Adoption by Croatia of the euro on 1 January 2023

2022/0179(NLE) - 01/06/2022 - Legislative proposal

PURPOSE: adoption of the euro by Croatia on 1 January 2023.

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: Article 140(1) of the Treaty on the Functioning of the European Union 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 (ECB) shall report to the Council on the progress made by the Member States with a derogation in fulfilling their obligations regarding the achievement of Economic and Monetary Union.

On the basis of its own report and that of the ECB, the Commission should submit to the Council a proposal for a Council decision abrogating, for those Member States which fulfil the necessary conditions, the derogation of the Member State concerned.

Both the Commission's and the ECB's convergence reports were published on 1 June 2022. These reports examine, *inter alia*, the compatibility of Croatia's national legislation, including the Statute of its national central bank, with Articles 130 and 131 of the Treaty and the Statute of the European System of Central Banks (ESCB) and of the ECB. In addition, they examine, on the basis of the convergence criteria, whether a high degree of sustainable convergence has been achieved and take account of several other factors.

In its convergence report, the Commission concludes that Croatia fulfils the conditions for the adoption of the euro.

CONTENT: on the basis of reports by the Commission and the ECB on the progress made by Croatia in fulfilling its obligations regarding the achievement of Economic and Monetary Union, it is concluded that national legislation in Croatia, 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.

Regarding the **fulfilment by Croatia of the convergence criteria** mentioned in the four indents of Article 140(1) TFEU:

- the average inflation rate in Croatia in the year ending April 2022 stood at 4.7%, which is below the reference value, and is likely to remain below the reference value in the months ahead;

- Croatia is not the subject of a Council decision on the existence of an excessive deficit;

- Croatia has been a member of the European Exchange Rate Mechanism (ERM II) since 10 July 2020. In the two years before the assessment, the kuna (HRK) exchange rate has not been subject to severe tensions and Croatia has not devalued the HRK bilateral central rate against the euro on its own initiative;

- in the year ending April 2022, the average long-term interest rate in Croatia was 0.8%, i.e. well below the reference value.

In the light of the assessment on legal compatibility and on the fulfilment of the convergence criteria, as well as the other factors, Croatia fulfils the necessary conditions for the adoption of the euro.

On the basis of the Commission's report and that of the ECB, the Commission proposes that the Council decide that **Croatia fulfils the necessary conditions for the adoption of the euro** and that Croatia's derogation under Article 5 of the 2012 Act of Accession is abrogated with effect from 1 January 2023.