BULLETIN
of the Szent István University

SPECIAL ISSUE

PART I.

Gödöllő
2008

With the support of

Faculty of Economics and Social Sciences, Szent István University

Management and Business Administration PhD School of Szent István University

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ISSN 1586-4502

Megjelent 380 példányban

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AGRICULTURAL AND RURAL DEVELOPMENT AND INTERNATIONAL VIEW

AGRÁR- ÉS VIDÉKFEJLESZTÉS, NEMZETKÖZI KITEKINTÉS

CONVERGENCE CRITERIA AND THEIR FULFILMENT BY THE COUNTRIES OUTSIDE THE EURO-ZONE

NAGY, HENRIETTA – KÁPOSZTA, JÓZSEF

Abstract

In order to ensure the sustainable convergence required for the achievement of economic and monetary union (EMU), the Treaty sets five convergence criteria which must be met by each Member State before it can take part in the third stage of EMU and hence before it can adopt the euro. Compliance is checked on the basis of reports produced by the Commission and the European Central Bank (ECB). The criteria are:

- government finances (the Commission when drawing up its annual recommendation to the Council of Finance Ministers examines compliance with budgetary discipline on the basis of the following two criteria):
  - the ratio of annual government deficit to gross domestic product must not exceed 3% at the end of the preceding financial year [http://europa.eu/scadplus/leg/en/lvb/l25014.htm];
  - the ratio of government debt to gross domestic product must not exceed 60% at the end of the preceding financial year;
- there must be a sustainable degree of price stability and an average inflation rate, observed over a period of one year before the examination, which does not exceed by more than one and a half percentage points that of the three best performing Member States in terms of price stability during the year preceding the examination of the situation in that Member States;
- there must be a long-term nominal interest rate which does not exceed by more than two percentage points that of the three best performing Member States in terms of price stability. The period taken into consideration is the year preceding the examination of the situation in the Member State concerned;
- the normal fluctuation margins provided for by the exchange-rate mechanism must be respected without severe tensions for at least the last two years before the examination. [http://europa.eu/scadplus/glossary/convergence_criteria_en.htm].

Keywords: economic and monetary union, new member countries, analyses

Introduction

The aim of our study was to examine the status of the old and new member states concerning the convergence criteria. It can be interesting to see what criteria are met by each of the countries and where are the points where further developments are needed. The convergence criteria are meant to ensure that economic development within EMU is balanced and does not give rise to any tensions between the Member States. The criteria relating to government deficit and government debt must continue to be met after the start of the third stage of EMU (1 January 1999). To this end, a stability pact was adopted at the Amsterdam European Council in June 1997 and enables the members of the Euro-zone to coordinate national government budget policies and avoid excessive government budget deficits [http://europa.eu/scadplus/glossary/convergence_criteria_en.htm].

The Commission and ECB first "regular" convergence report, adopted in October 2004, covered the ten Member States that joined the EU in May 2004 and Sweden [2005/185/EC], when none of the 10 countries, nor Sweden met all the conditions, also known as the "Maastricht criteria". At the request of the respective national authorities, Lithuania and Slovenia were assessed in a specific convergence report issued in May 2006 which concluded that Slovenia met all the conditions and could adopt the euro on 1 January 2007, while Lithuania retained its status. Lithuania met all the convergence criteria except the one on inflation, since the average rate of inflation has been slightly above the reference value since April 2005 and was expected to rise gradually until the end of 2006 [CONVERGENCE REPORT 2006].

Material and method

The analysis is mainly based on the data and information of the Convergence Reports of 2004 and 2006 as well as other sources on convergence. During our research we have carefully studied the findings of the reports and the progress of the different states. In each case we have studied the major factors of the convergence criteria as follows:

- Inflation rate
- Government budgetary position
- Exchange-rate criterion
- Long-term interest rates.

