COUNCIL RECOMMENDATION

of 1 May 1998

in accordance with Article 109j(2) of the Treaty

(98/316/EC)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 109j(2) thereof,

Having regard to the recommendation from the Commission,

Having regard to the report from the Commission,

Having regard to the report from the European Monetary Institute,

Having regard to the opinion of the European Parliament [1],

(1) Whereas the procedure and timetable for taking decisions on the passage to the third stage of economic and monetary union (EMU) are laid down in Article 109j of the Treaty; whereas the Council, meeting in Dublin on 13 December 1996 in the composition of Heads of State or Government, decided that there was not a majority of Member States fulfilling the necessary conditions for the adoption of the single currency, that the Community would not enter the third stage of EMU in 1997 and that the procedure laid down in Article 109j(4) should be applied as early as possible in 1998; whereas, according to Article 109j(4), as by the end of 1997 the date for the beginning of the third stage of EMU has not been set, the third stage shall start on 1 January 1999;

(2) Whereas, in accordance with Article 109j(4), the procedure provided for in paragraphs 1 and 2 of that Article, with the exception of the second indent of paragraph 2, has to be repeated;

(3) Whereas Article 109j(1) lays down that the reports prepared by the Commission and the European Monetary Institute (EMI) shall include an examination of the compatibility between each Member State's national legislation, including the statutes of its national central bank, and Articles 107 and 108 of the Treaty and the Statute of the European System of Central Banks (ESCB) and shall also examine the achievement of a high degree of sustainable convergence by reference to the fulfilment by each Member State of the following criteria mentioned in the four indents of Article 109j(1) of the Treaty:

— the achievement of a high degree of price stability; this will be apparent from a rate of inflation which is close to that of, at most, the three best performing Member States in terms of price stability,

— the sustainability of the government financial position; this will be apparent from having achieved a government budgetary position without a deficit that is excessive as determined in accordance with Article 104c(6),

— the observance of the normal fluctuation margins provided for by the exchange-rate mechanism of the European Monetary System, for at least two years, without devaluing against the currency of any other Member State,

— the durability of convergence achieved by the Member State and of its participation in the exchange-rate mechanism of the European Monetary System being reflected in the long-term interest-rate levels;

Whereas these four criteria and the relevant periods over which they are to be respected are developed further in Protocol 6 of the Treaty; whereas the reports of the Commission and the EMI shall also take account of the development of the ecu, the results of the integration of markets, the situation and development of the balances of payments on current account and an examination of the development of unit labour costs and other price indices;

(4) Whereas, according to the first indent of Article 109j(2), on the basis of these reports, the Council shall assess, for each Member State, whether it fulfils the necessary conditions for the adoption of a single currency and shall recommend its findings to the Council meeting in the composition of the Heads of State or Government which, after having consulted the European Parliament, in accordance with Article 109j(4), shall confirm which Member States fulfil the necessary conditions for the adoption of the single currency;

(5) Whereas Member States' national legislation including the statutes of national central banks shall as necessary be adapted with a view to

[1] Opinion delivered on 30 April 1998 (not yet published in the Official Journal).

ensuring compatibility with Articles 107 and 108 of the Treaty and the Statute of the ESCB; whereas such adaptations need to ensure compatibility with the Treaty at the latest at the date of the establishment of the ESCB; whereas the reports of the Commission and the EMI provide a detailed assessment of the compatibility of the legislation of each Member State with Articles 107 and 108 of the Treaty and the Statute of the ESCB; whereas the process of adaptation of national legislation had not been completed in Spain, France, Luxembourg and Austria at the time of presentation of the reports by the Commission and the EMI; whereas since then in Spain and in Austria the necessary legislation has been enacted; whereas Luxembourg and France have taken all the necessary steps to make their national legislation, including the statute of the national central bank, compatible with Articles 107 and 108 of the Treaty and the Statute of the ESCB;

