Procedure file

Basic information

NLE - Non-legislative enactments Decision 2013/0190(NLE)	Procedure completed
Adoption by Latvia of the euro on 1 January 2014 Subject 5.20.02 Single currency, euro, euro area Geographical area Latvia	

Key players

European Parliament	Committee responsible	Rapporteur	Appointed
	ECON Economic and Monetary Affairs		05/02/2013
		PPE BALZ Burkhard	
		Shadow rapporteur	
		S&D PADAR Ivari	
		ALDE KLINZ Wolf	
		Verts/ALE BESSET Jean-Paul	
		ECR ZĪLE Roberts	
Council of the European Union	Council configuration	Meeting	Date
	Economic and Financial Affairs ECOFIN	3252	09/07/2013
	Economic and Financial Affairs ECOFIN	3248	21/06/2013
European Commission	Commission DG	Commissioner	
	Economic and Financial Affairs	REHN Olli	

Key events

05/06/2013	Legislative proposal published	COM(2013)0345	Summary
24/06/2013	Vote in committee		
25/06/2013	Committee report tabled for plenary, 1st reading/single reading	A7-0237/2013	Summary
01/07/2013	Committee referral announced in Parliament		
03/07/2013	Results of vote in Parliament		
03/07/2013	Decision by Parliament	T7-0313/2013	Summary
09/07/2013	Act adopted by Council after consultation		

	of Parliament		
09/07/2013	End of procedure in Parliament		
18/07/2013	Final act published in Official Journal		

Technical information

Procedure reference	2013/0190(NLE)
Procedure type	NLE - Non-legislative enactments
Procedure subtype	Consultation of Parliament
Legislative instrument	Decision
Legal basis	Treaty on the Functioning of the EU TFEU 140-p2
Other legal basis	Rules of Procedure EP 159
Stage reached in procedure	Procedure completed
Committee dossier	ECON/7/12972

Documentation gateway

Legislative proposal		COM(2013)0345	05/06/2013	EC	Summary
Document attached to the procedure		COM(2013)0341	05/06/2013	EC	Summary
Document attached to the procedure		SWD(2013)0196	05/06/2013	EC	
Committee draft report		PE513.264	12/06/2013	EP	
Amendments tabled in committee		PE514.608	19/06/2013	EP	
Committee report tabled for plenary, 1st reading/single reading		A7-0237/2013	25/06/2013	EP	Summary
Text adopted by Parliament, 1st reading/single reading		T7-0313/2013	03/07/2013	EP	Summary
European Central Bank: opinion, guideline, report		CON/2013/0048 OJ C 204 18.07.2013, p. 0001	05/07/2013	ECB	Summary
Document attached to the procedure		COM(2013)0855	03/12/2013	EC	Summary
Document attached to the procedure		SWD(2013)0491	03/12/2013	EC	
Follow-up document		COM(2014)0217	08/04/2014	EC	Summary

Additional information

National parliaments	IPEX
European Commission	EUR-Lex

Final act

Decision 2013/387
OJ L 195 18.07.2013, p. 0024 Summary

Adoption by Latvia of the euro on 1 January 2014

PURPOSE: adoption by Latvia of the euro on 1 January 2014.

PROPOSED ACT: Council Decision.

ROLE OF THE EUROPEAN PARLIAMENT: the Council adopts the act after consulting the European Parliament but without being obliged to follow its opinion.

BACKGROUND: the Treaty on the Functioning of the European Union (TFEU) provides that at least once every two years or at the request of a Member State with a derogation, the Commission and the European Central Bank have to report to the Council on the progress made in the fulfilment by Member States with a derogation of their obligations regarding the achievement of economic and monetary union.

With a view to introducing the euro on 1 January 2014, Latvia submitted a formal request for a convergence assessment on 5 March 2013. The Commission Convergence Report 2013 on Latvia was adopted by the College on 5 June 2013. The ECB adopted its report on 3 June 2013.

In its Convergence Report, the Commission concludes that Latvia fulfils the conditions for the adoption of the euro.

IMPACT ASSESSMENT: economic developments in the euro area and the Member States are assessed in the framework of the various procedures of economic policy co-ordination and surveillance, as well as in the context of the Commissions regular monitoring and analysis of country-specific and area-wide developments. Therefore, the Commission proposes not to develop a formal impact assessment.

LEGAL BASIS: Article 140(2) of the Treaty on the Functioning of the European Union (TFEU).