On 5 December 2006, the Commission adopted the second convergence report, which reassessed the conditions for adopting the euro in the Czech Republic, Estonia, Cyprus, Latvia, Hungary, Malta, Poland, Slovakia and Sweden. Such an assessment is required by the EC Treaty at least once every two years, or at the request of a Member State "with a derogation", and has to be carried out by both the Commission and the European Central Bank. The Report shows that the nine countries and also Lithuania are making progress towards convergence, though at different paces. *The inflation reference value was* calculated to be 2.8 percent in October 2006 *(the cut-off date for the data used in this report is 17 November 2006), with Poland, Finland and Sweden the three best-performing Member States.* The relevant two-year period for assessing exchange-rate stability in the report 2006 is November 2004 to October 2006. Interest rates shall be measured on the basis of long-term government bonds or comparable securities, taking into account differences in national definitions". *The interest rate reference value* was calculated to be 6.2 percent in October 2006.

Table 1 shows the reference values applied in the Convergence Report 2004 and also the figures of the Member States referring to the different criteria. Blue cells refer to the figures that meet the criteria compared to the reference values. It can be observed that 2 countries out of the eleven met 3 criteria out of four (Lithuania and Sweden). Lithuania met all the criteria except for the exchange-rate stability. The reason for it was that Lithuania had been in ERM-II only for a few months at the time of the publishing of the Convergence Report, not reaching the minimum 2 years. Sweden was almost in the same situation, but it has not even entered the ERM-II until now. Thus no matter how strong the Swedish economy is, it must enter the ERM-II soon, if they wish to adopt the euro.

Table 1. The status of Member States according to the fulfillment of the convergence criteria

What is measured:	Price stability	Sound public finances	Sustainable public finances	Durability of convergence	Stability of convergence
How it is measured:	consumer price inflation rate	Government deficit as % of GDP	Government debt as % of GDP	Long-term interest rates	Exchange-rate stability
Convergence criteria	<1,5% more than the 3 lowest Member States (Finland, Denmark, Sweden)	Not more than 3%	Not more than 60%	<2% more than the 3 lowest Member States	Participation in ERM-II for 2 years
Czech Republic	**1,8%**	**12,6%**	**37,8%**	**4,7%**	**on ERM-II entry**
Estonia	**2,0%**	**-3,1%**	**5,3%**	**4,6%**	**entry 28/06/04**
Cyprus	**2,1%**	**6,4%**	**70,9%**	**5,2%**	**entry 02/05/05**
Latvia	**4,9%**	**1,5%**	**14,4%**	**5,0%**	**entry 02/05/05**
Lithuania	**-0,2%**	**1,9%**	**21,4%**	**4,7%**	**entry 28/06/04**
Hungary	**6,5%**	**6,2%**	**59,1%**	**8,1%**	**on ERM-II entry**
Malta	**2,6%**	**9,7%**	**71,1%**	**4,7%**	**entry 02/05/05**
Poland	**2,5%**	**3,9%**	**45,4%**	**6,9%**	**on ERM-II entry**
Slovenia	**4,1%**	**2,0%**	**29,4%**	**5,2%**	**entry 28/06/04**
Slovakia	**8,4%**	**3,7%**	**42,6%**	**5,1%**	**on ERM-II entry**
Sweden	**1,3%**	**-0,3%**	**52,0%**	**4,7%**	**on ERM-II entry**
Euro-area reference values	**<2,4%**	**<3%**	**<60%**	**<6,4%**	

