EUROPEAN PARLIAMENT 2009 - 2014

Committee on Economic and Monetary Affairs

2014/0000(INI)

3.3.2014

DRAFT REPORT

on the possible introduction of the euro in Lithuania on 1 January 2015 (2014/0000(INI)

Committee on Economic and Monetary Affairs

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PR_INI

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MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

on the possible introduction of the euro in Lithuania on 1 January 2015 (2014/0000(INI))

The European Parliament,

– having regard to its resolution of 3 July 2013 on the proposal for a Council decision on the introduction of the euro in Latvia on 1 January 2014[1],

– having regard to its resolution of 1 June 2006 on the enlargement of the euro zone[2],

– 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[3],

– having regard to Article 140(2) of the Treaty on the functioning of the European Union (TFEU),

– having regard to Rule 83 of its Rules of Procedure,

A. whereas the legal prerequisites for adoption of the euro are laid down in Article 140 TFEU and in Protocol No 13 on the convergence criteria, and whereas the four convergence criteria for adoption of the euro (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 of the European Monetary System, and long-term interest rates) must be met sustainably;

B. whereas the euro is the EU's currency, all EU Member States meeting the convergence criteria must in principle adopt it, and there are derogations only for Denmark and the United Kingdom;

C. whereas Lithuania is seeking to introduce the euro on 1 January 2015;

D. whereas the assessments by the Commission and the European Central bank (ECB) and the relevant figures figures for the 2014 convergence report are not yet available and therefore, for this report, reference can be made only to the figures in the 2014 winter forecast;

1. Supports, following preliminary verification of the facts, Lithuania's introduction of the euro on 1 January 2015;

2. Notes that, although according to the last convergence report, in 2012, Lithuania did not meet all the convergence criteria for adoption of the euro, the Lithuanian Government and population have made major efforts in the meantime so as to meet all convergence

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1 http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P7-TA-2013-0313+0+DOC+XML+V0//DE.

2 OJ C 298E, 8.12.2006, p. 249.

3 OJ C 146E, 12.6.2008, p. 251.

criteria by the time of the 2014 winter forecast;

3. Welcomes the fact that, as at February 2014, Lithuania had an average inflation rate of 0.9%, measured over the previous year, and therefore meets the inflation convergence criterion;

4. Welcomes the fact that for 2013, according to the 2014 winter forecast, Lithuania's government debt and deficit represented 39.5% and 2.7% respectively of gross domestic product (GDP) and Lithuania therefore meets the debt and deficit convergence criterion too;

5. Welcomes the fact that there have been no tensions surrounding the litas-euro exchange rate and Lithuania therefore also meets the exchange rate convergence criterion;

6. Welcomes the fact that as at February 2014, according to relevant ECB figures, the average long-term nominal interest rate in Lithuania was 3.8% and Lithuania therefore meets the interest rate convergence criterion;

7. Is pleased that, in the Commission's opinion, there are no macroeconomic imbalances in Lithuania;

8. Welcomes the fact that, on 23 January 2014, the Lithuanian Parliament amended several laws in order to transfer ownership of all assets on the Lithuanian central bank's balance sheet, including immovable property, to the central bank and thus ensure its independence;

9. Notes that, in March 2014, debate is commencing in the Lithuanian Parliament on the bill on the introduction of the euro, which will lay 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;

10. Notes that the excessive deficit procedure with regard to Lithuania was closed on 21 June 2013; notes further that, in a report in November 2013, the Commission and the Council acknowledged Lithuania's ambitious budget consolidation efforts;

11. Notes that Lithuania is characterised by a high degree of energy dependence, being above all very dependent on Russia, and is one of the Member States whose security of supply is most at risk;

12. Notes that dependence has been heightened by the fast-track decommissioning of two nuclear power plants, which was insisted on by the EU, resulting in a considerable increase in electricity generation from gas;

13. Notes that energy intensity in Lithuania is therefore relatively high, compared with the rest of the EU, although progress has been made in this respect; notes further that energy accounts for a large share of the Lithuanian consumer goods and services basket;

14. Welcomes the fact that 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'; welcomes further the fact that Lithuania is pressing ahead with

unbundling in the gas sector (in line with the EU's third energy package);

15. Notes that the Lithuanian financial system is liquid and well capitalised; notes furthermore that the Lithuanian financial sector is dominated by Scandinavian banks, which control some 90% of the market; notes further that 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;

16. Regrets the fact that, in a survey in May 2013, more than half the Lithuanians polled voiced misgivings at the introduction of the euro; is confident, however, that, once the information campaigns on the introduction of the euro get under way, public support will increase during 2014; welcomes the fact that the Lithuanian Government is clearly in favour of introducing the euro.

EXPLANATORY STATEMENT

The legal prerequisites for adoption of the euro are set out in the Treaty on the Functioning of the European Union (TFEU) and in 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 next convergence reports under Article 140(1) TFEU are expected in June 2014. The convergence report on Lithuania is expected to confirm that the country 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.

