EUROPEAN CENTRAL BANK

EUROSYSTEM

4 June 2014

PRESS RELEASE

ECB PUBLISHES ITS CONVERGENCE REPORT 2014

The European Central Bank (ECB) is today publishing its Convergence Report 2014, 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, Croatia (assessed for the first time), 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.

In this report, Lithuania has been assessed in somewhat more depth than the other countries under review. This is because the Lithuanian authorities have expressed their country's intention to adopt the euro as of 1 January 2015.

The Convergence Report 2014 shows the following results:

Price stability

Over the 12-month reference period from May 2013 to April 2014, inflation was subdued in the EU, mainly as a result of low contributions from energy and food prices as well as the ongoing weakness in economic activity in most countries. The reference value for the price stability criterion was 1.7%, calculated by adding 1.5 percentage points to the unweighted arithmetic average of the rate of HICP inflation over the 12 months in Latvia (0.1%), Portugal (0.3%) and Ireland (0.3%). The HICP inflation rates of Greece, Bulgaria and Cyprus were excluded from the calculation of the reference value as these three Member States were assessed to be outliers with regard to their price developments.

Over the reference period, the 12-month average rate of inflation was above the reference value in Romania but was well below it in the other seven countries examined in this report.

Government budgetary position

As regards fiscal criteria, among the countries under review the Czech Republic, Croatia and Poland are, at the time of this report, subject to a decision of the Council of the EU on the existence of an excessive deficit. In 2013 all the countries under review, with the exception of Croatia and Poland, posted a fiscal deficit-to-GDP ratio below the 3% reference value. Apart from Croatia and Hungary, in 2013 all the countries examined had a general government debt-to-GDP ratio below the 60% reference value.

Exchange rate

Among the countries looked at in this report, Lithuania is currently the only country participating in the exchange rate mechanism (ERM II). The Lithuanian litas was in ERM II for more than two years before the convergence examination, and its central rate was not devalued in the period under review.

Long-term interest rate

Over the 12-month reference period from May 2013 to April 2014, the reference value for long-term interest rates was 6.2%. This value was calculated by adding 2 percentage points to the unweighted arithmetic average of the long-term interest rates of the three best performing Member States in terms of price stability, namely Latvia (3.3%), Ireland (3.5%) and Portugal (5.8%).

Over the reference period, long-term interest rates of all the countries under review were below the reference value, albeit to different degrees.

Legal convergence

Lithuania is the only country whose legislation fully complies with all the requirements for the adoption of the euro as laid down in the Treaties and in the Statute of the European System of Central Banks and of the ECB. In none of the other seven countries examined is the legal framework fully compatible with all requirements for the adoption of the euro. In these seven countries, incompatibilities persist regarding central bank independence. This refers, in particular, to the central banks' institutional and financial independence and to personal independence. In addition, in all countries under review, with the exception of Lithuania and Croatia, there are incompatibilities as regards the prohibition of monetary financing as well as the legal integration of the respective central banks into the Eurosystem.

Lithuania

Over the reference period, the 12-month average rate of HICP inflation in Lithuania was 0.6%, i.e. well below the reference value for the criterion on price stability. The current low level of inflation in Lithuania reflects mainly temporary factors, including the fall in global commodity prices and the associated lower growth in administered and energy prices. Looking ahead, maintaining low inflation rates on a sustainable basis in Lithuania will be challenging in the medium term, as it may be difficult to control domestic prices pressures and avoid economic overheating in an environment of fixed exchange rates. The catching-up process is likely to drive up the inflation differential between Lithuania and the euro area over the medium term, given that GDP per capita and price levels are still lower in Lithuania than in the euro area. In sum, there are concerns, therefore, regarding the sustainability of inflation convergence in Lithuania.

Lithuania is not subject to a decision of the EU Council on the existence of an excessive deficit. In the reference year 2013, the general government budget balance recorded a deficit of 2.1% of GDP, i.e. below the 3% reference value. The general government debt-to-GDP ratio was 39.4%, i.e. well below the 60% reference value.

The Lithuanian litas has been participating in ERM II for over two years prior to the convergence examination. Lithuania joined the exchange rate mechanism with its existing currency board arrangement in place as a unilateral commitment. Over the period under review, the Lithuanian litas has continued to be stable, has not exhibited any deviation from its central rate against the euro and the central rate has not been devalued against the euro.

Long-term interest rates were 3.6% on average over the reference period and were thus well below the 6.2% reference value for the interest rate convergence criterion.

Achieving an environment that is conducive to sustainable convergence in Lithuania requires, among other things, the conduct of economic policies which are geared towards ensuring overall sustainable macroeconomic stability, including price stability. Regarding macroeconomic imbalances, the European Commission did not select Lithuania for an in-depth review in its Alert Mechanism Report 2014. At the same time, given the limited room for manoeuvre owing to the lack of nominal exchange rate flexibility, it is imperative that other policy areas provide the economy with the wherewithal to cope with country-specific shocks in order to prevent the recurrence of macroeconomic imbalances.

As noted above, Lithuanian law complies with the Treaties and the Statute.

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 2014 is available on the ECB's website. For media inquiries, please call Wiktor Krzyżanowski on +49 69 1344 5755.

European Central Bank
Directorate General Communications & Language Services, Global Media Relations Division
Kaiserstrasse 29, D-60311 Frankfurt am Main
Tel.: +49 69 1344 7455, Fax: +49 69 1344 7404
Internet: http://www.ecb.europa.eu