Source: CONVERGENCE REPORT 2004, DG –EFA 2005

Results

Czech Republic

In the 2004 Convergence Report, the Commission assessment was that the Czech Republic fulfilled two of the convergence criteria (on price stability and long-term interest rates). Annual HICP inflation in the Czech Republic has been below 3½ percent since early 2002, and the average over 1999-2005 stood at 2.3 percent. The average inflation rate in the Czech Republic during the 12 months to October 2006 was 2.2 percent, below the reference value of 2.8 percent, and is likely to remain below the reference value in the months ahead. The Czech Republic fulfils the criterion on price stability. The significant narrowing of the deficit in 2004, to 2.9% of GDP, was mainly attributable to a pickup in economic growth and the possibility given to government departments to carry over unspent funds. While the government debt ratio has increased substantially compared to 2000, it remains relatively low at around 30% of GDP. The general government deficit was 3.6 percent of GDP in 2005, and government debt was 30.4 percent of GDP. The Czech Republic does not fulfil the criterion on the government budgetary position. The Czech koruna is not participating in ERM II. Since 1998, the Czech Republic has been operating explicit inflation targeting combined with a floating exchange rate regime. During the two years before this assessment, i.e. between November 2004 and October 2006, the koruna appreciated against the euro by about 10 percent. The Czech Republic does not fulfil the exchange rate criterion. The average long-term interest rate in the Czech Republic in the year to October 2006 was 3.8 percent, below the reference value of 6.2 percent. The Czech Republic fulfils the criterion on the convergence of long-term interest rates.

Estonia

In the 2004 Convergence Report, the Commission assessment was that Estonia fulfilled two of the convergence criteria (on price stability and the government budgetary position) and that there was no reason to conclude that Estonia would not fulfil the interest rate criterion. HICP inflation in Estonia recorded a strong trend deceleration over the past decade, bottoming out at 1.4 percent in 2003. However, inflation picked up to 3 percent in 2004 and to 4.1 percent in 2005, and has remained at high levels since then. The average inflation rate in Estonia during the 12 months to October 2006 was 4.3 percent, above the reference value of 2.8 percent, and it is likely to remain above the reference value in the months ahead. Estonia does not fulfil the criterion on price stability. Between 2000 and 2005, Estonia recorded an average general government surplus of 1.1 percent of GDP. In 2005, Estonia recorded a general government surplus of 2.3 percent, the same level as one year earlier. The cyclically-adjusted surplus has been declining somewhat in 2005, implying an expansive fiscal stance in a period of very strong growth. This general government gross debt ratio stood at 4.5 percent of GDP in 2005, the lowest of all the EU Member States. Estonia fulfils the criterion on the government budgetary position. The Estonian kroon has participated in ERM II since 28 June 2004, i.e. for more than two years at the time of adoption of the report. Before ERM II entry, Estonia had successfully pursued a currency board regime anchored to the D-Mark, and later the euro, since 1992. Upon ERM II entry, Estonia unilaterally committed to maintain its currency board in the mechanism.

During the two-year period under review, the Estonian kroon has not deviated from its central parity and has not experienced severe tensions. Estonia fulfils the exchange rate criterion. An interest rate indicator based on long-term kroon-denominated bank loans to households and non-financial businesses stood, on average, at 4.1 percent in the year to September 2006 (the latest data available). On the basis of developments in the interest rate indicator and taking into account, inter alia, the low level of government debt, there is no reason to conclude that Estonia would not fulfill the criterion on the convergence of long-term interest rates.

Cyprus

In the 2004 Convergence Report, the Commission assessment was that Cyprus fulfilled two of the convergence criteria (on price stability and long-term interest rates). HICP inflation was 2.7 percent on average in 1999-2005 but it reached highs of around 6 percent in the spring of 2000 and again in the winter of 2003, in the latter case partly due to accession-related increases in VAT rates and excises. Inflation picked up in early 2006, but has moderated in recent months, to 1.7 percent in October 2006. The average inflation rate in Cyprus during the 12 months to October 2006 was 2.3 percent, below the reference value of 2.8 percent, and it is likely to remain below the reference value in the months ahead. Cyprus fulfils the criterion on price stability. The general government deficit peaked at 6.3 percent of GDP in 2003, but was reduced markedly in the following years, to 2.3 percent of GDP in 2005. During the six years to 2005, both total revenue and total expenditure ratios followed, on average, an upward trend. Total revenue increased due to a mix of structural and oneoff measures. Government debt decreased to 69.2 percent of GDP in 2005. Cyprus fulfils the criterion on the government budgetary position. The Cyprus pound has participated in ERM II since 2 May 2005, i.e. for 19 months at the time of adoption of the report. Before ERM II entry, the Central Bank of