CONTENT: on the basis of reports presented by the Commission and the ECB on the progress made in the fulfillment by Latvia of its obligations regarding the achievement of economic and monetary union, it is concluded that:

(1) In Latvia, national legislation, including the Statute of the national central bank, is compatible with Articles 130 and 131 of the Treaty and the Statute of the ESCB and of the ECB.

(2) Regarding the fulfillment by Latvia of the convergence criteria mentioned in the Treaty:

- the average inflation rate in Latvia in the year ending in April 2013 stood at 1.3%, which is well below the reference value, and it is likely to remain below the reference value in the months ahead,
- the budget deficit in Latvia has seen a credible and sustainable reduction to below 3% of GDP by the end of 2012; by a Council Decision, acting on a recommendation from the Commission, abrogated Decision 2009/591/EC on the existence of an excessive deficit in Latvia,
- Latvia has been a member of ERM II since 2 May 2005; upon ERM II entry, the authorities unilaterally committed to keep the lats within the ±1% fluctuation margin around the central rate. During the two years preceding this assessment, the lats exchange rate did not deviate from its central rate by more than ±1% and it did not experience tensions,
- in the year ending April 2013, the long-term interest rate in Latvia was, on average, 3.8% which is below the reference value.

(3) In the light of the assessment on legal compatibility and on the fulfilment of the convergence criteria as well as the additional factors, Latvia fulfils the necessary conditions for the adoption of the euro.

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 Latvia with effect from 1 January 2014.

BUDGETARY IMPLICATION: the proposal has no implications for the budget of the Union.

Adoption by Latvia of the euro on 1 January 2014

The Commission presents its convergence report 2013 on Latvia.

Article 140(1) of the TFEU 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.

The latest Commission and ECB Convergence Reports, relating to all Member State with a derogation, were adopted in May 2012.

With a view to introducing the euro on 1 January 2014, Latvia submitted a formal request for a convergence assessment on 5 March 2013. This report was drafted following this request.

In the light of its assessment on legal compatibility and on the fulfilment of the convergence criteria, taking into account the additional factors, and provided that the Council will follow the Commission's recommendation for the abrogation of the excessive deficit procedure, the Commission considers that Latvia fulfils the conditions for the adoption of the euro.

(1) Legal compatibility: in the 2012 Convergence Report, the assessment on legal convergence concluded that legislation in Latvia, in particular the Law on the Latvijas Banka (Bank of

Latvia), was not fully compatible with the compliance duty under Article 131 of the TFEU. Incompatibilities notably concerned the independence of the central bank, the prohibition of monetary financing and central bank integration into the ESCB at the time of euro adoption with regard to the ESCB tasks laid down in Article 127(2) of the TFEU and Article 3 of the ESCB/ECB Statute.

Following the assessment of the Convergence Report from 2012, the Latvian Government, in cooperation with Latvijas Banka, prepared amendments to the BoL Law, which the Latvian Parliament adopted on 10 January 2013. The Law on the Bank of Latvia as amended is fully compatible with Articles 130 and 131 of the TFEU.

(2) Convergence criteria: the convergence report gives a favorable assessment of the economic performance of Latvia with regard to the convergence criteria laid down in the Treaty:

Price stability: the average inflation rate in Latvia during the 12 months to April 2013 was 1.3%, i.e. well below the reference value of 2.7%. It is projected to remain below the reference value in the months ahead. In the case of Latvia, the VAT reduction of July 2012 has contributed to the current low level of 12-month average inflation. However, the analysis of underlying fundamentals and the fact that the reference value has been met by a wide margin support a positive assessment on the fulfilment of the price stability criterion.

According to the report, medium-term inflation prospects will hinge notably on wages growing in line with productivity which will mostly depend on continued labour market flexibility.

Price developments will also depend on maintaining a prudent fiscal policy.

Public finances: the Council recommended Latvia to correct the excessive deficit by 2012. The general government deficit in Latvia reached 8.1% of GDP in 2010, but decreased to 1.2% of GDP in 2012. The Commission services' Spring 2013 Forecast projects the deficit-to-GDP ratio at 1.2% in 2013 and 0.9% in 2014 under a no-policy-change assumption. The ratio of gross public debt to GDP fell to 40.7% in 2012 and it is projected to fall further to 40.1% of GDP by end-2014.

