COMMISSION OF THE EUROPEAN COMMUNITIES

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2008/0095 (CNS)

Proposal for a

COUNCIL DECISION

in accordance with Article 122(2) of the Treaty on the adoption by Slovakia of the single currency on 1 January 2009

(presented by the Commission)

EXPLANATORY MEMORANDUM

Commission proposal for a Council decision in accordance with Article 122(2)

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 single currency 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.

Article 122(2) lays down the procedures for the abrogation of derogations. These procedures are to be initiated at least once every two years or at the request of a Member State with a derogation. According to these procedures the Commission and the European Central Bank have to report to the Council in accordance with Article 121(1) 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 to abrogate the derogation of the Member States fulfilling the necessary conditions.

The latest Commission and ECB regular Convergence Reports were adopted in December 2006. Denmark and the United Kingdom have not expressed their wish to adopt the single currency. Therefore, the 2008 convergence assessment covers the following ten Member States with a derogation: Bulgaria, the Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Romania, Slovakia and Sweden. Having joined the EU on 1 January 2007, Bulgaria and Romania are examined for the first time. In parallel, on 4 April 2008 Slovakia submitted a request for an assessment of the fulfilment of the necessary conditions to adopt the euro on 1 January 2009.

The Commission Convergence Report 2008 was adopted by the College on 7 May 2008. The ECB adopted its report on 6 May. The reports include an examination of the compatibility between the national legislation, including the statute of each national central bank, and Articles 108 and 109 of the Treaty and the Statute of the ESCB and 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 mentioned in the final sub-paragraph of Article 121(1).

In its Convergence Report, the Commission concludes that amongst the assessed Member States only Slovakia fulfils the conditions for the adoption of the euro, assuming that the Council will follow the Commission's recommendation for the abrogation of the excessive deficit procedure.

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 Slovakia with effect from 1 January 2009.

2008/0095 (CNS)

Proposal for a

COUNCIL DECISION

in accordance with Article 122(2) of the Treaty on the adoption by Slovakia of the single currency on 1 January 2009

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 122(2) thereof,

Having regard to the proposal from the Commission,

Having regard to the report from the 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 of the Council, meeting in the composition of Heads of State or Government,

Whereas:

(1) The third stage of economic and monetary union (hereinafter referred to as '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 single currency ón 1 January 1999[3].

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

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1 Report adopted on 7 May 2008 - COM(2008) 248.
2 Report adopted on 6 May 2008.
3 Decision 1998/317/EC (OJ L 139, 11.5.1998, p. 30).
4 OJ L 167, 7.7.2000, p. 19.
5 OJ L 195, 15.7.2006, p. 25.
6 OJ L 186, 18.7.2007, p. 29.
7 OJ L 186, 18.7.2007, p. 32

(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, 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 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 122(2) of the Treaty be initiated.

(4) By virtue of Decision 98/317/EC Sweden has a derogation as defined in Article 122 of the Treaty. In accordance with Article 4 of the 2003 Act of Accession[8], the Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland and Slovakia have a derogation as defined in Article 122 of the Treaty. In accordance with Article 5 of the 2005 Act of Accession[9], Bulgaria and Romania have a derogation as defined in Article 122 of the Treaty.

(5) The European Central Bank (hereinafter referred to as '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[10]. 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.[11]

(6) Article 122(2) of the Treaty lays down the procedures for abrogation of the derogation of the Member States concerned. According to that Article 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 121(1) of the Treaty. The latest Commission and ECB regular Convergence Reports were adopted in May 2008. Slovakia submitted a formal request for a convergence assessment on 4 April 2008.

(7) National legislation in the Member States including the statutes of national central banks shall as necessary be adapted with a view to ensuring compatibility with Articles 108 and 109 of the Treaty and the Statute of the European system of central banks (hereinafter referred to as 'Statute of the ESCB'. The reports of the Commission and the ECB provide a detailed assessment of the compatibility of the legislation of Slovakia with Articles 108 and 109 of the Treaty and the Statute of the ESCB.