Cyprus had been operating a system to contain fluctuations against the euro within a relatively narrow band of ±2¼ percent from the central rate. A wider ±15 percent official fluctuation band had been effective since 2001, but the wider fluctuation margins were not used in practice. Cyprus does not fulfill the exchange rate criterion. The average long-term interest rate in Cyprus in the year to October 2006 was 4.1 percent, below the reference value of 6.2 percent. Average long-term interest rates in Cyprus have been below the reference value since November 2005. Long term interest rates in Cyprus have decreased substantially in the past few years. Low yield spreads vis-à-vis the euro area testify to the low residual country risk priced in by markets. Cyprus fulfils the criterion on the convergence of long-term interest rates [CONVERGENCE REPORT 2006].

Latvia

In the 2004 Convergence Report, the Commission assessment was that Latvia fulfilled two of the convergence criteria (on the government budgetary position and long-term interest rates). Annual average inflation in Latvia has been mostly above 6 percent since 2004, reflecting the impact of external price shocks and adjustments in administered prices and indirect taxes as well as increasing capacity constraints in a context of prolonged very rapid real GDP growth. Most recently, headline inflation has moderated slightly, to 5.6 percent in October 2006. The average inflation rate in Latvia during the 12 months to October 2006 was 6.7 percent, above the reference value of 2.8 percent, and it is likely to remain above the reference value in the months ahead. Latvia does not fulfill the criterion on price stability.

Latvia is not the subject of a Council decision on the existence of an excessive deficit. Following the 1998 Russian currency crisis, a period of fiscal consolidation ended abruptly in 1999 when the deficit surged to 5.3 percent of GDP. Subsequently, the general government balance registered smaller deficits averaging 1.8 percent of GDP over the period 2000-2004, while 2005 recorded a marginal surplus of 0.1 percent of GDP. The general government position was balanced in 2005 and government debt was 12.1 percent of GDP. Latvia fulfils the criterion on the government budgetary position. The Latvian lat has participated in ERM II since 2 May 2005, i.e. for 19 months at the time of adoption of the report. Before ERM II entry, the lats was pegged to the SDR until end-2004 and to the euro from 1 January 2005 onwards. Upon ERM II entry, Latvia unilaterally committed to maintain the lats in a range of ±1 percent around the central rate. Latvia does not fulfill the exchange rate criterion. The average long-term interest rate in Latvia in the year to October 2006 was 3.9 percent, below the reference value of 6.2 percent. Average long-term interest rates in Latvia have been below the reference value since EU accession. Since ERM II entry long-term interest rate spreads to the euro area have fluctuated at relatively moderate levels, illustrating the stability of the currency peg and the confidence that investors have in it. Latvia fulfils the criterion on the convergence of long-term interest rates.

Hungary

In the 2004 Convergence Report, the Commission assessment was that Hungary fulfilled none of the convergence criteria. After declining from around 10 percent in the early-2000s to around 4 percent in 2003, HICP inflation picked up again in 2004, mainly due to increases in the prices of energy and food. Inflation has however moderated since the end of 2004 and stood at just above 2 percent at the beginning of 2006. The average inflation rate in Hungary during the 12 months to October 2006 was 3.5 percent, above the reference value of 2.8 percent, and it is likely to remain above the reference value in the months ahead. Hungary does not fulfil the criterion on price stability. Since 2002, each year the budget deficit has been well over 6 percent of GDP, reaching 7.8 percent of GDP in 2005, including the costs of pension reform. After corrective measures, the authorities are now targeting a deficit of 10.1 percent of GDP this year. Government debt has increased to 61.7 percent of GDP, in spite of massive privatisation receipts. Hungary does not fulfill the criterion on the government budgetary position. The Hungarian forint, which is unilaterally pegged to the euro with a ± 15 percent fluctuation margin since 2001, is not participating in ERM II. For most of the period since the introduction of the unilateral peg to the euro, the forint has fluctuated within the upper part of the band. During the two years before the assessment, i.e. between November 2004 and October 2006, the forint depreciated against the euro by about 9 percent. Hungary does not fulfil the exchange rate criterion. The average long-term interest rate in Hungary in the year to October 2006 was 7.1 percent, above the reference value of 6.2 percent. Hungary does not fulfil the criterion on the convergence of long-term interest rates.

