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2022/0179 (NLE)

Proposal for a

COUNCIL DECISION

on the adoption by Croatia of the euro on 1 January 2023

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

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 euro on 1 January 1999. Denmark and the United Kingdom made use of their opt-out clauses and were therefore not 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 that 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.

On 8 July 2008, the Council decided that Slovakia fulfilled the necessary conditions for adopting the euro as of 1 January 2009.

On 13 July 2010, the Council decided that Estonia fulfilled the necessary conditions for adopting the euro as of 1 January 2011.

Croatia joined the European Union on 1 July 2013 and became a Member State with a derogation in accordance with Article 5 of the Act of Accession.

On 9 July 2013, the Council decided that Latvia fulfilled the necessary conditions for adopting the euro as of 1 January 2014.

On 23 July 2014, the Council decided that Lithuania fulfilled the necessary conditions for adopting the euro as of 1 January 2015.

Article 140(1) of the Treaty on the Functioning of the European Union ('the Treaty') states 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 by Member States with a derogation in fulfilling their obligations regarding the achievement of economic and monetary union.

Based on its own report and that of the ECB, the Commission should submit to the Council a proposal for a Council decision, in accordance to the procedure laid down in Article 140(2) of the Treaty, to abrogate the derogation of the Member States fulfilling the necessary conditions.

Both the Commission and the ECB convergence reports were released on 1 June 2022. The reports include an examination of the compatibility between Croatia's national legislation, including the statutes of its national central bank, with Articles 130 and 131 of the Treaty and the Statute of the ESCB and of the ECB.

The reports also examine whether a high degree of sustainable convergence has been achieved, by reference to the fulfilment of the convergence criteria, and take account of several other factors required under the final sub-paragraph of Article 140(1) of the Treaty.

In its convergence report, the Commission concludes that Croatia fulfils the 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 Croatia, with effect from 1 January 2023.

2. RESULTS OF CONSULTATIONS WITH THE INTERESTED PARTIES AND IMPACT ASSESSMENT

Discussions with Member States on economic policy challenges in Member States are held under various headings on a regular basis in the Economic and Financial Committee (EFC) and the ECOFIN/Eurogroup. These include informal discussions on issues specifically relevant to the preparation of eventual euro-area entry (including exchange rate policies). Dialogue with academics and other interested groups takes place in conferences/seminars and on an ad-hoc basis.

Economic developments in the euro area and the Member States are assessed through the various procedures of economic policy coordination and surveillance (notably under Art. 121 of the Treaty), as well as in the context of the Commission's regular monitoring and analysis of country-specific and area-wide developments (including forecasts, regular publication series, and input to the EFC and ECOFIN/Eurogroup). In accordance with the proportionality principle and in line with past practice, no formal impact assessment has been carried out.

3. LEGAL ELEMENTS OF THE PROPOSAL

3.1. Legal basis

The legal basis for this proposal is Article 140(2) of the Treaty, which lays down the procedure for a Council decision on euro adoption and for abrogating the derogation in the concerned Member States.

The Council shall act on a proposal from the Commission, after consulting the European Parliament, after discussion in the European Council and after having received a recommendation of a qualified majority of those among its members representing Member States whose currency is the euro.

3.2. Subsidiarity and proportionality

The proposal falls under the exclusive competence of the Union. The subsidiarity principle therefore does not apply.

This initiative does not go beyond what is necessary to achieve its objective and, therefore, complies with the proportionality principle.

3.3. Choice of legal instrument

A Decision is the only appropriate legal instrument according to Article 140(2) of the Treaty.

4. BUDGETARY IMPLICATION

The proposal has no implications for the budget of the Union.

2022/0179 (NLE)

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 140(2) thereof,

Having regard to the proposal from the European Commission,

Having regard to the report from the European 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 in the European Council,

Having regard to the recommendation of the members of the Council representing Member States whose currency is the euro,

Whereas:

(1) The third stage of economic and monetary union ('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 euro on 1 January 1999 ([3]).

