Report by the Commission on the Convergence Report 2000 (Brussels, 3 May 2000)

Caption: On 3 May 2000, in connection with the third stage of Economic and Monetary Union (EMU), the European Commission publishes a report in which it outlines the efforts to achieve economic convergence made by Greece and Sweden, which are not among the 11 European Union Member States to have adopted the single European currency on 1 January 1999.

Source: Commission of the European Communities. Report from the Commission-Convergence Report 2000 , COM (2000) 277 final. Brussels: 03.05.2000. 12 p.

URL: http://www.cvce.eu/obj/report_by_the_commission_on_the_convergence_report_2000_brussels_3_may_2000-en-db8ba40d-1f0f-4e50-8e59-8bbcd395f147.html

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1.2. Main findings

1.2.1. Greece

In the 1998 convergence report the Commission assessment was that Greece fulfilled none of the four convergence criteria. However, legislation in Greece was considered to be compatible with the Treaty and the ESCB Statute, despite an imperfection relating to the timing of the central bank's integration in the ESCB.

During the last two years Greece has achieved striking progress towards convergence and the assessment in this report is positive.

Legislation in Greece continues to be compatible with the Treaty and the ESCB Statute, and once further draft legislation is adopted by parliament even the imperfection identified earlier will have been removed.

The average inflation rate in Greece during the 12 months to March 2000 was 2.0%, below the reference value of 2.4%. The Greek inflation rate has been equal to or below the reference value since December 1999. The improvement in price stability is based on sound foundations, but there are risks associated with the reduction in short term interest rates and movement of the exchange rate to its conversion rate in the approach to adoption of the euro; it will be necessary to maintain a tight budgetary policy stance and to secure continued wage moderation to prevent a possible resurgence of inflationary pressures. Greece fulfils the criterion on price stability.

The Council decision of 26 September 1994 on the existence of an excessive deficit in Greece was abrogated in 1999 (Council decision of 17 December 1999). On the latest available figures, the government deficit was brought down from 10.2% of GDP in 1995 to 1.6% in 1999, below the 3% reference value. The government debt ratio reached its highest level in 1996 at 111.3% of GDP and has since declined every year to 104.4% in 1999; the debt ratio is expected to continue declining and to fall below 100% of GDP in 2001. Greece fulfils the criterion on the government budgetary position.

The Greek drachma participated in the ERM from March 1998 until December 1998 and in the ERM II since January 1999, a total period which is longer than two years at the time of this examination, and has not experienced severe tensions during the period under review. The central rate of the Greek drachma was revalued against the euro in January 2000. During the review period the Greek drachma traded most of the time beyond a ±2.25% fluctuation range around its central rate (initially against the median currency in the ERM, and subsequently from January 1999 against the euro). However, the deviation of the Greek drachma was above its central rate. It reflected, inter alia, the higher interest rates in Greece and was not indicative of severe tensions in the examination period. Greece fulfils the exchange rate criterion.

The average long term interest rate in Greece in the year to March 2000 was 6.4%, below the reference value of 7.2%. The narrowing of interest rate differentials in 1998 and 1999 brought the average rate in Greece down gradually and it fell below the reference value from October 1999 onwards. Greece fulfils the criterion on the convergence of interest rates.

In the light of its assessment on the fulfilment of the convergence criteria the Commission considers that Greece has achieved a high degree of sustainable convergence.

1.2.2. Sweden

In the 1998 convergence report the Commission assessment was that Sweden already fulfilled three of the convergence criteria (on price stability, the government budgetary position [1] and the convergence of interest rates) but that it did not fulfil the exchange rate criterion. Furthermore, legislation in Sweden was considered not compatible with the Treaty and the ESCB Statute.

In November 1998 Sweden adopted legislation amending the Constitution and Acts dealing with the Riksbank that was not significantly different from the drafts on which the examination in the 1998 convergence report was based. Legislation in this field has remained unchanged since then in Sweden. Consequently, the assessment on legal convergence in the 1998 report still stands, i.e. legislation in Sweden is not compatible with the Treaty and the ESCB Statute.

The average inflation rate in Sweden during the 12 months to March 2000 was 0.8%, below the reference value of 2.4%; indeed Sweden was one of the three best performing Member States used for the calculation of this reference value. The Swedish inflation rate has been below the reference value throughout the period from December 1996. Sweden continues to fulfil the criterion on price stability.

The Council decision of 10 July 1995 on the existence of an excessive deficit in Sweden was abrogated in 1998 (Council decision of 1 May 1998). On the latest available figures, the government deficit was brought down from 7.9% of GDP in 1995 to 2.0% in 1997, and a government surplus of 1.9% was achieved in 1998 and 1999. The government debt ratio peaked in 1994 and has since declined every year to reach 65.5% of GDP in 1999; the debt ratio is expected to continue declining in 2000 and in future years. Sweden fulfils the criterion on the government budgetary position.

The Swedish krona has never participated in the ERM nor in the ERM II; in the two years under review the krona has fluctuated against the ERM currencies and the euro, reflecting, inter alia, the absence of an exchange rate target. Sweden does not fulfil the exchange rate criterion.

The average long term interest rate in Sweden in the year to March 2000 was 5.4%, below the reference value of 7.2%. The reference value has been respected throughout the period since December 1996. Sweden continues to fulfil the criterion on the convergence of interest rates.

In the light of this assessment the Commission concludes that there should be no change in the status of Sweden as a Member State with a derogation.

(1) Subject to approval by the Council of the Commission recommendation, made at the same time as the adoption of the 1998 convergence report, for abrogation of the excessive deficit decision for Sweden.

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