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## **REPORT**

on the proposal for a Council decision in accordance with Article 122(2) of the Treaty on the adoption by Cyprus of the single currency on 1 January 2008  
(COM(2007)0256 – C6-0151/2007 – 2007/0090(CNS))

Committee on Economic and Monetary Affairs

Rapporteur: Werner Langen

### ***Symbols for procedures***

- \* Consultation procedure  
*majority of the votes cast*
- \*\*I Cooperation procedure (first reading)  
*majority of the votes cast*
- \*\*II Cooperation procedure (second reading)  
*majority of the votes cast, to approve the common position*  
*majority of Parliament's component Members, to reject or amend the common position*
- \*\*\* Assent procedure  
*majority of Parliament's component Members except in cases covered by Articles 105, 107, 161 and 300 of the EC Treaty and Article 7 of the EU Treaty*
- \*\*\*I Codecision procedure (first reading)  
*majority of the votes cast*
- \*\*\*II Codecision procedure (second reading)  
*majority of the votes cast, to approve the common position*  
*majority of Parliament's component Members, to reject or amend the common position*
- \*\*\*III Codecision procedure (third reading)  
*majority of the votes cast, to approve the joint text*

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

### ***Amendments to a legislative text***

In amendments by Parliament, amended text is highlighted in ***bold italics***. Highlighting in *normal italics* is an indication for the relevant departments showing parts of the legislative text for which a correction is proposed, to assist preparation of the final text (for instance, obvious errors or omissions in a given language version). These suggested corrections are subject to the agreement of the departments concerned.

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## **DRAFT EUROPEAN PARLIAMENT LEGISLATIVE RESOLUTION**

**on the proposal for a Council decision in accordance with Article 122(2) of the Treaty on the adoption by Cyprus of the single currency on 1 January 2008  
(COM(2007)0256 – C6-0151/2007 – 2007/0090(CNS))**

### **(Consultation procedure)**

*The European Parliament,*

- having regard to the Commission proposal to the Council (COM(2007)0256),
  - having regard to the Commission convergence report 2007 on Cyprus (COM(2007)0255) and the European Central Bank convergence report of May 2007,
  - having regard to the Commission Staff Working Document - Accompanying document to the Report from the Commission - Convergence Report 2007 on Cyprus (SEC(2007)0623),
  - having regard to its resolution of 1 June 2006 on the enlargement of the euro zone<sup>1</sup>,
  - having regard to Article 122(2) of the EC Treaty, pursuant to which the Council consulted Parliament (C6-0151/2007),
  - having regard to Rule 51 of its Rules of Procedure,
  - having regard to the report of the Committee on Economic and Monetary Affairs (A6-0244/2007),
1. Approves the Commission proposal;
  2. Favours the adoption of the euro by Cyprus on 1 January 2008;
  3. Calls on the Member States to allow the Commission to assess compliance with the Maastricht criteria on the basis of definite, current, reliable, and high-quality data;
  4. Calls on the Council to notify Parliament if it intends to depart from the text approved by Parliament;
  5. Asks the Council to consult Parliament again if it intends to amend the Commission proposal substantially;
  6. Instructs its President to forward its position to the Council, the Commission and the governments of the Member States.

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<sup>1</sup> OJ C 298 E, 8.12.2006, p. 249.

## EXPLANATORY STATEMENT

On 13 February 2007 Cyprus requested a Convergence Report pursuant to Article 122(2) of the EC Treaty. The substance of the reports to be drawn up by the Commission and the ECB is governed by Article 121(1) of the EC Treaty. Cyprus is currently a “Member State with a derogation” which is not a member of the euro zone. The aim of Cyprus’s application of 13 February 2007 was to enable it to join the euro zone with effect from the beginning of 2008.

Article 122(2) of the EC Treaty states that the Ecofin Council, on the basis of the reports from the Commission and the ECB, after consulting the European Parliament and after discussion in the Council, meeting in the composition of the Heads of State or Government, shall, acting by a qualified majority on a proposal from the Commission, decide which Member States with a derogation fulfil the necessary conditions on the basis of the criteria set out in Article 121(1), and abrogate the derogations of the Member States concerned.

On 16 May 2007 the Commission proposed that the derogation for Cyprus expire on 1 January 2008 and that Cyprus be admitted to the euro zone from that date.

The European Parliament has to examine the Convergence Report submitted, and the technical annex on Cyprus, and issue an opinion. In spite of considerable reservations on individual issues, your rapporteur recommends that the derogation be lifted with effect from 1 January 2008.

On the Convergence Criteria under Article 121(1) of the EC Treaty and detailed compliance with those criteria, particularly whether a high level of durable convergence has been reached:

1. Compatibility of national legislation with Articles 108 and 109 and with the Statutes of the ECB

The Cypriot Parliament did not amend its Central Bank law until 15 March 2007 (!), and only then did it eliminate the former incompatibilities.