Malta

In the 2004 Convergence Report, the Commission assessment was that Malta fulfilled one of the convergence criteria (on long-term interest rates). HICP inflation in Malta has fluctuated around a level of some 2.5 percent over recent years.
The average inflation rate in Malta during the 12 months to October 2006 was 3.1 percent, above the reference value of 2.8 percent, and it is likely to return to a position close to the reference value in the months ahead. Malta does not fulfill the criterion on price stability. General government debt increased significantly in the first half of the decade, peaking at around 75 percent in 2004. The general government deficit was 3.2 percent of GDP in 2005 and government debt decreased slightly to 74.2 percent of GDP. Malta does not fulfil the criterion on the government budgetary position. The Maltese lira has participated in ERM II since 2 May 2005, i.e. for 19 months at the time of adoption of the report. Malta does not fulfil the exchange rate criterion. The average long-term interest rate in Malta in the year to October 2006 was 4.3 percent, below the reference value of 6.2 percent. Average long-term interest rates in Malta have been below the reference value since EU accession. Malta fulfils the criterion on the convergence of long-term interest rates.

Poland

In the 2004 Convergence Report, the Commission assessment was that Poland fulfilled none of the convergence criteria. Following high and volatile inflation in the 1990s, HICP inflation in Poland has decreased sharply to a very low level, averaging 2.1 percent over the period 2002-2005. Underlying inflationary pressures have been contained over the last few years. The average inflation rate in Poland during the 12 months to October 2006 was 1.2 percent, below the reference value of 2.8 percent, and it is likely to remain below the reference value in the months ahead. Poland fulfills the criterion on price stability. The general government balance was negative during the period 2000-2005, recording a deficit of 3.2% of GDP on average. The general government deficit was 2.5 percent of GDP in 2005. If the mandatory funded pension scheme were excluded from the government sector, the general government deficit would total 4.4 percent of GDP. The general government debt ratio increased by around 6 percentage points between 2000 and 2005. Government debt was 42.0 percent of GDP; the figure excluding the mandatory funded pension scheme would be 47.3 percent of GDP. Poland does not fulfill the criterion on the government budgetary position. The Polish zloty is not participating in ERM II. Since the abandonment of the crawling peg regime in 2000, Poland has been operating an inflation targeting regime combined with a floating exchange rate. The zloty exchange rate has fluctuated widely over the past few years. The currency strongly appreciated during 2000-2001, but then experienced a significant correction until early 2004. During the two years before this assessment, i.e. between November 2004 and October 2006, the zloty appreciated against the euro by about 8½ percent. Poland does not fulfil the exchange rate criterion. The average long-term interest rate in Poland in the year to October 2006 was 5.2 percent, below the reference value of 6.2 percent. Average long-term interest rates in Poland have been at or below the reference value since August 2005. Poland fulfils the criterion on the convergence of long-term interest rates.

Slovakia

In the 2004 Convergence Report, the Commission assessment was that Slovakia fulfilled one of the convergence criteria (on long-term interest rates). In recent years, Slovakia has experienced volatile, and at times high, HICP inflation, reflecting the impact of external factors and adjustments in administered prices and indirect taxes.
The average inflation rate in Slovakia during the 12 months to October 2006 was 4.3 percent, above the reference value of 2.8 percent, and it is likely to remain above the reference value in the months ahead. Slovakia does not fulfill the criterion on price stability. Slovakia's general government deficit reached levels around 7 percent of GDP at the beginning of the decade but has been reduced substantially since 2002. Both the revenue and expenditure ratio have decreased, the latter at a higher rate. General government debt has declined significantly since 2000, when it stood at some 50 percent of GDP. The general government deficit was 3.1 percent of GDP in 2005, while government debt was 34.5 percent of GDP. Slovakia does not fulfil the criterion on the government budgetary position. The Slovak koruna has participated in ERM II since 28 November 2005, i.e. for 12 months at the time of adoption of the report. Since July 2006, the koruna has been on a marked appreciating path, which brought it 5.5 percent above the central parity at the end of the assessment period. Slovakia does not fulfil the exchange rate criterion. The average long-term interest rate in Slovakia in the year to October 2006 was 4.3 percent, below the reference value of 6.2 percent. Average long-term interest rates in Slovakia have been below the reference value since EU accession. Slovakia fulfils the criterion on the convergence of long-term interest rates.

