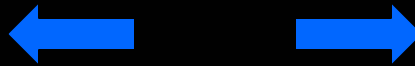




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Adopting The Euro In The New Member States

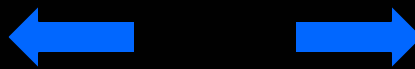
J. Onno de Beaufort Wijnholds
Permanent Representative
European Central Bank
Washington DC



- New EU members have an obligation to adopt the euro
- But there is no indication of a time path
- Euro adoption requires:
 - Meeting the Maastricht convergence criteria
 - Includes a stay of minimally two years in ERM II
 - Agreement on an entry exchange rate
- Compliance with the Maastricht criteria is assessed by the council of European finance ministers on the basis of reports by the EC and the ECB



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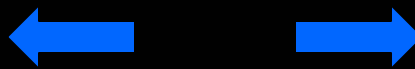


The Present Situation

Country	Exchange rate regime	Monetary policy framework
Estonia	Currency board	
Lithuania	Currency board	
Latvia	Peg (basket)	
Malta	Peg (basket)	
Cyprus	Peg to €	
Hungary	Peg to €	(Inflation target)
Slovenia	Managed float	Monetary target
Czech Republic	Managed Float	Inflation target
Slovakia	Managed Float	(Inflation target)
Poland	Float	Inflation target
<hr style="border-top: 1px dashed #ccc;"/>		
Bulgaria	Currency board	
Romania	Crawling band	Monetary target



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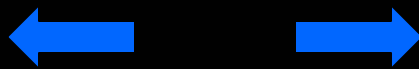


Joining ERM II

- No formal requirements for joining ERM II
- Immediate joining implies euro adoption in two years time at the earliest
- Some countries have indicated they want to move fast, others feel they need more time
- Acceding countries are heterogeneous, pointing to a case by case approach
- Major adjustment and reforms to be done before joining ERM II



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Moving towards Maastricht

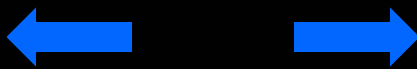
Country	Inflation	Budget balance	Debt ratio
Cyprus	4.0	-6.3	72.2
Czech Republic	-0.1	-12.9	37.6
Estonia	1.4	+2.6	5.8
Hungary	4.7	-5.9	59.0
Latvia	2.9	-1.8	15.6
Lithuania	-1.1	-1.7	21.9
Malta	1.3	-9.7	72.0
Poland	0.7	-4.1	45.4
Slovakia	8.5	-3.6	42.8
Slovenia	5.7	-1.8	27.1

Bulgaria	2.3	-0.1	46.2
Romania	15.3	-2.0	21.8

Maastricht criteria (data for 2003)	Not more than 1.5 % above lowest three	-3.0	60.0



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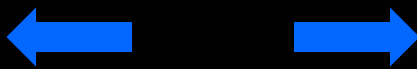


ERM II: How Wide a Band?

- Not the narrow band of $\pm 2 \frac{1}{4} \%$
- The wide band of $\pm 15 \%$, but...
- “the assessment of exchange rate stability against the Euro will focus on the exchange rate being close to the central rate while also taking into account factors that may have led to appreciation.”



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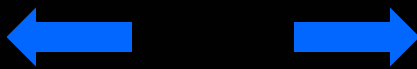


ERM II : Waiting Room or Workout Room?

- **Waiting room view**
 - it is best to get it over as quickly as possible, because ...
 - capital flows can cause disruption
- **Workout room view**
 - The period of ERM II participation should be used to fully prepare for Euro adoption
 - It allows a new member state to take those measures still needed to enter the Euro zone in robust fashion
 - Gain experience in functioning with an exchange rate anchor



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An Irreversible Step

- Joining the EU is both an economic and political act
- Joining EMU implies even more investment of economic and political capital
- Adopting the Euro is an irreversible step
- The new member states are well on their way toward the Euro, but some will need more time than others to get there



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