the adoption of the euro; calls on the Latvian Government and authorities to communicate more actively with the Latvian citizens in order to ensure more public support for the adoption of the euro; calls on the Latvian Government and authorities to continue their information and communication campaign with the aim of reaching all Latvian citizens;
9. Calls on the Latvian Government to address structural deficiencies in the labour market by appropriate structural and educational reforms; calls, in particular, on the Latvian Government to address the level of poverty and the widening gap of income inequality;
10. Acknowledges the stability of the Latvian banking sector during the last three years; points out, however, that the banking business model was seriously challenged during the first stage of the global financial crisis; underlines that a meltdown of the Latvian financial system was only avoided at that time by an EU-IMF bail-out; welcomes recent reforms aiming at reinforcing the regulation of Latvian banks active in the non-resident deposits (NRD) business; calls on the Latvian authorities to ensure that a strict supervision of those banks is observed and adequate additional risk management measures are implemented; further calls on the Latvian authorities to remain cautious about possible mismatches between banks' asset-liability maturity structures that can be considered a danger to financial stability;
11. Calls on the Latvian authorities to maintain the present course of practical preparations to ensure a smooth changeover process; calls on the Latvian Government to establish appropriate control mechanisms to ensure that the introduction of the euro is not used for hidden price increases;
12. Calls on the Council to notify Parliament if it intends to depart from the text approved by Parliament;
13. Deplores the extremely narrow timeline within which Parliament has been asked to provide its opinion in accordance with Article 140 TFEU; asks the Commission and Member States planning to adopt the euro to provide for an appropriate timeline in order to allow Parliament to deliver an opinion on the basis of a more comprehensive and inclusive debate;
14. Asks the Council to consult Parliament again if it intends to amend the Commission proposal substantially;
15. Instructs its President to forward its position to the Council, the Commission, the European Central Bank, the Eurogroup and the governments of the Member States.