

# Procedure file

Basic information	
CNS - Consultation procedure Decision	2007/0090(CNS) Procedure completed
Adoption by Cyprus of the single currency on 1 January 2008	
Subject 5.20.02 Single currency, euro, euro area	
Geographical area Cyprus	

Key players			
European Parliament	Committee responsible	Rapporteur	Appointed
	<b>ECON</b> Economic and Monetary Affairs	PPE-DE <a href="#">LANGEN Werner</a>	22/05/2007
Council of the European Union	Council configuration	Meeting	Date
	<a href="#">Economic and Financial Affairs ECOFIN</a>	<a href="#">2813</a>	10/07/2007
	Heads of State or Government	<a href="#">2810</a>	21/06/2007
European Commission	<a href="#">Economic and Financial Affairs ECOFIN</a>	<a href="#">2804</a>	05/06/2007
	Commission DG <a href="#">Economic and Financial Affairs</a>	Commissioner ALMUNIA Joaquín	

Key events			
15/05/2007	Legislative proposal published	<a href="#">COM(2007)0256</a>	Summary
05/06/2007	Debate in Council	<a href="#">2804</a>	
07/06/2007	Committee referral announced in Parliament		
18/06/2007	Vote in committee		
18/06/2007	Committee report tabled for plenary, 1st reading/single reading	<a href="#">A6-0244/2007</a>	
20/06/2007	Results of vote in Parliament		
20/06/2007	Debate in Parliament		
20/06/2007	Decision by Parliament	<a href="#">T6-0270/2007</a>	Summary
10/07/2007	Act adopted by Council after consultation of Parliament		
10/07/2007	End of procedure in Parliament		
18/07/2007	Final act published in Official Journal		

Technical information	

Procedure reference	2007/0090(CNS)
Procedure type	CNS - Consultation procedure
Procedure subtype	Legislation
Legislative instrument	Decision
Legal basis	EC Treaty (after Amsterdam) EC 122-p2
Stage reached in procedure	Procedure completed
Committee dossier	ECON/6/49779

### Documentation gateway

Legislative proposal	<a href="#">COM(2007)0256</a>	16/05/2007	EC	Summary
Document attached to the procedure	<a href="#">COM(2007)0255</a>	16/05/2007	EC	Summary
Document attached to the procedure	<a href="#">COM(2007)0257</a>	16/05/2007	EC	Summary
Document attached to the procedure	<a href="#">SEC(2007)0623</a>	16/05/2007	EC	
Committee draft report	<a href="#">PE390.502</a>	07/06/2007	EP	
Amendments tabled in committee	<a href="#">PE390.573</a>	08/06/2007	EP	
Committee report tabled for plenary, 1st reading/single reading	<a href="#">A6-0244/2007</a>	18/06/2007	EP	
Text adopted by Parliament, 1st reading/single reading	<a href="#">T6-0270/2007</a>	20/06/2007	EP	Summary
European Central Bank: opinion, guideline, report	<a href="#">CON/2007/0019</a> <a href="#">OJ C 160 13.07.2007, p. 0001</a>	05/07/2007	ECB	

### Additional information

National parliaments	<a href="#">IPEX</a>
European Commission	<a href="#">EUR-Lex</a>

### Final act

[Decision 2007/503](#)  
[OJ L 186 18.07.2007, p. 0029](#) Summary

## Adoption by Cyprus of the single currency on 1 January 2008

**PURPOSE:** to abrogate the derogation of Cyprus to join the single currency with effect from 1 January 2008.

**PROPOSED ACT:** Council Decision.

**CONTENT:** on 13 February 2007, Cyprus submitted a request for a new convergence assessment with a view to introduce the euro on 1 January 2008 in case the derogation were to be abrogated. As a response to this request, the Commission and the ECB prepared Convergence Reports for Cyprus.

On the basis of these convergence reports, the Commission concludes that a high degree of sustainable convergence has been achieved in Cyprus.

It concludes that in Cyprus, national legislation, including the Statute of the national central bank, is compatible with Articles 108 and 109 of the Treaty and the Statute of the ESCB.

Regarding the fulfilment by Cyprus of the convergence criteria mentioned in the four indents of Article 121(1) of the Treaty:

- the average inflation rate in Cyprus in the year ending March 2007 stood at 2.0 %, which is below the reference value and is likely to remain below the reference value in the months ahead;
- Cyprus is not the subject of a Council Decision on the existence of an excessive government deficit;

- Cyprus has been a member of ERM II since 2 May 2005; in the two-year period ending 26 April 2007, the Cypriot pound (CYP) has not been subject to severe tensions and Cyprus has not devalued, on its own initiative, the CYP bilateral central rate against the euro;
- in the year ending March 2007, the long-term interest rate in Cyprus was, on average, 4.2 % which is below the reference value.

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 Cyprus with effect from 1 January 2008.

## Adoption by Cyprus of the single currency on 1 January 2008

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Article 122(2) of the Treaty requires the Commission and the ECB to report to the Council at least once every two years, or at the request of a Member State with a derogation, on the progress made by the Member States in fulfilling their obligations regarding the achievement of economic and monetary union. This report has been prepared in response to the request of Cyprus, submitted on 13 February 2007. It contains a more detailed assessment of the state of convergence in Cyprus:

**Price stability:** the average inflation rate in Cyprus during the 12 months to March 2007 was 2.0%, below the reference value of 3.0%, and it is likely to remain below the reference value in the months ahead. Cyprus has traditionally enjoyed relatively low, although at times volatile, inflation, reflecting the sensitivity of its small and open economy to external price shocks. Moderate core inflation suggests that underlying inflationary pressures have remained limited, against the background of a negative output gap and moderate increases in unit labour costs (between 1 and 2% annually since 2004). Wage pressures in recent years, in the context of tightening labour market, were mitigated by an increasing share of foreign workers in the labour force and exemplary wage discipline in the public and private sectors. Inflation is expected to remain low in the coming months largely due to a favourable oil price base effect. Inflation performance over the medium term will, to a large extent, depend on the development of energy and other import prices and on the containment of possible wage and demand pressures in a context of strong cyclical conditions and interest rate and reserve requirement convergence.