2. Achievement of a high level of price stability

With an inflation rate of 2.0% in the last 12 months, Cyprus is clearly below the reference value of 3.0%. This value is forecast to fall to 1.3% by December 2007. The criterion is fully met.

3. Sustainability of the government financial position:

On 11 July 2006 the Council dropped proceedings on the existence of an excessive deficit, after Cyprus had made perceptible progress in reducing its general government deficit with effect from 2004/2005. In 2006 the deficit was 1.5% of GDP, the forecast figure for 2007 is 1.4%. This reflects a level of government debt of 65.3% of GDP in 2006 and an expected 61.5% of GDP for 2007. The criterion is (largely) met.

4. Compliance with the normal fluctuation margins of the EMS’s Exchange Rate Mechanism II for at least the past 2 years.

Cyprus has participated in ERM II since 5 May 2005. The Cypriot pound has since been in the upper half of the range, close to the central rate. The criterion is met.

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

The average long-term interest rate in the past 12 months has stood at 4.2%, clearly below the reference value of 6.4%.

6. Economic integration and convergence (Art. 121(1), last section)

This includes integration of the financial and goods markets, the development of the balance of payments and unit labour costs.

Since the Cypriot economy is closely interlinked with that of the rest of the EU, the Commission considers that, in spite of a growth in the balance of payments deficit, the economic integration requirement is met. In 2005 Cyprus had achieved a per-capita GDP in terms of purchasing power of 85% of the EU-25 average.

7. Problems specific to Cyprus

a.) The Convergence Report and the request for the lifting of Cyprus's derogation applies only to those areas in which the Government of the Republic of Cyprus exercises effective control within the meaning of Protocol 10 in the annex to the 2003 Action of Accession. The "Republic of Northern Cyprus", which does not enjoy international recognition, is not considered in the report.

b.) The Republic of Cyprus has repeatedly infringed the provisions of Regulation (EC) 501/2004 of 10 March 2004 on quarterly financial accounts for general government. As is clear from the Commission report of 3 May 2007 (COM(2007)230), Cyprus has as yet "provided Eurostat with [very few] data". The Commission concludes that "an immediate effort is necessary to comply with the EU Regulation".

This begs the question why the Commission, given its past experience, has made a positive recommendation on Cyprus's membership of the euro when there has still been no perceptible progress in data provision. These objections must be comprehensively and fully overcome by the end of 2007 at the latest.

8. Consultation of the European Parliament

Once again the Commission, by taking so long to submit the report and involve the European Parliament, has made it hard to carry out an unreserved, objective examination of the convergence criteria in line with the conditions set out in Articles 121 and 122 of the EC Treaty. Since objections were already raised on this issue – clearly without success – in the case of Slovenia, the question arises of whether this was done deliberately. In that case the European Parliament would have to insist in future on an appropriate consultation period and the unrestricted exercise of its right of consultation pursuant to the EC Treaty.

Furthermore, no documents and assessments have yet been submitted to Parliament and the Council relating to technical preparations for membership of the euro zone, so it is not possible to assess whether accession to the euro zone will actually be able to take place smoothly on 1 January 2008, taking into account adjustment arrangements and consumer rights. These complaints to the Commission also apply – even more seriously – to the case of Malta.

## PROCEDURE

<b>Title</b>	Adoption by Cyprus of the single currency on 1 January 2008	
<b>References</b>	COM(2007)0256 - C6-0151/2007 - 2007/0090(CNS)	
<b>Date of consulting Parliament</b>	25.5.2007	
<b>Committee responsible</b> Date announced in plenary	ECON 7.6.2007	
<b>Rapporteur(s)</b> Date appointed	Werner Langen 22.5.2007	
<b>Discussed in committee</b>	5.6.2007	11.6.2007
<b>Date adopted</b>	18.6.2007	
<b>Result of final vote</b>	+: 38 -: 0 0: 1	
<b>Members present for the final vote</b>	Mariela Velichkova Baeva, Pervenche Berès, Sharon Bowles, David Casa, Christian Ehler, José Manuel García-Margallo y Marfil, Jean-Paul Gauzès, Gunnar Hökmark, Karsten Friedrich Hoppenstedt, Sophia in 't Veld, Othmar Karas, Piia-Noora Kauppi, Wolf Klinz, Christoph Konrad, Kurt Joachim Lauk, Andrea Losco, Astrid Lulling, Cristobal Montoro Romero, Joseph Muscat, Lapo Pistelli, Joop Post, John Purvis, Alexander Radwan, Bernhard Rapkay, Heide Rühle, Eoin Ryan, Antolín Sánchez Presedo, Margarita Starkevičiūtė, Ivo Strejček, Ieke van den Burg, Sahra Wagenknecht	
<b>Substitute(s) present for the final vote</b>	Katerina Batzeli, Werner Langen, Vladimír Maňka, Donato Tommaso Veraldi	
<b>Substitute(s) under Rule 178(2) present for the final vote</b>	Wolfgang Bulfon, Godelieve Quisthoudt-Rowohl, Margrietus van den Berg, Panayiotis Demetriou	