(2) By Decision 2000/427/EC ([4]) the Council decided that Greece fulfilled the necessary conditions for adopting the euro on 1 January 2001. By Decision 2006/495/EC ([5]) the Council decided that Slovenia fulfilled the necessary conditions for adopting the euro on 1 January 2007. By Decisions 2007/503/EC ([6]) and 2007/504/EC ([7]) the Council decided that Cyprus and Malta fulfilled the necessary conditions for adopting the euro on 1 January 2008. By decision 2008/608/EC ([8]) the Council decided that Slovakia

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(1) Report of 1 June 2022 (not yet published in the Official Journal).

(2) Report of 1 June 2022 (not yet published in the Official Journal).

([3]) Council Decision 98/317/EC of 3 May 1998 in accordance with Article 109j(4) of the Treaty (OJ L 139, 11.5.1998, p. 30).

([4]) Council Decision 2000/427/EC of 19 June 2000 in accordance with Article 122(2) of the Treaty on the adoption by Greece of the single currency on 1 January 2001 (OJ L 167, 7.7.2000, p. 19).

([5]) Council Decision 2006/495/EC of 11 July 2006 in accordance with Article 122(2) of the Treaty on the adoption by Slovenia of the single currency on 1 January 2007 (OJ L 195, 15.7.2006, p. 25).

([6]) Council Decision 2007/503/EC of 10 July 2007 in accordance with Article 122(2) of the Treaty on the adoption by Cyprus of the single currency on 1 January 2008 (OJ L 186, 18.7.2007, p. 29).

([7]) Council Decision 2007/504/EC of 10 July 2007 in accordance with Article 122(2) of the Treaty on the adoption by Malta of the single currency on 1 January 2008 (OJ L 186, 18.7.2007, p. 32).

([8]) Council Decision 2008/608/EC of 8 July 2008 in accordance with Article 122(2) of the Treaty on the adoption by Slovakia of the single currency on 1 January 2009 (OJ L 195, 24.7.2008, p. 24).

fulfilled the necessary conditions for adopting the euro. By decision 2010/416/EU ([9]) the Council decided that Estonia fulfilled the necessary conditions for adopting the euro. By decision 2013/387/EU ([10]) the Council decided that Latvia fulfilled the necessary conditions for adopting the euro. By decision 2014/509/EU ([11]) the Council decided that Lithuania fulfilled the necessary conditions for adopting the euro.

(3) In accordance with paragraph 1 of the Protocol on certain provisions relating to Denmark annexed to the Treaty establishing the European Community 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 140(2) of the Treaty on the Functioning of the European Union (TFEU) be initiated.

(4) By virtue of Decision 98/317/EC Sweden has a derogation as defined in Article 139(1) TFEU. In accordance with Article 4 of the 2003 Act of Accession ([12]), the Czech Republic, Hungary and Poland have derogations as defined in Article 139(1) TFEU. In accordance with Article 5 of the 2005 Act of Accession ([13]), Bulgaria and Romania have derogations as defined in Article 139(1) TFEU. In accordance with Article 5 of the 2012 Act of Accession ([14]), Croatia has a derogation as defined in Article 139(1) TFEU.

(5) The European Central Bank ('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 ([15]). 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.([16])

(6) Article 140(2) TFEU lays down the procedures for abrogation of the derogation of the Member States concerned. 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 140(1) TFEU.

(7) National legislation in the Member States, including the statutes of national central banks, is to be adapted as necessary with a view to ensuring compatibility with Articles 130 and 131 TFEU and with the Statute of the European System of Central Banks and of the European Central Bank ('Statute of the ESCB and of the ECB'). The reports of the Commission and the ECB provide a detailed assessment of the compatibility of the legislation of Croatia with Articles 130 and 131 of the Treaty and with the Statute of the ESCB and of the ECB.

([9]) Council Decision 2010/416/EU of 13 July 2010 in accordance with Article 140(2) of the Treaty on the adoption by Estonia of the euro on 1 January 2011 (OJ L 196, 28.7.2010, p. 24).

([10]) Council Decision 2013/387/EU of 9 July 2013 on the adoption by Latvia of the euro on 1 January 2014 (OJ L 195, 18.7.2013, p. 24).

([11]) Council Decision 2014/509/EU of 23 July 2014 on the adoption by Lithuania of the euro on 1 January 2014 (OJ L 228, 31.7.2014, p. 29).