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8 OJ L 236, 23.9.2003, p. 33.

9 OJ L 157, 21.6.2005, p. 203.

10 OJ C 236, 2.8.1997, p. 5.

11 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).

(8) According to Article 1 of the Protocol on the convergence criteria referred to in Article 121 of the Treaty establishing the European Community, the criterion on price stability referred to in the first indent of Article 121(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[12]. In order to assess the price stability criterion a Member State's inflation has been 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. In the one-year period ending in March 2008, the three best-performing Member States in terms of price stability were Malta, the Netherlands and Denmark, with inflation rates of, respectively 1.5 percent, 1.7 percent and 2.0 percent. 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. On this basis, the reference value in the one-year period ending in March 2008 was 3.2 percent.

(9) According to Article 2 of the Protocol on the convergence criteria referred to in Article 121 of the Treaty, the criterion on the government budgetary position referred to in the second indent of Article 121(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 104(6) of the Treaty that an excessive deficit exists.

(10) According to Article 3 of the Protocol on the convergence criteria referred to in Article 121 of the Treaty, the criterion on participation in the exchange-rate mechanism of the European Monetary System referred to in the third indent of Article 121(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 any other Member State's currency on its own initiative for the same period. Since 1 January 1999 the ERM II provides the framework for assessing the fulfilment of the exchange rate criterion. In assessing the fulfilment of this criterion in their reports, the Commission and the ECB have examined the two-year period ending on 18 April 2008.

(11) According to Article 4 of the Protocol on the convergence criteria referred to in Article 121 of the Treaty establishing the European Community, the criterion on the convergence of interest rates referred to in the fourth indent of Article 121(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

[12] 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).

used. In order to assess the fulfilment 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 March 2008 was 6.5 percent.

(12) In accordance with Article 5 of the Protocol on the convergence criteria referred to in Article 121 of the Treaty establishing the European Community, the data used in the current assessment of the fulfilment 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 2008 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[13].

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

(a) In Slovakia, national legislation, including the Statute of the national central bank, is compatible with Articles 108 and 109 of the Treaty and the Statute of the ESCB/ECB.

(b) Regarding the fulfilment by Slovakia of the convergence criteria mentioned in the four indents of Article 121 (1) of the Treaty:

– the average inflation rate in Slovakia in the year ending March 2008 stood at 2.2 percent, which is well below the reference value, and it is likely to remain below the reference value in the months ahead, albeit with a narrowing margin;

– the budget deficit in Slovakia has seen a credible and sustainable reduction to below 3 percent of GDP; the Commission therefore recommends to the Council to abrogate the decision on the existence of an excessive deficit for Slovakia;

– Slovakia has been a member of ERM II since 28 November 2005; in the two-year period ending 18 April 2008, the Slovak koruna (SKK) has not been subject to severe tensions and Slovakia has not devalued, on its own initiative, the SKK bilateral central rate against the euro;

– in the year ending March 2008, the long-term interest rate in Slovakia was, on average, 4.5 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, and provided that the decision on the existence of an excessive deficit is abrogated by the Council, Slovakia fulfils the necessary conditions for the adoption of the euro.

[13] 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).

(14) The Council, acting on a recommendation from the Commission, abrogated the Council decision on the existence of an excessive deficit in Slovakia on [3 June 2008][14].

(15) The Council, acting by qualified majority on a proposal by the Commission, shall decide which Member States with a derogation fulfil the necessary conditions for the adoption of the single currency and abrogate the derogations of the Member States concerned.

HAS ADOPTED THIS DECISION:

Article 1

Slovakia fulfils the necessary conditions for the adoption of the single currency. The derogation in favour of Slovakia referred to in Article 4 of the 2003 Act of Accession is abrogated with effect from 1 January 2009.

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

For the Council
The President

[14] OJ L , , p. .