Sweden

In the 2004 Convergence Report, the Commission assessment was that Sweden fulfilled three of the convergence criteria (on price stability, the government budgetary position and long-term interest rates). HICP inflation in Sweden has generally been below 2 percent over the past few years, with the exception of periods in 2001 and 2003 when rises in electricity prices contributed to higher headline inflation. The average inflation rate in Sweden during the 12 months to October 2006 was 1.5 percent, below the reference value of 2.8 percent, and it is likely to remain below the reference value in the months ahead. Sweden fulfils the criterion on price stability. Sweden ran a general government surplus over the period 2000-2005 averaging 2.0 percent of GDP. This high average surplus reflects the Swedish rules-based budgetary framework. In 2005, the surplus stood at 3.0 percent of GDP. Government debt was 50.4 percent of GDP in 2005; the figure excluding the mandatory funded pension scheme would be to 50.9 percent of GDP. Sweden fulfils the criterion on the government budgetary position. The Swedish krona is not participating in ERM II. Sweden operates an inflation targeting regime combined with a floating exchange rate. Between November 2004 and October 2006, the krona depreciated against the euro by just below 3 percent. Sweden does not fulfil the exchange rate criterion.

The average long-term interest rate in Sweden in the year to October 2006 was 3.7 percent, below the reference value of 6.2 percent. Average long-term interest rates in Sweden have consistently been below the reference value in recent years. Sweden fulfils the criterion on the convergence of long-term interest rates.

Conclusions

As Table 2 and 3 show, only two countries meet the exchange-rate stability criteria: Lithuania (that has already planned to adopt the euro from 1 January 2007) and Estonia. In our opinion they have the largest chance to adopt the euro first. Sweden is also likely to adopt the euro soon, since it has managed to meet 3 criteria out of the four.
There is only one obstacle in the procedure, namely that Swedish crown is not participating in ERM II. It may be followed by Cyprus, since it meets 2 criteria out of the 4, and has been in ERM-II since 2 May 2005. In addition to Lithuania, the Czech Republic and Poland have also got close to the accession to the EMU, but due to the unfavourable circumstances both nationally and internationally they could not get into it. The Czech Republic and Lithuania shall stop the increase in the consumer prices, while in Poland the hectic change in the interest rates shall be moderated. The Czech Republic has good chance to adopt the euro soon, but the cyclical movement of government deficit must be stopped and the strict and tight fiscal policy shall be continued.

Table 2. The status of the Member States based on their figures in the Convergence Report 2006

What is measured:	**Price stability**	**Sound public finances**	**Sustainable public finances**	**Durability of convergence**	**Stability of convergence**
How it is measured:	consumer price inflation rate	Government deficit as % of GDP	Government debt as % of GDP	Long-term interest rates	Exchange-rate stability
Convergence criteria	<1,5% more than the 3 lowest Member States (Poland, Finland, Sweden)	Not more than 3%	Not more than 60%	<2% more than the 3 lowest Member States	Participation in ERM-II for 2 years
Czech Republic	**2,2%**	**3,6%**	**30,4%**	**3,8%**	**on ERM-II entry**
Estonia	**4,3%**	**-2,3%**	**4,5%**	**4,1%**	**entry 28/06/04**
Cyprus	**2,3%**	**2,3%**	**69,2%**	**4,1%**	**entry 02/05/05**
Latvia	**6,7%**	**-0,1%**	**12,1%**	**3,9%**	**entry 02/05/05**
Lithuania	**2,7% (ref. value 2,6%)**	**1,0%**	**20,0%**	**3,7% (ref. value 5,9%)**	**entry 28/06/04**
Hungary	**3,5%**	**10,1%**	**61,7%**	**7,1%**	**on ERM-II entry**
Malta	**3,1%**	**3,2%**	**74,2%**	**4,3%**	**entry 02/05/05**
Poland	**1,2%**	**4,4%**	**47,3%**	**5,2%**	**on ERM-II entry**
Slovakia	**4,3%**	**3,1%**	**34,5%**	**4,3%**	**on ERM-II entry**
Sweden	**1,5%**	**-2,0%**	**50,9%**	**3,7%**	**on ERM-II entry**
Euro-area reference values	**<2,8%**	**<3%**	**<60%**	**<6,2%**	

