EUROPEAN CENTRAL BANK

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# PRESS RELEASE

## ECB PUBLISHES ITS CONVERGENCE REPORT 2012

The European Central Bank (ECB) is publishing today its Convergence Report 2012, which assesses the progress made by eight Member States of the European Union (EU) in fulfilling their obligations regarding the achievement of Economic and Monetary Union (EMU).

The report deals with Bulgaria, the Czech Republic, Latvia, Lithuania, Hungary, Poland, Romania and Sweden. It examines whether a high degree of sustainable convergence has been achieved in these countries (economic convergence) and gauges compliance with the statutory requirements to be fulfilled by national central banks to become an integral part of the Eurosystem (legal convergence). When assessing the sustainability of convergence, the report also takes due account of both the new enhanced economic governance framework of the EU and the strength of the institutional environment in each country, including in the area of statistics.

The Convergence Report 2012 shows the following results:

### Price stability

Over the 12-month reference period from April 2011 to March 2012, the reference value for the criterion on price stability was 3.1%. It was calculated by adding 1.5 percentage points to the unweighted arithmetic average of the rate of HICP inflation over these 12 months in Sweden (1.3%), Ireland (1.4%) and Slovenia (2.1%). Over the reference period, three countries examined in the report (i.e. Bulgaria, the Czech Republic and Sweden) recorded 12-month average inflation rates below the reference value. In the other five countries, inflation was well above the reference value, despite a relatively weak economic environment in most countries.

### Government budgetary position

With the exception of Sweden, all countries under review are, at the time of this report, subject to a decision of the Council of the EU (EU Council) on the existence of an excessive deficit. In 2011, Bulgaria, Sweden and – as a result of one-off measures – Hungary posted government balance-to-GDP ratios in compliance with the reference value. The other countries recorded a deficit above 3% of GDP, albeit declining compared with previous years. For 2012, based on currently known policies, the European Commission forecasts the deficit-to-GDP ratio to remain above the 3% reference value only in Lithuania (at 3.2%).

Apart from Hungary, all countries under review recorded in 2011 a general government debt-to-GDP ratio below the 60% reference value. According to European Commission projections, this picture is expected to remain unchanged in 2012.

## Exchange rate

Among the countries examined in this Convergence Report, Latvia and Lithuania are currently participating in the exchange rate mechanism II (ERM II). The currencies of both countries have been in ERM II for more than two years before the convergence examination, and neither of their central rates was devalued in the period under review.

## Long-term interest rate

Over the 12-month reference period from April 2011 to March 2012, the reference value for the criterion on long-term interest rate was 5.8%. It was calculated by adding 2 percentage points to the average of the long-term interest rate on government bonds over these 12 months in Sweden (2.2%) and Slovenia (5.4%), two of the three best-performing countries in terms of price stability. Ireland, which is the third of these countries, was excluded from the calculation of this reference value, as Irish government bond long-term interest rates are currently not an appropriate benchmark for assessing progress towards economic convergence, given the high country-specific risk premia prevailing in financial markets.

Over the reference period, six of the eight countries examined (i.e. Bulgaria, the Czech Republic, Latvia, Lithuania, Poland and Sweden) were at or below the 5.8% reference value for the long-term interest rate convergence criterion. Only in Hungary and Romania were government bond yields above this benchmark.

## Legal convergence

In none of the eight countries examined, the legal framework is fully compatible with all requirements for the adoption of the euro as laid down in the Treaties and the Statute of the European System of Central Banks (ESCB) and of the ECB. In all countries under review, incompatibilities remain regarding central bank independence. This refers, in particular, to the institutional, personal and financial independence of central banks. In addition, in all countries under review except Lithuania, there are incompatibilities as regards the prohibition of monetary financing as well as the legal integration of the respective central banks into the Eurosystem.

In producing this report, the ECB fulfils its requirement under Article 140 of the Treaty to report to the EU Council at least once every two years or at the request of an EU Member State with a derogation “on the progress made by the Member States with a derogation in fulfilling their obligations regarding the achievement of economic and monetary union”.

At present, ten EU Member States do not yet participate fully in EMU. Two of these, namely Denmark and the United Kingdom, have a special status in accordance with the terms of the relevant protocols annexed to the Treaty. As a consequence, convergence reports only have to be provided for these two countries if they so request.

The ECB's Convergence Report 2012 is available on the ECB's website.

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