Euro: adoption by Slovenia of the single currency on 1 January 2007 (Article 122(2), Treaty TEC)

2006/0077(CNS) - 16/05/2006 - Legislative proposal

PURPOSE : to enable Slovenia to adopt the euro on 1 January 2007.

PROPOSED ACT : Council Decision.

CONTENT : the Commission concluded that Slovenia has achieved a high degree of sustainable economic convergence with the other Member States and that it fulfils the necessary conditions to adopt the euro. On the basis of its Convergence Report, the Commission is proposing to the Council that Slovenia adopts the euro on 1 January 2007. The final decision will be taken by EU finance ministers in July, after consultation of the European Parliament, and following a discussion by the Heads of State or Government at their summit in June.

On 2 March, Slovenia submitted a request for an early convergence assessment, in order to have sufficient time for the final preparations to introduce the euro on 1 January 2007 in case the derogation were to be abrogated. As a response to this request, the Commission and the ECB prepared convergence reports for Slovenia.

The main results of the Convergence report are as follows:

Inflation : the average inflation rate in Slovenia during the 12 months to March 2006 was 2.3%, below the reference value of 2.6%. Slovenia has respected the reference value since November 2005 and, based on the present outlook, is likely to continue to do so in the coming months.

Governmentbudgetarysituation : since EU accession, Slovenia has never been subject to an Excessive Deficit Procedure. Its general government deficit declined in 2004 and 2005 due to a combination of cyclical factors and policy measures, reaching 1.8% of GDP last year. General government debt remains well below the Treaty threshold at slightly below 30% of GDP. According to the Convergence Programme of December 2005, the budgetary strategy is to gradually reduce the government deficit to 1% of GDP in 2008.

Exchangerate : the Slovenian tolar has participated in ERM II since 28 June 2004. During the two years before the convergence examination, the tolar has remained close to its ERM II central rate.

Long-terminterestrates : since ERM II entry in June 2004, the spread of long-term government bond yields vis-à-vis the euro area remained contained between 10 and 70 basis points, reflecting the credibility of Slovenia's convergence process. The 12-month average of long-term interest rates showed a steady decline over the whole assessment period. In the year to March 2006, the average long-term interest rate in Slovenia stood at 3.8%, well below the reference value of 5.9%.

Legalconvergence : Slovenia is now compatible with the requirements of the Treaty and the ESCB/ECB Statute.