(6) Whereas, according to Article 1 of Protocol 6 of the Treaty, the criterion on price stability referred to in the first indent of Article 109j(1) of the Treaty shall mean that a Member State has a price performance that is sustainable and an average rate of inflation, observed over a period of one year before the examination, that does not exceed by more than 1,5 percentage points that of, at most, the three best performing Member States in terms of price stability; whereas, for the purpose of the criterion on price stability, inflation will be measured by harmonised indices of consumer price defined in Regulation (EC) No 2494/95 [1]; whereas, in order to assess the price stability criterion, a Member State's inflation has been measured by the percentage change in the arithmetic average of 12 monthly indices relative to the arithmetic average of 12 monthly indices of the previous period; whereas in the one-year period ending in January 1998, the three best performing Member States in terms of price stability were France, Ireland and Austria, with inflation rates of, respectively 1,2 %, 1,2 % and 1,1 %; whereas a reference value calculated as the simple arithmetic average of the inflation rates of the three best performing Member States in terms of price stability plus 1,5 percentage points was considered in the reports of the Commission and the EMI; whereas the reference value in the one-year period ending in January 1998 was 2,7 %;

(7) Whereas, according to Article 2 of Protocol 6 of the Treaty, the criterion on the government budgetary position referred to in the second indent of Article 109j(1) of the Treaty shall mean that at the time of the current assessment by the Council the Member State is not the subject of a Council decision under Article 104c(6) of the Treaty that an excessive deficit exists;

(8) Whereas, in accordance with Article 5 of Protocol 6 of the Treaty, the data used in the current assessment of the fulfilment of the convergence criteria will be provided by the Commission; whereas, for the preparation of this recommendation, the Commission provided data; whereas budgetary data were provided by the Commission after reporting by the Member States by 1 March 1998 in accordance with Regulation (EC) No 3605/93 [2];

(9) Whereas during the second stage of EMU no Council decision on the existence of an excessive deficit existed for Ireland and Luxembourg; whereas, according to its Decision of 27 June 1996 under Article 104c(12), the Council abrogated its previous Decision on the existence of an excessive deficit in Denmark; whereas, according to its Decisions of 30 June 1997 under Article 104c(12), the Council abrogated its previous Decisions on the existence of an excessive deficit in the Netherlands and Finland; whereas, according to its Decisions of 1 May 1998 under Article 104c(12), the Council abrogated its previous Decisions on the existence of an excessive deficit in Belgium, Germany, Spain, France, Italy, Austria, Portugal, Sweden and the United Kingdom;

(10) Whereas, according to Article 3 of Protocol 6 of the Treaty, the criterion on participation in the exchange-rate mechanism of the European Monetary System referred to in the third indent of Article 109j(1) of the Treaty shall mean that a Member State has respected the normal fluctuation margins provided for by the exchange-rate mechanism (ERM) of the European Monetary System without severe tensions for at least the last two years before the examination. In particular, the Member State shall not have devalued its currency's bilateral central rate against any other Member State's currency on its own initiative for the same period; whereas in assessing the fulfilment of this criterion in their reports, the Commission and the EMI have examined the two-year period ending in February 1998 and have taken into account the decision taken in August 1993 by the ministers and central bank governors of the Member States to widen temporarily the fluctuation margins of the ERM from ± 2,25 % to ± 15 % around the bilateral central rates;

(11) Whereas, according to Article 4 of Protocol 6 of the Treaty, the criterion on the convergence of interest rates referred to in the fourth indent of Article 109j(1) of the Treaty shall mean that, observed over

[1] OJ L 257, 27. 10. 1995, p. 1.

