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Committee on Economic and Monetary Affairs

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DRAFT REPORT

on the proposal for a Council decision on the adoption by Lithuania of the euro on 1 January 2015
(COM(2014)0324 – C8-0026/2014 – 2014/0170(NLE))

Committee on Economic and Monetary Affairs

Rapporteur: Werner Langen

Symbols for procedures

*	Consultation procedure
***	Consent procedure
***I	Ordinary legislative procedure (first reading)
***II	Ordinary legislative procedure (second reading)
***III	Ordinary legislative procedure (third reading)

(The type of procedure depends on the legal basis proposed by the draft act.)

Amendments to a draft act

Amendments by Parliament set out in two columns

Deletions are indicated in ***bold italics*** in the left-hand column. Replacements are indicated in ***bold italics*** in both columns. New text is indicated in ***bold italics*** in the right-hand column.

The first and second lines of the header of each amendment identify the relevant part of the draft act under consideration. If an amendment pertains to an existing act that the draft act is seeking to amend, the amendment heading includes a third line identifying the existing act and a fourth line identifying the provision in that act that Parliament wishes to amend.

Amendments by Parliament in the form of a consolidated text

New text is highlighted in ***bold italics***. Deletions are indicated using either the ▌ symbol or strikeout. Replacements are indicated by highlighting the new text in ***bold italics*** and by deleting or striking out the text that has been replaced.
By way of exception, purely technical changes made by the drafting departments in preparing the final text are not highlighted.

CONTENTS

Page

DRAFT EUROPEAN PARLIAMENT LEGISLATIVE RESOLUTION

on the proposal for a Council decision on the adoption by Lithuania of the euro on 1 January 2015
(COM(2014)0324 – C8-0026/2014 – 2014/0170(NLE))

(Consultation)

The European Parliament,

– having regard to the Commission proposal to the Council (COM(2014)0324),

– having regard to Article 140(2) of the Treaty on the Functioning of the European Union, pursuant to which the Council consulted Parliament (C8-0026/2014),

– having regard to the Commission Convergence Report 2014 (COM(2014)0326) and the European Central Bank Convergence Report of June 2014,

– having regard to its resolution of 1 June 2006 on the enlargement of the euro zone[1],– having regard to its resolution of 20 June 2007 on improving the method for consulting Parliament in procedures relating to the enlargement of the euro area[2],

– having regard to Rule 100 of its Rules of Procedure,

– having regard to the report of the Committee on Economic and Monetary Affairs (A8-0000/2014),

A. whereas Lithuania's first attempt to introduce the euro failed in 2006, whereas on 25 February 2013 the Lithuanian Government decided to set 1 January 2015 as the target date for introducing the euro, and whereas on 17 April 2014 the Lithuanian Parliament (Seimas) adopted the law on Lithuania's adoption of the euro by a large majority;

B. whereas the legal preconditions for adoption of the euro are laid down in Article 140 of the Treaty on the Functioning of the European Union (TFEU) and Protocol No 13 on the convergence criteria, and whereas the following four convergence criteria must be met: the achievement of a high degree of price stability, sustainability of the government financial position, observance of the normal fluctuation margins provided for by the exchange rate mechanism, and the durability of convergence achieved by the Member State and of its participation in the European exchange-rate mechanism being reflected in the long-term interest-rate levels;

C. whereas at its meeting of 7 April 2014 the Committee on Economic and Monetary Affairs of the seventh European Parliament adopted the report on the adoption of the euro in Lithuania by a large majority, thus endorsing the adoption of the euro in Lithuania;

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[1] OJ C 298E, 8.12.2006, p. 249.
[2] OJ C 146E, 12.6.2008, p. 251.

D. whereas, according to the European Central Bank Convergence Report published on 4 June 2014, Lithuania meets all the convergence criteria;

E. whereas the euro is the currency of the Union, whereas all Member States meeting the convergence criteria must in principle adopt it, and whereas Denmark and the United Kingdom are the only Member States with an opt-out clause;

1. Approves the Commission proposal;

2. Calls on the Council to notify Parliament if it intends to depart from the text approved by Parliament;

3. Endorses the adoption of the euro by Lithuania on 1 January 2015;

4. Welcomes the fact that, according to the Convergence Report, in the year ending in April 2014 Lithuania had a mean inflation rate of 0.6%, and therefore fulfils this convergence criterion;

5. Welcomes the fact that, according to the Convergence Report, in the reference year 2013 Lithuania had a budget deficit of 2.1% and a government debt of 39.4% of Gross Domestic Product, and therefore fulfils this convergence criterion;

6. Welcomes the fact that, according to the Convergence Report, there have been no tensions surrounding the litas-euro exchange rate and Lithuania therefore fulfils this convergence criterion;

7. Welcomes the fact that, according to the Convergence Report, during the reference period from May 2013 until April 2014 long-term interest rates in Lithuania averaged 3.6%, and Lithuania therefore fulfils this convergence criterion;

8. Asks the Council to consult Parliament again if it intends to substantially amend the text approved by Parliament;

9. Instructs its President to forward its position to the Council, the Commission, the European Central Bank, the Eurogroup and the governments of the Member States.