Parliament must examine the convergence report, together with the related legal proposal, and issue an opinion. This year, because of the European elections in May, 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 Parliament, for its part, cannot begin its work until 1 July.

In view of these challenges, and in spite of repeated and justified criticism, in the past, of the tight timetable for decisions on the introduction of the euro, Parliament will back fast-track decision-taking. Accordingly, the ECON committee and the rapporteur are starting their work before the end of the current term, with a view to making a provisional political recommendation to Parliament, albeit one not legally binding, which will reconstitute itself in July. In March, in addition to this report, hearings involving the Lithuanian authorities (finance minister and central bank governor) and the Commission are planned.

Subsequently, in July, completion of the legislative procedure must be fast-tracked by the new Parliament in so far as it is proposed that the euro be introduced on 1 January 2015. That leaves the newly elected Parliament little time to adopt its opinion, which is to be put to the vote under urgency procedure. Regrettably, by comparison with the normal timetable, there are major constraints. The customary translation arrangements must apply, however.

As regards compliance with the convergence criteria under Article 140(1) TFEU, the rapporteur's provisional conclusions, as at March 2014, are as follows:

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.

Debate in the Seimas on the bill on the introduction of the euro is beginning in March. 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. It will be forwarded to the ECB for an opinion; Parliament, too, will have to consider it.

2. Achievement of a high level of price stability

At present (March 2014), no definitive assessment of the price stability criterion can be made; in June, on the basis of figures for the period up to and including April, it will be appraised in the light of the 12-month average for harmonised index of consumer prices (HCPI) inflation.

If, for guidance, the calculation is made in March 2014, however, it can be seen that, in the reference period from February 2013 to January 2014, the 12-month average for HICP inflation in Lithuania was 0.93%, thus falling short of the 1.54% reference value. The reference value is calculated on the basis of the rates for the three best-performing Member States (Latvia, Cyprus and Bulgaria in this instance). Greece, being a source of outliers, has not been factored in to the calculation. Even if HICP inflation rises from its current very low level, Lithuania is projected to remain below the reference value in the months ahead. 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 winter forecast - in February 2014 - reveals that, for 2013, Lithuania's general government deficit was 2.7% of GDP (reference value: 3%); according to the Commission, there is a continuing downward trend. The gross debt ratio - 39.5% of GDP - was also well below the 60% reference value.

Since 21 June 2013, Lithuania has not been subject to an excessive deficit procedure. In the most recent country-specific recommendations (in July 2013) and in a November 2013 report, too, the Council and the Commission, respectively, confirmed that Lithuania has made ambitious budget consolidation efforts since 2009. However, there is also criticism of the fact that the country still lacks sufficient fiscal space to react to adverse shocks. The Council and the Commission take the view that the taxation system should be made less distortive of competition and that there should be further improvements in tax compliance.

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; 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 that respect, too, there have been no problems whatever in Lithuania; and, accordingly, this criterion has been met.

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 within tolerances, meaning compliance with the relevant convergence criterion.

If, for guidance, the calculation is made as at February 2014, however, it can be seen that, in the reference period from February 2013 to January 2014, the 12-month average for Lithuania was 3.8%, thus falling short of the 5.4% reference value calculated on the basis of the interest rates for the same countries whose inflation rates were cited in connection with the price stability criterion, i.e. Latvia, Cyprus and Bulgaria. As Cyprus should possibly be regarded as a source of outliers, because of its particular circumstances, the figure of 5.4% has been calculated by reference to Latvia's and Bulgaria's rates.

6. *Economic integration and convergence (Article 140(1) TFEU, final subparagraph)*

6.1 Macroeconomic imbalances

In the Commission's opinion, there are no macroeconomic imbalances in Lithuania. In its analysis, however, on which the country-specific recommendations adopted by the Council in July 2013 are based, the Commission also takes the following view: '*Lithuania faces important challenges as regards growth-friendly fiscal consolidation and fiscal sustainability, unemployment and social exclusion as well as interconnectedness of its energy sector and energy efficiency.*'

6.2 Financial stability

In September 2013, the International Monetary Fund noted that the Lithuanian financial system is 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 both supply and demand were out of kilter, credit growth was flat.

7. A particular challenge: the energy sector

Lithuania is characterised by 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 two nuclear plants;

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

- energy accounts for a large share of the consumer goods and services basket.

On 8 February 2014, the Lithuanian Presidential Administration reported that the German Federal Government supported unbundling - in line with the EU's third energy package - in Lithuania's gas sector. The Lithuanian Government's plan was said to be that Gazprom should withdraw from the gas grid operator Amber Gas, in which it has a 37% stake, by November. 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 Government of Lithuania 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 fact of the Lithuanian Government's clear goal of introducing the euro on 1 January 2015 will bring about greater support.