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THE EUROPEAN UNION

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2810th Council meeting

HEADS OF STATE AND GOVERNMENT

Brussels, 21 June 2007

President **Angela MERKEL**
German Federal Chancellor

PRESS

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Main results of the Council

The Council examined proposals to allow ***Cyprus and Malta to adopt the euro as their currency*** *as from 1 January 2008, on the basis of convergence reports from the Commission and the ECB.*

Noting that Cyprus and Malta fulfil all convergence criteria and legal requirements to adopt the euro as their currency, it called on the Ecofin Council to adopt the proposals at its meeting on 10 July.

The decision will enlarge the euro area from 13 to 15 member states.

CONTENTS[1]

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- Where declarations, conclusions or resolutions have been formally adopted by the Council, this is indicated in the heading for the item concerned and the text is placed between quotation marks.
- Documents for which references are given in the text are available on the Council's Internet site (http://www.consilium.europa.eu).
- Acts adopted with statements for the Council minutes which may be released to the public are indicated by an asterisk; these statements are available on the Council's Internet site or may be obtained from the Press Office.

PARTICIPANTS

The governments of the Member States and the European Commission were represented as follows:

Belgium:	
Mr Guy VERHOFSTADT	Prime Minister
Bulgaria:	
Mr Sergei STANISHEV	Prime Minister
Czech Republic:	
Mr Mirek TOPOLANEK	Prime Minister
Denmark:	
Mr Anders FOGH RASMUSSEN	Prime Minister
Germany:	
Ms Angela MERKEL	Federal Chancellor
Estonia:	
Mr Andrus Ansip	Prime Minister
Ireland:	
Mr Bertie Ahern	Prime Minister
Greece:	
Mr Costas KARAMANLIS	Prime Minister
Spain:	
Mr José Luis RODRIGUEZ ZAPATERO	Prime Minister
France:	
Mr Nicolas SARKOZY	President of the Republic
Italy:	
Mr Romano PRODI	Prime Minister
Cyprus:	
Mr Tassos PAPADOPOULOS	President of the Republic
Latvia:	
Mr Aigars KALVITIS	Prime Minister
Lithuania:	
Mr Valdas ADAMKUS	President of the Republic
Luxembourg:	
Mr Jean-Claude JUNCKER	Prime Minister, Ministre d'Etat, Minister for Finance
Hungary:	
Mr Ferenc GYURCSÁNY	Prime Minister
Malta:	
Mr Lawrence GONZI	Prime Minister, Minister for Finance
Netherlands:	
Mr Jan Peter BALKENENDE	Prime Minister, Minister for General Affairs
Austria:	
Mr Alfred GUSENBAUER	Federal Chancellor
Poland:	
Mr Lech KACZYNSKI	President of the Republic
Portugal:	
Mr José SÓCRATES	Prime Minister
Romania:	
Mr Traian BASESCU	President of the Republic
Slovenia:	
Mr Janez JANŠA	Prime Minister

Slovakia:	
Mr Robert FICO	Prime Minister
Finland:	
Ms Tarja HALONEN	President of the Republic
Sweden:	
Mr Fredrik REINFELDT	Prime Minister
United Kingdom:	
Mr Tony BLAIR	Prime Minister, First Lord of the Treasury and Minister for the Civil Service

Commission:	
Mr José Manuel BARROSO	President

European Central Bank:	
Mr Jean-Claude TRICHET	President of the European Central Bank

ITEMS DEBATED

ENLARGEMENT OF THE EURO AREA

Adoption of the euro by Cyprus and Malta

The Council:

– took note of the presentation of reports by the European Central Bank (ECB) and the Commission on progress made by Cyprus and Malta in fulfilling convergence criteria and their obligations regarding economic and monetary union.

– discussed proposals from the Commission for Council decisions allowing Cyprus and Malta to adopt the euro as their currency, by abrogating what is considered as a derogation, as from 1 January 2008;

– took note of a letter from the president of the Economic and Financial Affairs (Ecofin) Council on the outcome of the discussion on these issues at the Ecofin Council's meeting on 5 June.