EXPLANATORY STATEMENT

Lithuania already wished to introduce the euro on 1 January 2007. However, this plan failed in 2006 because inflation in Lithuania was too high. Since then, the country has developed further and made great efforts to fulfil the conditions for the introduction of the euro. On 25 February 2013, the Lithuanian Government decided to set 1 January 2015 as the target date for introducing the euro.

The legal prerequisites for adoption of the euro are set out in the Treaty on the Functioning of the European Union (TFEU) and Protocol No 13 on the convergence criteria.

Lithuania is one of the countries with a derogation concerning introduction of the euro. At least once every two years, or at the request of a Member State with a derogation, the European Central Bank (ECB) and the Commission must 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. The convergence report pursuant to Article 140(1) TFEU was published in June 2014. It confirms that Lithuania meets the Maastricht criteria.

Article 140(2) TFEU states that, on the basis of the Commission and ECB reports and after consulting Parliament, the Council must, acting by a qualified majority on a Commission proposal, decide which Member States with a derogation fulfil the necessary conditions on the basis of the criteria set out in Article 140(1) TFEU, and abrogate the derogation for the Member State concerned.

The European Parliament is required to scrutinise the legislative proposal and deliver an opinion on it before the European Council decides on the introduction of the euro. This year, because of the European elections in May 2014, the process is particularly challenging in terms of timing: not only must the Member State concerned (Lithuania) be given six months in which to prepare itself properly for introducing the euro, but the newly elected European Parliament, for its part, is holding its constituent sitting only on 1 July 2014.

In view of these challenges, Parliament will support rapid decision-making. Accordingly, the Committee on Economic and Monetary Affairs and the rapporteur started their work before the end of the last parliamentary term, with a view to making a provisional political recommendation, albeit one not legally binding, to the Parliament to be constituted in July. In March 2014, before the adoption of the informal report, hearings involving the Lithuanian authorities (finance minister and central bank governor) and the Commission were held.

The consultation procedure required by the Treaty must therefore be completed by Parliament before the end of July 2014 if the euro is to become the currency of Lithuania on 1 January 2015. The newly elected Parliament must therefore adopt its opinion in accordance with the urgency procedure, which has been applied before.

On compliance with the convergence criteria under Article 140(1) TFEU, the rapporteur observes:

1. Compatibility of national legislation with Articles 130 and 131 and with the Statute of the ECB

There must be compatibility with the relevant provisions of the TFEU (Articles 123, 124 and 130) and of the Statute of the ECB (Articles 7, 12(1), 14(2), 14(3) and 37).

On 23 January 2014, the Lithuanian Parliament (Seimas) adopted amendments to several laws, allowing the Lithuanian central bank to dispose freely of its assets and modifying the powers of the national audit office as regards auditing the central bank. The amendments stipulate that all assets on the central bank's balance sheet are the property of the central bank and that the central bank may freely dispose of them. Previously, under the relevant legislation, those assets belonged to the State and were simply administered by the central bank under Lithuanian fiduciary law. The legal position adopted and the provisions on compatibility with Articles 130 and 131 and with the Statute of the ECB will have to be verified in the run-up to the introduction of the euro.

The debate on the bill on the introduction of the euro in the Seimas began in the spring (March 2014). The bill lays down the procedure for introducing the euro, switching from the litas to the euro and abolishing the national currency, as well as other practical and technical arrangements for the introduction of the euro. The law was adopted by a large majority in April 2014. These legal preconditions are therefore likewise fulfilled.

2. Achievement of a high level of price stability

During the reference period, from May 2013 to April 2014, the 12-monthly average of harmonised consumer price index (HCPI) inflation was 0.6% in the case of Lithuania, and thus well below the reference value of 1.7%. The reference value is calculated on the basis of the rates for the three best-performing Member States (Latvia, Portugal and Ireland in this instance). Greece, Bulgaria and Cyprus, being outliers, have not been factored into the calculation. A prudent fiscal policy stance is expected to maintain sustainable price stability in the longer term.

