

## **BACKGROUND<sup>1</sup>**

### ***COUNCIL IN THE COMPOSITION OF HEADS OF STATE/ GOVERNMENT***

**Friday 16 June in Brussels**

*The Council<sup>2</sup> will meet at 10.00 hrs on Friday, in the margins of the European Council, to examine Commission and ECB reports on progress made by **Lithuania** and **Slovenia** on convergence as regards European economic and monetary union, as well as a proposal aimed at allowing Slovenia to **adopt the euro as its currency** as from 1 January 2007.*

*If the proposal meets with the Council's approval, it will be referred to the Economic and Financial Affairs Council for a decision, probably at its meeting on 11 July. This would make Slovenia the first to join the euro area out of the ten member states that joined the EU on 1 May 2004, allowing it six months to prepare for the changeover.*

*The president of the Council will report on the outcome of the discussion during the presidency press conference on Friday following the meeting of the European Council.*

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<sup>1</sup> This note has been drawn up under the responsibility of the press office.

<sup>2</sup> The subject matter on the agenda (relating to article 122(2) of the treaty) requires the Council to meet in the composition of heads of state/government.

## **Enlargement of the euro area**

- **Convergence reports on Lithuania and Slovenia**
- **Proposal on adoption by Slovenia of the single currency on 1 January 2007**

The Council, meeting at the level of heads of state/government, will:

- take note of the presentation of reports by the European Central Bank and the Commission on fulfilment by Slovenia and Lithuania of convergence criteria and their obligations regarding economic and monetary union.
- discuss a proposal by the Commission for a Council decision allowing Slovenia to adopt the euro as its currency, by abrogating what is considered as a derogation, from 1 January 2007.

The convergence reports examine the compatibility of the member state's legislation with treaty provisions and with the statute of the European system of central banks. They also examine the fulfilment by the member state of the convergence criteria - price stability, government budgetary position, exchange rate stability and long-term interest rates - and several other factors with regard to economic and monetary union.

If the proposal on Slovenia meets with the Council's approval, it will be referred to the Economic and Financial Affairs (Ecofin) Council for a decision, by qualified majority if necessary, probably at its meeting on 11 July. Such a decision would make Slovenia the first to join the euro area out of the ten member states that joined the EU on 1 May 2004.

Euro area enlargement was the subject of a detailed debate by the Ecofin Council at its meeting in Luxembourg on 7 June. In a letter to heads of state and government, the president of the Ecofin Council presents the outcome of that discussion (which nonetheless does not constitute a formal position of the Council).

The main elements of the president's letter are as follows:

- o Slovenia. Ecofin ministers share the Commission's assessment that Slovenia has achieved a high degree of sustainable convergence, and therefore fulfils the necessary conditions for adoption of the euro. They welcome the Commission's proposal regarding Slovenia's accession to the euro area with effect from 1 January 2007.
- o Lithuania. Ministers examined the ECB and Commission convergence reports. The Commission finds that Lithuania has made significant progress towards reaching a high degree of sustainable convergence by meeting the criteria on public finances, exchange rate stability and long-term interest rates, but does not meet the criterion on price stability as low inflation has not yet been achieved in a sustainable manner.

In the light of this assessment, the Commission concludes that there should be no change in Lithuania's status.

The ministers' discussion widely confirmed the ECB and Commission analysis of inflation developments in Lithuania. The average inflation rate in Lithuania has been above the reference value<sup>3</sup> since April 2005 and, apart from April 2006, is likely to remain above it in the months ahead. Ministers expressed support for Lithuania's stability-oriented policies; these should help to ensure an environment of price stability, as required by the treaty as a necessary condition for a successful introduction of the euro.

As concerns price stability, ministers noted that the convergence criteria, including the criterion on price stability, are to be applied in line with the provisions of the treaty. At the request of some ministers, the Commission and the ECB indicated their readiness to further clarify the implementation of the price stability criterion, within the economic and financial committee, in time before the next convergence report.

The current situation as regards economic and monetary union is as follows:

- ❖ Belgium, Germany, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Austria and Finland adopted the euro on 1 January 1999. Greece joined them on 1 January 2001. Euro notes and coins were introduced in all twelve countries on 1 January 2002;
- ❖ Denmark and the United Kingdom have opt-out clauses and have not been assessed by the Council;
- ❖ Sweden is considered as a member state with a derogation. It was joined on 1 May 2004 by the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary Malta, Poland, Slovenia and Slovakia, upon their accession to the EU.

The Commission and the ECB are due to present in October their two-yearly convergence reports on all member states with a derogation, as required under article 122(2) of the treaty. The requests by Slovenia and Lithuania for an earlier assessment are intended to allow sufficient time for preparations for introduction of the euro on 1 January 2007, should a decision be taken allowing them to do so.

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<sup>3</sup> The reference value is calculated as the inflation average in the three best-performing member states - in this case Poland, Finland and Sweden - plus 1,5 percentage points.