Adoption by Latvia of the euro on 1 January 2014

2013/0190(NLE) - 05/06/2013 - Legislative proposal

PURPOSE: adoption by Latvia of the euro on 1 January 2014.

PROPOSED ACT: Council Decision.

ROLE OF THE EUROPEAN PARLIAMENT: the Council adopts the act after consulting the European Parliament but without being obliged to follow its opinion.

BACKGROUND: the Treaty on the Functioning of the European Union (TFEU) 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.

With a view to introducing the euro on 1 January 2014, Latvia submitted a formal request for a convergence assessment on 5 March 2013. The Commission Convergence Report 2013 on Latvia was adopted by the College on 5 June 2013. The ECB adopted its report on 3 June 2013.

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

IMPACT ASSESSMENT: 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, as well as in the context of the Commission’s regular monitoring and analysis of country-specific and area-wide developments. Therefore, the Commission proposes not to develop a formal impact assessment.

LEGAL BASIS: Article 140(2) of the Treaty on the Functioning of the European Union (TFEU).

CONTENT: 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:

(1) 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**.

(2) Regarding the fulfillment by Latvia of the convergence criteria mentioned in the Treaty:

- the **average inflation rate** in Latvia in the year ending in April 2013 stood at 1.3%, 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% of GDP by the end of 2012; by a Council Decision, 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,
- in the year ending April 2013, the **long-term interest rate** in Latvia was, on average, 3.8% which is below the reference value.

(3) 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**.

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**.

BUDGETARY IMPLICATION: the proposal has no implications for the budget of the Union.