The Commission considers that the excessive deficit has been corrected with a credible and sustainable reduction of the budget deficit below 3% of GDP in 2012. If the Council decides to abrogate the excessive deficit decision for Latvia, Latvia will fulfil the criterion on public finances.

Exchange rate stability: the Latvian lats has participated in ERM II since 2 May 2005. Upon ERM II entry, the authorities unilaterally committed to keep the lats within a ±1% fluctuation margin around the central rate. During the two years preceding this assessment, the lats exchange rate did not deviate from its central rate by more than ±1% and it did not experience tensions. Additional indicators, such as developments in foreign exchange reserves and short-term interest rates do not reveal pressures on the exchange rate.

Long-term interest rates: the average long-term interest rate in Latvia in the year to April 2013 was 3.8%, below the reference value of 5.5%. Moreover, Latvia's long-term spreads to euro area long-term benchmark bonds narrowed significantly in 2010, as confidence in the currency peg was regained, fiscal consolidation yielded results and the conversion of assistance programme funds created ample lats liquidity. Latvia fulfils the criterion on the convergence of long-term interest rates.

Other factors: additional factors have also been examined, including balance of payments developments and integration of labour, product and financial markets.

The external balance reversed in 2008-2009 from large deficits during the boom years to a surplus of around 11% of GDP in 2009, which contracted to around 1% of GDP in 2012. The trade deficit declined substantially from 2008 and Latvia has continued to gain export market shares.

Latvia's economy is well integrated within the EU economy through trade and Foreign Direct Investment linkages while the labour market has demonstrated a high degree of mobility within the EU market and substantial flexibility although structural unemployment is high.

Lastly, in the context of the international financial assistance programme, financial supervision has been strengthened considerably. Cooperation with home country supervisors has been further enhanced.

Adoption by Latvia of the euro on 1 January 2014

The Committee on Economic and Monetary Affairs adopted a non-legislative resolution by Burkhard BALZ (EPP, DE) approving the Commission proposal for a Council decision on the adoption by Latvia of the euro on 1 January 2014, and favouring the adoption of the euro by Latvia on that date.

It notes that the global financial crisis has hit Latvia hard in terms of poverty, unemployment and demographic developments and it urges the implementation of stringent macroprudential standards aiming at avoiding unsustainable capital flows and credit growth trends experienced ahead of the crisis.

The report calls on the Latvian Government to:

- maintain its prudent fiscal policy stance, together with its overall stability-oriented policies, anticipating potential future macroeconomic imbalances and risks to price stability as well as correcting the imbalances identified by the Commission in the framework of the alert mechanism report;
- address structural deficiencies in the labour market by appropriate structural and educational reforms, and also address the level of poverty and the widening gap of income inequality;
- ensure that a strict supervision of the banks in the non-resident deposits (NRD) business and to remain cautious about possible mismatches between banks' asset-liability maturity structures that can be considered a danger to financial stability;
- establish appropriate control mechanisms to ensure that the introduction of the euro is not used for hidden price increases.

Lastly, the committee is concerned by the current low support of the Latvian citizens for the adoption of the euro, and it calls on the Latvian authorities to continue their information and communication campaign in order to ensure more public support.

Adoption by Latvia of the euro on 1 January 2014

The European Parliament adopted by 613 votes to 67, with 29 abstentions, a legislative resolution on the proposal for a Council decision on the adoption by Latvia of the euro on 1 January 2014, and favouring the adoption of the euro by Latvia on that date.

Parliament approves the Commission proposal and favours the adoption of the euro by Latvia on 1 January 2014. It notes that the global financial crisis has hit Latvia hard in terms of poverty, unemployment and demographic developments and it urges the implementation of stringent macroprudential standards aiming at avoiding unsustainable capital flows and credit growth trends experienced ahead of the crisis.

Members consider that Latvia fulfils the criteria and that the overall sustainability of the macroeconomic and financial situation will depend on the implementation of balanced and far reaching reforms aiming at combining discipline with solidarity and long term sustainable investments.

The Latvian Government is called upon to:

- maintain its prudent fiscal policy stance, together with its overall stability-oriented policies, anticipating potential future macroeconomic imbalances and risks to price stability as well as correcting the imbalances identified by the Commission in the framework of the alert mechanism report;
- address structural deficiencies in the labour market by appropriate structural and educational reforms, and also address the level of poverty and the widening gap of income inequality;
- ensure that a strict supervision of the banks in the non-resident deposits (NRD) business and to remain cautious about possible mismatches between banks' asset-liability maturity structures that can be considered a danger to financial stability;
- establish appropriate control mechanisms to ensure that the introduction of the euro is not used for hidden price increases;
- communicate more actively with the Latvian citizens in order to ensure more public support for the adoption of the euro.