[2] OJ L 332, 31. 12. 1993, p. 7.

a period of one year before the examination, a Member State has had an average nominal long-term interest rate that does not exceed by more than two percentage points that of, at most, the three best performing Member States in terms of price stability; whereas, for the purpose of the criteria on the convergence of interest rates, comparable interest rates on 10-year benchmark government bonds were used; whereas, in order to assess the fulfilment of the interest rate criterion, a reference value calculated as the simple arithmetic average of the nominal long-term interest rates of the three best performing Member States in terms of price stability plus two percentage points was considered in the reports of the Commission and the EMI; whereas the reference value in the one-year period ending in January 1998 was 7,8%;

(12) Whereas, in accordance with paragraph 1 of Protocol 11 of the Treaty, the United Kingdom has notified the Council that it does not intend to move to the third stage of EMU on 1 January 1999; whereas by virtue of this notification, paragraphs 4 to 9 of Protocol 11 lay down the provisions applicable to the United Kingdom if and so long as the United Kingdom has not moved to the third stage;

(13) Whereas, in accordance with paragraph 1 of Protocol 12 of the Treaty and the Decision taken by the Heads of State or Government in Edinburgh in December 1992, Denmark has notified the Council that it will not participate in the third stage of EMU; whereas by virtue of this notification, all Articles and provisions of the Treaty and the Statute of the ESCB referring to a derogation shall be applicable to Denmark;

(14) Whereas by virtue of the above notifications it is not necessary for the Council to make an assessment under Article 109j(2) of the Treaty concerning the United Kingdom and Denmark;

(15) Whereas, on the basis of the present recommendations, the Council meeting in the composition of Heads of State or Government, shall confirm which Member States fulfil the necessary conditions for the adoption of the single currency,

HEREBY RECOMMENDS THE FOLLOWING:

SECTION 1

ASSESSMENTS

Article 1

Belgium

In Belgium, national legislation, including the statute of the national central bank, is compatible with Articles 107 and 108 of the Treaty and the Statute of the European System of Central Banks (ESCB).

Regarding the fulfilment of the convergence criteria mentioned in the four indents of Article 109j(1) of the Treaty:

— the average inflation rate in Belgium in the year ending in January 1998 stood at 1,4 %, which is below the reference value,

— Belgium is not the subject of a Council decision on the existence of an excessive government deficit,

— Belgium has been a member of the exchange-rate mechanism (ERM) for the last two years; in that period, the Belgian franc (BEF) has not been subject to severe tensions and Belgium has not devalued, on its own initiative, the BEF bilateral central rate against any other Member State's currency,

— in the year ending in January 1998, the long-term interest rate in Belgium was, on average, 5,7 %, which is below the reference value.

Belgium has achieved a high degree of sustainable convergence by reference to all four criteria.

Consequently, Belgium fulfils the necessary conditions for the adoption of the single currency.

Article 2

Germany

In Germany, national legislation, including the statute of the national central bank, is compatible with Articles 107 and 108 of the Treaty and the Statute of the ESCB.

Regarding the fulfilment of the convergence criteria mentioned in the four indents of Article 109j(1) of the Treaty:

— the average inflation rate in Germany in the year ending in January 1998 stood at 1,4 %, which is below the reference value,

— Germany is not the subject of a Council decision on the existence of an excessive government deficit,

— Germany has been a member of the ERM for the last two years; in that period, the German mark (DEM) has not been subject to severe tensions and Germany has not devalued, on its own initiative, the DEM bilateral central rate against any other Member State's currency,

— in the year ending in January 1998, the long-term interest rate in Germany was, on average, 5,6 %, which is below the reference value.

Germany has achieved a high degree of sustainable convergence by reference to all four criteria.

Consequently, Germany fulfils the necessary conditions for the adoption of the single currency.

Article 3

Greece

In Greece, national legislation, including the statute of the national central bank, is compatible with Articles 107 and 108 of the Treaty and the Statute of the ESCB.