Thirteen out of the EU’s 27 member states currently use the euro as their currency: Belgium, Germany, Greece, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Austria, Slovenia and Finland. Euro notes and coins were introduced in 12 of those countries on 1 January 2002 and in Slovenia on 1 January 2007.

The Council noted that Cyprus and Malta fulfil all convergence criteria and legal requirements to adopt the euro as their currency. It accordingly welcomed the Commission's proposals and called on the Ecofin Council to adopt them at its meeting on 10 July. The Ecofin Council is also due to adopt regulations fixing the conversion rates of the Cypriot pound and the Maltese lira to the euro.

The decision will enlarge the euro area to 15 member states as from 1 January 2008.

The ECB and Commission convergence reports examine the compatibility of the two countries' legislation with treaty provisions and with the statute of the European system of central banks. They examine progress in fulfilment of the convergence criteria -- namely price stability, the two governments' budgetary positions, exchange rate stability and long-term interest rates -- and several other factors.

The Ecofin Council's assessment is set out in the letter from its president, Peer Steinbrück, in the following terms.

– ***Cyprus***

Following a strong fiscal adjustment in 2004 and 2005, the general government deficit was reduced from 6.3% in 2003 to 1.5% of gross domestic product (GDP) in 2006; the general government debt to GDP ratio is above the EU's 60% debt-to-GDP reference value but has been on a declining path since 2005 and is expected to decline further in 2007 to reach 61.5% of GDP. Cyprus is not subject to an excessive deficit procedure, which is a precondition for joining the euro.

The average HICP[1] inflation rate in Cyprus in the year ending March 2007 stood at 2.0%, which is below the reference value for the price stability criterion[2]. The 12-month average inflation rate in Cyprus has been below the reference value since August 2005; Cyprus' price performance is assessed to be sustainable. Cyprus has participated in ERM[3] II since May 2005. In the two-year period ending on 26 April 2007 the Cyprus pound (CYP) has not been subject to severe tensions and, since it joined the ERM II, 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 4.2% on average, which is below the reference value[4].

Other relevant factors to which the treaty refers, such as the integration of markets or the situation and development of the current account, confirm that Cyprus has achieved a high degree of sustainable convergence. National legislation, including the statutes of its national central bank, are compatible with the treaty and the ESCB statute requirements for stage three of economic and monetary union.

– ***Malta***

The Council abrogated on 5 June its 2004 decision on the existence of an excessive deficit in Malta. After peaking at around 10% of gross domestic product (GDP) in 2003, the budget deficit decreased significantly under Malta's fiscal consolidation programme, reaching 2.6% in 2006. The general government debt-to-GDP ratio is above the EU's 60% reference value but has been on a declining path since 2005 and is expected to continue to decline further in 2007 to around 66% of GDP.

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1 Harmonised index of consumer prices.

2 Calculated as the average in the three best-performing member states plus 1.5 percentage points.

3 Exchange rate mechanism. The aim is to reduce exchange rate variability and achieve monetary stability in preparation for introduction of the euro.

4 Calculated as the average interest rate in the three best-performing member states in terms of price stability plus 2 percentage points.

The average HICP inflation rate in Malta in the year ending March 2007 stood at 2.2%, which is below the reference value for the price stability criterion. The 12-month average inflation rate has been at or below the reference value since July 2005, except for the period from May to October 2006; Malta's price performance is assessed to be sustainable. Malta has participated in ERM II since May 2005. In the two-year period ending on 26 April 2007, the Maltese lira (MTL) has not been subject to severe tensions and, since it joined the ERM II, Malta has not devalued on its own initiative the MLT bilateral central rate against the euro. In the year ending March 2007, the long-term interest rate in Malta was, on average, 4.3%, which is below the reference value.

Other relevant factors to which the treaty refers, such as the integration of markets or the situation and development of the current account, confirm that Malta has achieved a high degree of sustainable convergence. National legislation, including the statutes of its national central bank, are compatible with the treaty and the ESCB statute requirements for stage three of economic and monetary union.

OTHER ITEMS APPROVED