**Government budgetary position:** the general government deficit peaked at 6.3% of GDP in 2003, but was reduced markedly in the following years, to 1.5% of GDP in 2006, following the implementation of a strong fiscal adjustment in 2004 and 2005. For 2007, the Commission services' Spring 2007 Forecast projects an almost unchanged deficit (1.4% of GDP). Government debt followed an upward trend between 2000 and 2004 but has been on a declining path since 2005. It decreased to 65.3% of GDP in 2006, and according to the Commission services' Spring 2007 Forecast, will continue to decline in 2007, reaching some 61.5% of GDP.

**Exchange rate stability:** the Cyprus pound has participated in ERM II since 2 May 2005, i.e. for 24 months at the time of adoption of this report. During the period of the assessment not covered by ERM II participation (27 April ? 1 May 2005), the pound stayed close to the future central rate. Since ERM II entry, the pound has consistently traded in the upper half of the fluctuation band, close to the central rate, and it has not experienced severe tensions.

**Long term interest rates:** the average long-term interest rate in Cyprus in the year to March 2007 was 4.2%, below the reference value of 6.4%. Average long-term interest rates in Cyprus have been below the reference value since November 2005. Longterm interest rates in Cyprus have decreased substantially in the past few years as have spreads to the euro area. Low yield spreads vis-à-vis the euro area indicate that the residual country risk priced in by markets is limited.

**Legal compatibility:** all outstanding incompatibilities have been addressed in a Law amending the Central Bank of Cyprus Laws of 2002 and 2003 adopted by Parliament on 15 March 2007.

To conclude: in the light of its assessment on the fulfilment of the convergence criteria, the Commission considers that Cyprus has achieved a high degree of sustainable convergence.

## Adoption by Cyprus of the single currency on 1 January 2008

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**PURPOSE:** to amend Regulation (EC) No 974/98 as regards the introduction of the euro in Cyprus.

**PROPOSED ACT:** Council Regulation.

**CONTENT:** on 16 May 2007, the Commission adopted a proposal for a Council Decision in accordance with Article 122(2) EC, indicating that Cyprus fulfils the necessary conditions for the adoption of the single currency and that the derogation of Cyprus is abrogated with effect from 1 January 2008.

In case of a positive decision, the Council will subsequently have to take the other measures necessary for the introduction of the euro in Cyprus.

The introduction of the euro in Cyprus requires the extension to Cyprus of the existing provisions on the introduction of the euro set out in Regulation (EC) No 974/98.

Cyprus' changeover plan specifies that euro banknotes and coins should become legal tender in that Member State on the day of the introduction of the euro as its currency. Consequently, the euro adoption date and the cash changeover date shall be 1 January 2008. No ?phasing-out? period applies.

## Adoption by Cyprus of the single currency on 1 January 2008

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The European Parliament adopted the resolution drafted by Werner Langen (EPP-ED, DE) and, approving the Commission proposal, favoured the adoption of the euro by Cyprus on 1 January 2008. The report was adopted by 585 votes in favour to 14 against with 90 abstentions.

## Adoption by Cyprus of the single currency on 1 January 2008

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PURPOSE: to abrogate the derogation of Cyprus to join the single currency with effect from 1 January 2008.

LEGISLATIVE ACT: Council Decision 2007/503/EC in accordance with Article 122(2) of the Treaty on the adoption by Cyprus of the single currency on 1 January 2008

CONTENT: by virtue of Decision 98/317/EC, Cyprus, inter alia, has a derogation as defined in Article 122 of the Treaty with respect to the adoption of the euro. Article 122(2) of the Treaty lays down the procedures for abrogation of the derogation of the Member States concerned. On 13 February 2007, Cyprus submitted a formal request for a convergence assessment. This Decision provides that Cyprus fulfils the necessary conditions for the adoption of the single currency. The derogation in favour of Cyprus referred to in Article 4 of the 2003 Act of Accession will be abrogated with effect from 1 January 2008.

On the basis of reports presented by the Commission and the ECB on the progress made in the fulfilment by Cyprus of its obligations regarding the achievement of economic and monetary union, the Commission concluded that in Cyprus, national legislation, including the Statute of the national central bank, is compatible with Articles 108 and 109 of the Treaty and the Statute of the ESCB.

Regarding the fulfilment by Cyprus of the convergence criteria mentioned in the four indents of Article 121(1) of the Treaty:

- the average inflation rate in Cyprus in the year ending March 2007 stood at 2.0 %, which is below the reference value of 3%, and is likely to remain below the reference value in the months ahead;
- Cyprus is not the subject of a Council Decision on the existence of an excessive government deficit;
- Cyprus has been a member of ERM II since 2 May 2005; in the two-year period ending 26 April 2007, the Cypriot pound (CYP) has not been subject to severe tensions and Cyprus has not devalued, on its own initiative, the CYP bilateral central rate against the euro;
- in the year ending March 2007, the long-term interest rate in Cyprus was on average 4.2 %, which is below the reference value of 6.4%.

Cyprus has achieved a high degree of sustainable convergence by reference to these criteria. The Decision therefore states that Cyprus fulfils the necessary conditions for the adoption of the single currency.