Regarding the fulfilment of the convergence criteria mentioned in the four indents of Article 109j(1) of the Treaty:

— the average inflation rate in Greece in the year ending in January 1998 stood at 5,2 %, which is above the reference value,

— the Council decided on 26 September 1994 that an excessive government deficit exists in Greece and this Decision has not been abrogated,

— the currency of Greece did not participate in the ERM in the two years ending in February 1998; during this period, the Greek drachma (GRD) has been relatively stable against the ERM currencies but it has experienced, at times, tensions which have been counteracted by temporary increases in domestic interest rates and by foreign exchange intervention. The GRD joined the ERM in March 1998,

— in the year ending in January 1998, the long-term interest rate in Greece was, on average, 9,8 %, which is above the reference value.

Greece does not fulfil any of the convergence criteria mentioned in the four indents of Article 109j(1).

Consequently, Greece does not fulfil the necessary conditions for the adoption of the single currency.

Article 4

Spain

In Spain, national legislation, including the statute of the national central bank, is compatible with Articles 107 and 108 of the Treaty and the Statute of the ESCB.

Regarding the fulfilment of the convergence criteria mentioned in the four indents of Article 109j(1) of the Treaty:

— the average inflation rate in Spain in the year ending in January 1998 stood at 1,8 %, which is below the reference value,

— Spain is not the subject of a Council decision on the existence of an excessive government deficit,

— Spain has been a member of the ERM for the last two years; in that period, the Spanish peseta (ESP) has not been subject to severe tensions and Spain has not devalued, on its own initiative, the ESP bilateral central rate against any other Member State's currency,

— in the year ending in January 1998 the long-term interest rate in Spain was, on average, 6,3 %, which is below the reference value.

Spain has achieved a high degree of sustainable convergence by reference to all four criteria.

Consequently, Spain fulfils the necessary conditions for the adoption of the single currency.

Article 5

France

France has taken all the necessary steps to make its national legislation, including the statute of the national central bank, compatible with Articles 107 and 108 of the Treaty and the Statute of the ESCB.

Regarding the fulfilment of the convergence criteria mentioned in the four indents of Article 109j(1) of the Treaty:

— the average inflation rate in France in the year ending in January 1998 stood at 1,2 %, which is below the reference value,

— France is not the subject of a Council decision on the existence of an excessive government deficit,

— France has been a member of the ERM for the last two years; in that period, the French franc (FRF) has not been subject to severe tensions and France has not devalued, on its own initiative, the FRF bilateral central rate against any other Member State's currency,

— in the year ending in January 1998, the long-term interest rate in France was, on average, 5,5 %, which is below the reference value.

France has achieved a high degree of sustainable convergence by reference to all four criteria.

Consequently, France fulfils the necessary conditions for the adoption of the single currency.

Article 6

Ireland

In Ireland, national legislation, including the statute of the national central bank, is compatible with Articles 107 and 108 of the Treaty and the Statute of the ESCB.

Regarding the fulfilment of the convergence criteria mentioned in the four indents of Article 109j(1) of the Treaty:

- the average inflation rate in Ireland in the year ending in January 1998 stood at 1,2 %, which is below the reference value,
- during the second stage of EMU, Ireland was not the subject of a Council decision on the existence of an excessive government deficit,
- Ireland has been a member of the ERM for the last two years; in that period, the Irish pound (IEP) has not been subject to severe tensions and the IEP bilateral central rate has not been devalued against any other Member State's currency; on 16 March 1998, at a request of the Irish authorities, the bilateral central rates of the IEP against all other ERM currencies were revalued by 3 %,
- in the year ending in January 1998, the long-term interest rate in Ireland was, on average, 6,2 %, which is below the reference value.

Ireland has achieved a high degree of sustainable convergence by reference to all four criteria.

Consequently, Ireland fulfils the necessary conditions for the adoption of the single currency.

Article 7

Italy

In Italy, national legislation, including the statute of the national central bank, is compatible with Articles 107 and 108 of the Treaty and the Statute of the ESCB.