Members deplore the extremely narrow timeline within which Parliament has been asked to provide its opinion in accordance with Article 140 TFEU. It asks the Commission and Member States planning to adopt the euro to provide for an appropriate timeline in order to allow Parliament to deliver an opinion on the basis of a more comprehensive and inclusive debate.

Adoption by Latvia of the euro on 1 January 2014

Opinion of the European Central Bank on a proposal for a Council Regulation

amending Regulation (EC) No 974/98 as regards the introduction of the euro in Latvia and on a proposal for a Council regulation amending Regulation (EC) No 2866/98 as regards the conversion rate to the euro for Latvia.

The ECB welcomes the proposed regulations which will enable the introduction of the euro as the currency of Latvia following the abrogation of Latvias derogation in accordance with the procedure set out in Article 140(2) of the Treaty.

Adoption by Latvia of the euro on 1 January 2014

PURPOSE: the adoption by Latvia of the euro.

NON-LEGISLATIVE ACT: Council Decision 2013/387/EU on the adoption by Latvia of the euro on 1 January 2014.

CONTENT: the Council adopted a Decision enabling Latvia to adopt the euro as its currency, with effect from 1 January 2014.

On the basis of reports presented by the Commission and the ECB on the progress made in the fulfillment by Latvia of its obligations regarding the achievement of economic and monetary union (EMU), the Commission reached the following conclusions:

- the average inflation rate in Latvia in the year ending in April 2013 stood at 1,3 per cent, which is well below the reference value, and it is likely to remain below the reference value in the months ahead;
- the budget deficit in Latvia has seen a credible and sustainable reduction to below 3 per cent of GDP by the end of 2012;
- when Latvia became a member of ERM II (in May 2005) upon ERM II entry, the authorities unilaterally committed to keep the lats within the ± 1 % fluctuation margin around the central rate. During the two years preceding this assessment, the lats exchange rate did not deviate from its central rate by more than ± 1 % and it did not experience tensions,
- in the year ending April 2013, the long-term interest rate in Latvia was, on average, 3,8 per cent, which is below the reference value.

In the light of the assessment on legal compatibility and on the fulfilment of the convergence criteria as well as the additional factors, Latvia fulfils the necessary conditions for the adoption of the euro.

Adoption by Latvia of the euro on 1 January 2014

Following the first dedicated report of the Commission on Latvia's practical preparations for introducing the euro, this report assesses further progress made until end of October 2013. It addresses in particular the preparations for the introduction of euro cash, the measures put in place for protecting consumers in the changeover period, such as the "Fair Euro Introducer" campaign, and the communication campaign.

To recall, the Council decided on 9 July 2013 that Latvia fulfils the necessary conditions for the adoption of the euro. Latvia will adopt the euro on 1 January 2014, bringing the total number of Member States that have adopted the euro to eighteen. The conversion rate between the Latvian lats and the euro has been irrevocably fixed at 0.702804 Latvian lats to one euro.

Introduction of the euro: preparations for the cash changeover are well advanced. The report notes the importance of continuing measures for decreasing lat cash in circulation and stepping up efforts towards the change over day. It considers it very positive that 99.8% of ATMs will distribute euro banknotes within the first 30 minutes of 1 January 2014. The use of mainly lower denomination banknotes in ATMs is a good practice in this regard.

It is positive that the number of inspectors involved in the monitoring of dual price display has been significantly increased. Since January 2013, prices of 120 frequently purchased products and services in the most popular points of sales in the seven biggest cities of Latvia have been monitored. The compulsory dual display of prices in Latvian lat and euro has started on 1 October 2013 and will last until 30 June 2014.

The "Fair Euro Introducer" campaign: this campaign invites businesses (e.g. retailers, financial institutions, internet shops) to commit not to misuse the changeover for their own profit, respect the changeover rules and provide the necessary assistance to their clients was launched on 12 July 2013. As at end of October 2013, some 1100 companies (more than 9500 points of sale) which sell goods or services to consumers have joined the "Fair Euro Introducer" campaign.