([12]) OJ L 236, 23.9.2003, p. 33.

([13]) OJ L 157, 21.6.2005, p. 203.

([14]) OJ L 112, 24.4.2012, p. 21.

([15]) OJ C 236, 2.8.1997, p. 5.

([16]) OJ C 73, 25.3.2006, p. 21.

(8) In accordance with Article 1 of Protocol No 13 on the convergence criteria referred to in Article 140 TFEU, the criterion on price stability referred to in the first indent of Article 140(1) TFEU 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 is measured by the harmonised indices of consumer prices (HICPs) defined in Regulation (EU) 2016/792 of the European Parliament and of the Council ([17]). To assess the price stability criterion, a Member State's inflation is measured by the percentage change in the arithmetic average of 12 monthly indices, relative to the arithmetic average of 12 monthly indices from the previous period. 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 used in the reports of the Commission and the ECB. In the one-year period ending in April 2022, the inflation reference value was calculated to be 4,9 per cent, with France, Finland and Greece as the three best-performing Member States in terms of price stability, with inflation rates of 3,2 per cent, 3,3 per cent and 3,6 per cent, respectively. It is warranted to exclude from the best performers countries whose inflation rates cannot be seen as a meaningful benchmark for other Member States. Such outliers were in the past identified in 2004, 2010, 2013, 2014 and 2016. Currently, it is warranted to exclude Malta and Portugal from the best performers ([18]). For the calculation of the reference value, they are replaced by Finland and Greece, the Member States with the next-lowest average inflation rates.

(9) In accordance with Article 2 of Protocol No 13, the criterion on the government budgetary position referred to in the second indent of Article 140(1) TFEU requires that, at the time of the examination, the Member State not be the subject of a Council decision under Article 126(6) TFEU that an excessive deficit exists.

(10) In accordance with Article 3 of Protocol No 13, the criterion on participation in the exchange-rate mechanism of the European Monetary System referred to in the third indent of Article 140(1) TFEU requires a Member State to have complied with 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 the euro 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 May 2022.

(11) In accordance with Article 4 of Protocol No 13, the criterion on the convergence of interest rates referred to in the fourth indent of Article 140(1) TFEU requires that, observed over a period of one year before the examination, a Member State have 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

([17]) Regulation (EU) 2016/792 of the European Parliament and of the Council of 11 May 2016 on harmonised indices of consumer prices and the house price index, and repealing Council Regulation (EC) No 2494/95 (OJ L 135, 24.05.2016, p.11).

([18]) In April 2022, the 12-month average inflation rates of Malta and Portugal were respectively 2,1% and 2,6% and that of the euro area 4,4%.

price stability. The criterion used to assess the convergence of interest rates was comparable interest rates on ten-year benchmark government bonds. 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. The reference value is based on the long-term interest rates in France (0,3 per cent), Finland (0,2 per cent) and Greece (1,4 per cent) and in the one-year period ending in April 2022 it was 2,6 per cent.

(12) In accordance with Article 5 of Protocol No 13, the data used in assessing the fulfilment of the convergence criteria is to be provided by the Commission. The Commission provided that data. Budgetary data were provided by the Commission after reporting by the Member States before 1 April 2022, in accordance with Council Regulation (EC) No 479/2009. ([19])

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

(a) in Croatia, national legislation, including the Statute of the national central bank, is compatible with Articles 130 and 131 of the Treaty and with the Statute of the ESCB and of the ECB;

(b) 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 in April 2022 stood at 4,7 per cent, which is below the reference value, and it 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 ERM II since 10 July 2020. During the two years preceding the assessment, the kuna exchange rate (HRK) 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 long-term interest rate in Croatia was, on average, 0,8 per cent, which is well 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, Croatia fulfils the necessary conditions for the adoption of the euro,

HAS ADOPTED THIS DECISION:

Article 1

Croatia fulfils the necessary conditions for the adoption of the euro. The derogation in favour of Croatia referred to in Article 5 of the 2012 Act of Accession is abrogated with effect from 1 January 2023.

([19]) Council Regulation (EC) No 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community (OJ L 145, 10.6.2009, p. 1).

Article 2

This Decision is addressed to the Member States.

Done at Brussels,

For the Council
The President