Regarding the fulfilment of the convergence criteria mentioned in the four indents of Article 109j(1) of the Treaty:

- the average inflation rate in Italy in the year ending in January 1998 stood at 1,8 %, which is below the reference value,
- Italy is not the subject of a Council decision on the existence of an excessive government deficit,
- Italy rejoined the ERM in November 1996; in the period from March 1996 to November 1996, the Italian lira (ITL) appreciated vis-à-vis the ERM currencies; since it re-entered the ERM, the ITL has not been subject to severe tensions and Italy has not devalued, on its own initiative, the ITL bilateral central rate against any other Member State's currency,
- in the year ending in January 1998, the long-term interest rate in Italy was, on average, 6,7 %, which is below the reference value.

Italy fulfils the convergence criteria mentioned in the first, second and fourth indents of Article 109j(1); as regards the criterion mentioned in the third indent of Article 109j(1), the ITL, although having rejoined the ERM only in November 1996, has displayed sufficient stability in the last two years. For these reasons, Italy has achieved a high degree of sustainable convergence.

Consequently, Italy fulfils the necessary conditions for the adoption of the single currency.

Article 8

Luxembourg

Luxembourg has taken all the necessary steps to make its national legislation, including the statute of the national central bank, compatible with Articles 107 and 108 of the Treaty and the Statute of the ESCB.

Regarding the fulfilment of the convergence criteria mentioned in the four indents of Article 109j(1) of the Treaty:

- the average inflation rate in Luxembourg in the year ending in January 1998 stood at 1,4 %, which is below the reference value,
- during the second stage of EMU, Luxembourg was not the subject of a Council decision on the existence of an excessive government deficit,
- Luxembourg has been a member of the ERM for the last two years; in that period, the Luxembourg franc (LUF) has not been subject to severe tensions and Luxembourg has not devalued, on its own initiative, the LUF bilateral central rate against any other Member State's currency,
- in the year ending in January 1998, the long-term interest rate in Luxembourg was, on average, 5,6 %, which is below the reference value.

Luxembourg has achieved a high degree of sustainable convergence by reference to all four criteria.

Consequently, Luxembourg fulfils the necessary conditions for the adoption of the single currency.

Article 9

The Netherlands

In the Netherlands, national legislation, including the statute of the national central bank, is compatible with Articles 107 and 108 of the Treaty and the Statute of the ESCB.

Regarding the fulfilment of the convergence criteria mentioned in the four indents of Article 109j(1) of the Treaty:

— the average inflation rate in the Netherlands in the year ending in January 1998 stood at 1,8 %, which is below the reference value,

— the Netherlands is not the subject of a Council decision on the existence of an excessive government deficit,

— the Netherlands has been a member of the ERM for the last two years; in that period, the Dutch guilder (NLG) has not been subject to severe tensions and the Netherlands has not devalued, on its own initiative, the NLG bilateral central rate against any other Member State's currency,

— in the year ending in January 1998, the long-term interest rate in the Netherlands was, on average, 5,5 %, which is below the reference value.

The Netherlands has achieved a high degree of sustainable convergence by reference to all four criteria.

Consequently, the Netherlands fulfils the necessary conditions for the adoption of the single currency.

Article 10

Austria

In Austria, national legislation, including the statute of the national central bank, is compatible with Articles 107 and 108 of the Treaty and the Statute of the ESCB.

Regarding the fulfilment of the convergence criteria mentioned in the four indents of Article 109j(1) of the Treaty:

— the average inflation rate in Austria in the year ending in January 1998 stood at 1,1 %, which is below the reference value,

— Austria is not the subject of a Council decision on the existence of an excessive government deficit,

— Austria has been a member of the ERM for the last two years; in that period, the Austrian schilling (ATS) has not been subject to severe tensions and Austria has not devalued, on its own initiative, the ATS bilateral central rate against any other Member State's currency,

— in the year ending in January 1998, the long-term interest rate in Austria was, on average, 5,6 %, which is below the reference value.

Austria has achieved a high degree of sustainable convergence by reference to all four criteria.