3. Sustainability of the government financial position

The 2014 Convergence Report (of June 2014) reveals that, in 2013, Lithuania’s general government deficit was 2.1% of GDP (reference value: 3%); according to the Commission, there is a continuing downward trend. The gross debt ratio – 39.4% of GDP – was also well below the 60% reference value. Since 21 June 2013, Lithuania has not been subject to an excessive deficit procedure. However, at the beginning of June 2014 the Commission proposed that the Council ought at the beginning of July (as part of its regular country-specific recommendations) to recommend that Lithuania ‘reinforce the budgetary measures for 2014 in the light of expenditure growth exceeding the benchmark and the emerging gap of 0.3% of GDP in terms of structural effort based on the Commission 2014 spring forecast, pointing to a risk of significant deviation relative to the Stability and Growth Pact requirements. In 2015, strengthen the budgetary strategy to ensure the required adjustment of 0.5% of GDP towards the medium-term objective.’

4. Compliance with the normal fluctuation margins of the European Monetary System's Exchange Rate Mechanism for at least the past two years

The Lithuanian currency, the litas, joined the Exchange Rate Mechanism (ERM II) on 28 June 2004; the central rate is 3.45280 to the euro, and, because of the currency board arrangement, use has not been made of the normal margins of plus or minus 15% and there has been no fluctuation. On ERM II entry, the Lithuanian authorities gave a unilateral commitment to maintain the existing currency board arrangement within the mechanism. Where there is a currency board arrangement, foreign reserves become the key factor, since they underpin a currency board's credibility. In this respect too, no problems can be identified in Lithuania. This criterion is therefore fulfilled.

5. Durability of convergence, as reflected in long-term interest rate levels

Changes in long-term interest rates are assessed on the basis of secondary market yields on a single benchmark government bond with a residual maturity of close to 10 years. In 2012, when the last convergence report was issued, long-term nominal interest rates were already within tolerances, meaning compliance with the relevant convergence criterion.

The 2014 Convergence Report states that during the reference period from May 2013 to April 2014 the 12-month average for Lithuania was 3.6%, which is less than the reference value of 6.2% calculated from the same countries as in the case of the price stability criterion, namely Latvia, Portugal and Ireland.

6. Financial stability

In September 2013, the International Monetary Fund (IMF) noted that the Lithuanian financial system was liquid and well capitalised. Scandinavian banks continue to dominate Lithuania's financial sector, controlling some 90% of the market. In Lithuania in the meantime, according to the latest data (for the third quarter of 2013) from its central bank, the liquidity rate is declining slightly, at 38.3%, the number of non-performing loans is declining and the loan-to-deposit ratio is falling.

The Commission has called on Lithuania to focus more on ensuring a sufficient supply of credit to small and medium-sized enterprises. Lithuania should also continue to support investment and growth: in 2012, because supply and demand were out of kilter, credit growth was flat.

7. A particular challenge: the energy sector

Lithuania has a high degree of energy dependence:

- It is one of the Member States whose security of supply is most at risk.

- There is total oil and gas dependence on a single foreign supplier (the Russian state supplier Gazprom); there are too few pipelines to other Member States.

- The gas share, in particular, has greatly increased so as to offset the decommissioning – insisted on by the EU – of the Ignalina nuclear plant.

- Energy intensity in Lithuania is relatively high compared with the rest of the EU, although progress has been made in this respect.

- Energy prices play a stronger than average role in the representative consumer basket.

On 8 February 2014, the Lithuanian Presidential Administration reported that unbundling – in line with the EU's third energy package – was being tackled in Lithuania's gas sector. The Lithuanian Government’s plan was that Gazprom should dispose of its participation in the gas grid operator Amber Grid by November; at present, Gazprom has a 37% stake in it. It was further reported that E.ON would back the dominant practices lawsuit brought by the energy utility Lietuvos Dujos, in which E.ON has a 38.9% stake, against Gazprom.

The Lithuanian Government is alive to the country's energy problems and is attempting to tackle them by means of a broad-based ‘National Energy Independence Strategy’. The strategy, which runs until 2020, provides for a variety of measures relating to electricity, gas and oil, including expansion of renewables, construction of a new nuclear power plant, setting up new electricity and gas grids with neighbouring countries, and building liquefied natural gas terminals.

8. Public opinion and political debate

In May 2013, more than half (52%) of the 1 029 Lithuanians polled were opposed to euro area membership for Lithuania, 40% were in favour and 8% were undecided. It is to be hoped that the Lithuanian Government’s clear goal of introducing the euro on 1 January 2015 will generate greater support. On 17 April 2014 the Lithuanian Parliament adopted the law on the introduction of the euro in Lithuania. Eighty-seven Members voted in favour, 7 against, and 13 abstained. This result shows that Lithuania’s parties are clearly in favour of the euro.