Source: CONVERGENCE REPORT 2006

The procedure to adopt the euro has some difficulties also in Estonia, Latvia and Slovakia because of the inflation caused by the “exaggerated economic growth”. The obstacle of the adoption of the euro in both Cyprus and Malta is the high rate of government debt [ECOSTAT].

Unfortunately Hungary seems to be the last in the rank, meeting none of the criteria, similarly to the former assessment in 2004. It has the least chance to adopt the euro among the countries, even if Bulgaria and Romania included. It is the only country meeting none of the convergence criteria. To make efforts towards the adoption, we must control the consumption and the reform of the great supporting systems must be carried out. The public administration must be restructured and the employment rate must be increased.

Table 3. General overview on the countries

	Price stability		**Government budgetary position**		**Convergence of long-term interest rates**		**Exchange-rate criterion**	
	2004	***2006***	***2004***	***2006***	***2004***	***2006***	***2004***	***2006***
Czech Republic	yes	yes	no	no	yes	yes	no	No
Estonia	yes	no	yes	yes	yes	yes	no	Yes
Cyprus	yes	yes	no	yes	yes	yes	no	No
Latvia	no	no	yes	yes	yes	yes	no	No
Lithuania	yes	no	yes	yes	yes	yes	no	Yes
Hungary	no	no	no	no	no	no	no	No
Malta	no	no	no	no	yes	yes	no	No
Poland	no	yes	no	no	no	yes	no	No
Slovenia	no	yes	yes	yes	yes	yes	no	Yes
Slovakia	no	no	no	no	yes	yes	no	No
Sweden	yes	yes	yes	yes	yes	yes	no	No

Source: own source based on Convergence Reports 2004 and 2006

It can be also interesting to see what date the countries have planned for entering the EMU and adopting the euro in 2004 and 2006, how their situation and status has changed recently. In the World Bank EU8 Quarterly Economic Report of September 2006 the following table can be found.

As the countries differ greatly in their economic structure, exchange rate and monetary regimes, and the degree of nominal and real convergence already achieved, no single path towards ERM-II and the adoption of the euro can be identified and recommended.

It should be noted that there has been no such single path for the current members either. Therefore, country situations and strategies will be assessed on a case-by-case basis throughout the process leading to the adoption of the euro [DG-EFA 2005]. In this context, the Governing Council of the ECB gives specific recommendations to individual countries. As in the past, the principle of equal treatment will continue to apply the entire process of monetary integration.

Table 4. Major facts about the countries

	August 2004		August 2006		
	ERM-II	**Planned time for euro adoption**	**ERM-II**	**Planned time for euro adoption**	**Risk "+"/"-" Reasons for delay**
Czech Republic	no concrete timetable	2009-2010	after 2006	2010	"+" deficit
Estonia	June 2004	2007	June 2004	2008	"+"inflation
Hungary	no concrete timetable	2010 (if possible 2009)	2009	no concrete date	"+" deficit/debt
Latvia	April 2005	2008	May 2005	no concrete date	"+" inflation
Lithuania	June 2004	2007	June 2004	no concrete date	"+" inflation
Poland	no concrete timetable	no explicit date	no concrete timetable	no explicit date	
Slovakia	before June 2006	beginning of 2009	November 2005	beginning of 2009	"-" lack of coordination
Slovenia	June 2004	2007	June 2004	January 2007	

Source: WORLD BANK 2006.

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