Consequently, Austria fulfils the necessary conditions for the adoption of the single currency.

Article 11

Portugal

In Portugal, national legislation, including the statute of the national central bank, is compatible with Articles 107 and 108 of the Treaty and the Statute of the ESCB.

Regarding the fulfilment of the convergence criteria mentioned in the four indents of Article 109j(1) of the Treaty:

— the average inflation rate in Portugal in the year ending in January 1998 stood at 1,8 %, which is below the reference value,

— Portugal is not the subject of a Council decision on the existence of an excessive government deficit,

— Portugal has been a member of the ERM for the last two years; in that period, the Portuguese escudo (PTE) has not been subject to severe tensions and Portugal has not devalued, on its own initiative, the PTE bilateral central rate against any other Member State's currency,

— in the year ending in January 1998, the long-term interest rate in Portugal was, on average, 6,2 %, which is below the reference value.

Portugal has achieved a high degree of sustainable convergence by reference to all four criteria.

Consequently, Portugal fulfils the necessary conditions for the adoption of the single currency.

Article 12

Finland

In Finland, national legislation, including the statute of the national central bank, is compatible with Articles 107 and 108 of the Treaty and the Statute of the ESCB.

Regarding the fulfilment of the convergence criteria mentioned in the four indents of Article 109j(1) of the Treaty:

— the average inflation rate in Finland in the year ending in January 1998 stood at 1,3 %, which is below the reference value,

— Finland is not the subject of a Council decision on the existence of an excessive government deficit,
— Finland has been a member of the ERM since October 1996; in the period from March 1996 to October 1996, the Finnish markka (FIM) appreciated vis-à-vis the ERM currencies; since it entered the ERM, the FIM has not been subject to severe tensions and Finland has not devalued, on its own initiative, the FIM bilateral central rate against any other Member State's currency,
— in the year ending in January 1998, the long-term interest rate in Finland was, on average, 5,9 %, which is below the reference value.

Finland fulfils the convergence criteria mentioned in the first, second and fourth indents of Article 109j(1); as regards the convergence criterion mentioned in the third indent of Article 109j(1), the FIM, although having entered the ERM only in October 1996, has displayed sufficient stability in the last two years. For these reasons, Finland has achieved a high degree of sustainable convergence.

Consequently, Finland fulfils the necessary conditions for the adoption of the single currency.

Article 13

Sweden

In Sweden, national legislation, including the statute of the national central bank, is not compatible with Articles 107 and 108 of the Treaty and the Statute of the ESCB.

Regarding the fulfilment of the convergence criteria mentioned in the four indents of Article 109j(1) of the Treaty:
— the average inflation rate in Sweden in the year ending in January 1998 stood at 1,9 %, which is below the reference value,
— Sweden is not the subject of a Council decision on the existence of an excessive government deficit,
— the currency of Sweden has never participated in the ERM; in the two years under review, the Swedish crown (SEK) fluctuated against the ERM currencies reflecting among others the absence of an exchange rate target,
— in the year ending in January 1998, the long-term interest rate in Sweden was, on average, 6,5 %, which is below the reference value.

Sweden fulfils the convergence criteria mentioned in the first, second and fourth indents of Article 109j(1) but does not fulfil the convergence criterion mentioned in the third indent thereof.

Consequently, Sweden does not fulfil the necessary conditions for the adoption of the single currency.

SECTION 2

FINDINGS

Article 14

In the light of the above, the findings of the Council are that Belgium, Germany, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland fulfil the necessary conditions for the adoption of the single currency. The Council recommends that the Council, meeting in the composition of Heads of State or Government, confirm that the said Member States fulfil the necessary conditions for the adoption of the single currency on 1 January 1999.

SECTION 3

PUBLICATION

Article 15

This recommendation shall be published in the *Official Journal of the European Communities.*

Done at Brussels, 1 May 1998.

For the Council

The President

G. BROWN