The Commission stressed that full commitment of all stakeholders will be necessary to reach a maximum of participants before 1 January 2014. This should also include the consumer NGOs that are already monitoring the correct implementation of the dual displays, who could promote the "Fair Euro Introducer" campaign at the same occasion. All 119 local authorities should also subscribe to the campaign.

It is recommended to make sure by regulatory means that dual display of prices ends by 1 January 2015 and to ensure that this end date is clearly communicated to the public.

Preparations in rural areas and in businesses: against the backdrop of the cash oriented payment habits of Latvians, preparations of enterprises in particular in rural regions should be regularly monitored and the awareness of the euro changeover practicalities be stepped up.

Special attention should be paid to provide information on the changeover to elderly people with difficulties leaving their home. They may also need help with the exchange of their lat cash. Social workers should be trained in order to be able to answer basic changeover-related questions.

Communication activities and public opinion: the latest available results (October 2013) suggest a stable albeit modest the support for the euro introduction (39%).

The level of public awareness on the euro changeover related issues continues to increase, with 72% respondents considering themselves to be well-informed (+ 2pp compared to the results in September and +10 pp compared to April-May 2013). Furthermore, 94% of Latvians know that the day of euro adoption is 1 January 2014 (+33pp since April-May).

However, unwarranted price increases remain a serious concern for a large proportion of the Latvian population (83%). In order to tackle persistent concerns of price increases in the changeover period, the citizens have to be continuously informed about the results of the price monitoring and other control activities.

Adoption by Latvia of the euro on 1 January 2014

The Commission presented a report on the introduction of the euro in Latvia.

The Council decided on 9 July 2013 that Latvia fulfilled the necessary conditions for the adoption of the euro and that its derogation from participating in the single currency was to be abrogated with effect from 1 January 2014. Latvia followed the practice of all Member States that have adopted the euro after the first changeover wave (19992002) and used the so-called "big-bang" changeover scenario, i.e. euro banknotes and coins acquired legal tender status on the day of euro adoption.

Following the two reports of the Commission (23 July 2013 and 3 December 2013) on the practical preparations of the euro changeover in Latvia, this report covers the most important aspects of the changeover process from an ex post perspective focusing on:

Preparations for the cash changeover: the report notes that the cash changeover in Latvia was well prepared and organised. Banks and businesses and citizens were adequately supplied with euro cash in advance of the changeover. In light of the Latvian experience, the standard estimate for the number of coin kits to be produced for the general public should be revised downward.

The dual circulation period: the introduction of the euro was well prepared and organised. The two-week dual circulation period during which the euro and the Latvian lats where circulating in parallel expired on 14 January 2014.

ATMs and point of sale -terminals were converted in time and banks and post offices coped well with the extra workload during the dual circulation period. Retailers managed well with the challenges of the changeover process and the handling of two currencies at the same time. They were well supplied with euro cash and pursuant to a Commission survey, already on 2 January 2014, 94 % of the citizens polled received change in euro only.

Preventing abusive price and erroneous price perceptions: since January 2013, prices of 120 frequently purchased products and services in the most popular points of sale in the seven biggest cities of Latvia have been monitored.

Latvia has implemented the dual display of prices and a fair pricing initiative in line with the recommendations of the Commission. The compulsory dual display of prices in lat and euro started on 1 October 2013 and will last until 30 June 2014.

Participation to the fair pricing initiative has been rather disappointing in comparison with previous euro changeovers. Countries introducing the euro should target a subscription rate to the agreement of at least 75%.

Price trends and price perceptions: the euro changeover was preceded by a period of very low, and occasionally negative, inflation in Latvia.

Disinflation was driven primarily by the energy component and to a lesser extent by non-energy industrial goods and more recently by unprocessed food. These trends are similar to those observable in the euro area aggregate data and in Latvia's neighbouring countries.

According to a recent Commission survey, the majority of Latvians (57%) think that the euro will increase inflation in their country while only 19% believed that joining the euro area would help Latvia to maintain price stability.

Communication on the Euro: the communication and public awareness campaign contributed to a smooth changeover to the euro. The target of 90% of Latvian inhabitants feeling sufficiently informed can be judged to have been met with 89% of Latvians feeling well informed about the euro. Support for the euro has reached 52%.

Therefore, it is recommended to continue supervising the dual display of prices, the correct conversion and rounding rules and the evolution of prices in general for a few extra months.