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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 3 May 2000
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Proposal for a

COUNCIL DECISION

in accordance with article 122(2) of the Treaty

for the adoption by Greece of the single currency on 1.1.2001

(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.

Article 122(2) lays down the procedures for the abrogation of derogations. These procedures are to be initiated 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). These reports must be prepared because it is now two years since the Council decided in 1998 which Member States fulfilled the conditions to adopt the single currency; in addition, on 9 March 2000 Greece formally submitted a request for the preparation of these reports. The Commission must therefore present to the Council a report on the progress made in the fulfilment by Member States with a derogation of their obligations regarding the achievement of economic and monetary union; subsequently, and based on its own report and that of the ECB, the Commission submits to the Council a proposal for a Council decision to abrogate the derogation of the Member States fulfilling the necessary conditions.

The Commission convergence report was adopted by the College on 3 May 2000. The ECB has adopted its report on 27 April. The Commission and the ECB reports focus on the progress achieved by Greece and Sweden and do not assess Denmark and the United Kingdom because they are exercising their opt-outs. The reports include an examination of the compatibility between each Member State's national legislation, including the statutes of its national central bank, and Articles 108 and 109 of the Treaty and the Statute of the ESCB. The reports also examine the achievement of a high degree of sustainable convergence by reference to the fulfilment by each Member State of the convergence criteria. The reports of the Commission and the ECB also take account of several other factors mentioned in the final sub-paragraph of Article 121(1).

In its convergence report the Commission concludes that there are no reasons to change the current situation of Sweden as a Member State with a derogation. The Commission also concludes that a high degree of sustainable convergence has been achieved in Greece.

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 Greece with effect from 1 January 2001.

Commission proposal for a

COUNCIL DECISION

in accordance with article 122(2) of the Treaty

THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to the proposal from the Commission,

Having regard to the report from the Commission¹,

Having regard to the report from the European Central Bank²,

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,

- (1) Whereas the third stage of economic and monetary union (EMU) started on 1 January 1999; whereas 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 in 1 January 1999³;
- (2) Whereas, in accordance with paragraph 1 of Protocol 25 of 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; whereas this notification has not been changed; whereas, in accordance with paragraph 1 of Protocol N° 26 of 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; whereas Denmark has not requested that the procedure referred to in Article 122 (2) is initiated;
- (3) Whereas Greece and Sweden have a derogation as defined in Article 122 of the Treaty;
- (4) Whereas the European Central Bank (ECB) was established on 1 July 1998; whereas 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 16 June 1997⁴; whereas the procedures for an exchange rate mechanism in stage three of economic and monetary union (ERM II) were laid down in the agreement of

¹ COM (...)

² Reference

³ Council Decision 98/317/EC, OJ L 139 of 11.05.98.

⁴ OJ C 236 of 02.08.1997.

1 September 1998 between the ECB and the national central banks of the Member States outside the euro area⁵;

- (5) Whereas paragraph 2 of Article 122 lays down the procedures for abrogation of the derogation of the Member States concerned; whereas 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); whereas such reports have to be prepared in 2000; whereas on 9 March 2000 Greece made a request;
- (6) Whereas 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 ESCB; whereas the reports of the Commission and the ECB provide a detailed assessment of the compatibility of the legislation of Greece and Sweden with Articles 108 and 109 of the Treaty and the statute of the ESCB;
- (7) Whereas according to Article 1 of Protocol No 21 the criterion on price stability referred to in the first indent of Article 121(1) shall mean 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 1½ percentage points that of, at most, the three best performing Member States in terms of price stability; whereas 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) n° 2494/95; whereas 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 twelve monthly indices relative to the arithmetic average of twelve monthly indices of the previous period; whereas in the one year period ending in March 2000 the three best performing Member States in terms of price stability were France, Austria and Sweden, with inflation rates of, respectively 0.9%, 0.9% and 0.8%; whereas 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; whereas, on this basis, the reference value in the one year period ending in March 2000 was 2.4%;
- (8) Whereas according to Article 2 of Protocol No 21 the criterion on the government budgetary position referred to in the second indent of Article 121(1) 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;
- (9) Whereas according to Article 3 of Protocol No 21 the criterion on participation in the exchange-rate mechanism of the European Monetary System referred to in the third indent of Article 121(1) shall mean 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 shall not have devalued its currency's bilateral central rate against any other Member State's currency on its own initiative for the same period; whereas since 1 January 1999 the ERM II provides the

⁵ OJ C 345 of 13.11.1998.

framework for assessing the fulfilment of the exchange rate criterion; whereas in assessing the fulfilment of this criterion in their reports, the Commission and the ECB have examined the two year period ending in March 2000;

- (10) Whereas according to Article 4 of Protocol No 21 the criterion on the convergence of interest rates referred in the fourth indent of Article 121(1) shall mean 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; whereas for the purpose of the criteria on the convergence of interest rates comparable interest rates on 10-year benchmark government bonds were used; whereas 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; whereas, on this basis, the reference value in the one year period ending in March 2000 was 7.2%;
- (11) Whereas, in accordance with Article 5 of Protocol No 21 the data used in the current assessment of the fulfilment of the convergence criteria will be provided by the Commission; whereas for the preparation of this proposal the Commission provided data; whereas budgetary data were provided by the Commission after reporting by the Member States by 1 March 2000 in accordance with Council Regulation (EC) n° 3605/93, amended by Council Regulation (EC) N° 475/2000;
- (12) Whereas in Greece 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;

Regarding the fulfilment by Greece of the convergence criteria mentioned in the four indents of Article 122 (1) of the Treaty:

- the average inflation rate in Greece in the year ending March 2000 stood at 2.0% which is below the reference value;
- on 17 December 1999⁶ the Council abrogated its previous Decision on the existence of an excessive deficit in Greece and therefore Greece is not the subject of a Council Decision on the existence of an excessive government deficit;

⁶ OJ L 12 of 18.01.2000.

- Greece has been a member of the ERM and subsequently of ERM II during the last two years; in that period the Greek drachma (GRD) has not been subject to severe tensions and Greece has not devalued, on its own initiative, the GRD bilateral central rate against any other Member State's currency up to 1 January 1999 nor against the euro since then;
- in the year ending March 2000 the long-term interest rate in Greece was, on average, 6.4% which is below the reference value;

Greece has achieved a high degree of sustainable convergence by reference to all four criteria.

Consequently, Greece fulfils the necessary conditions for the adoption of a single currency;

- (13) Whereas 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

Greece fulfils the necessary conditions for the adoption of the single currency. The derogation of Greece is abrogated with effect from 1 January 2001.

Article 2

This Decision is addressed to the Member States.

Article 3

This Decision shall be published in the *Official Journal of the European Communities*.

Done at [...]

*For the Council
The President*