

On the Road to the Euro: Progress and Prospects of the New EU Member States

Lucas Papademos

European Central Bank

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Overview

- **Introduction**

- ✓ All new EU Member States are committed to euro adoption
- ✓ Most of them have set target dates for joining the euro area before the end of the decade

- **General policy issues – role and nature of convergence**

- ✓ Importance of sustainable nominal convergence
- ✓ Role and significance of real convergence
- ✓ Legal framework and statistical basis

- **Specific policy challenges and the convergence criteria**

- ✓ Inflation dynamics
- ✓ ERM II participation and current account imbalances
- ✓ Fiscal policy

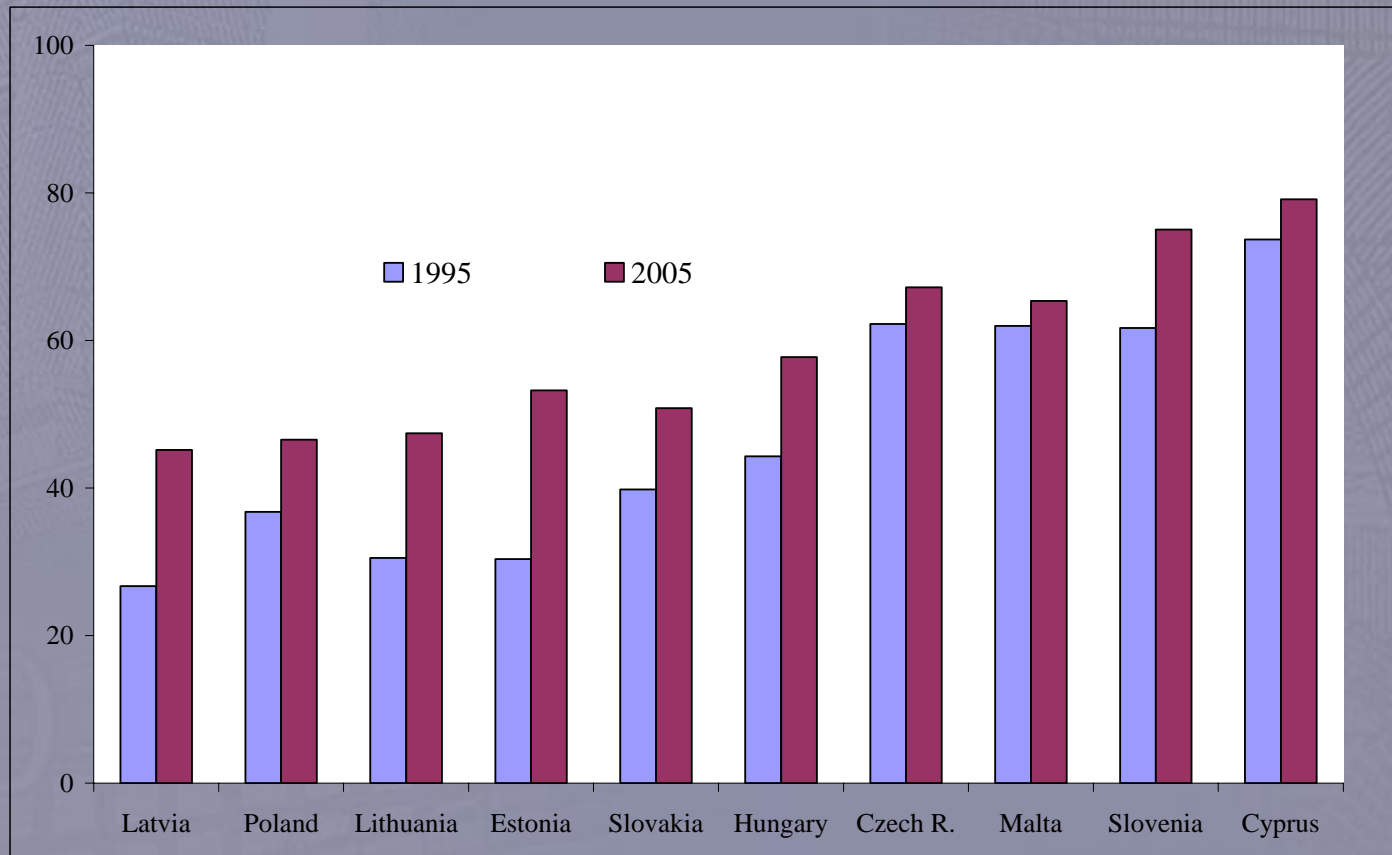
Monetary integration plans of the new Member States

| Country | ERM II participation | Intentions for euro adoption |
|-----------------------|---------------------------------------|--|
| Czech Republic | Two years ahead of the euro adoption. | 2009-2010 |
| Estonia | Participating | As soon as possible. |
| Cyprus | Participating | 1 January 2008. |
| Latvia | Participating | 1 January 2008. |
| Lithuania | Participating | 1 January 2007. |
| Hungary | No explicit target date. | 1 January 2010. |
| Malta | Participating | 1 January 2008. |
| Poland | No explicit target date. | Fulfilment of the convergence criteria in the present parliamentary term (i.e. end-2009). |
| Slovenia | Participating | Beginning of 2007. |
| Slovakia | Participating | 2009 |

Source: Official communications of the governments of the new Member States

Real convergence

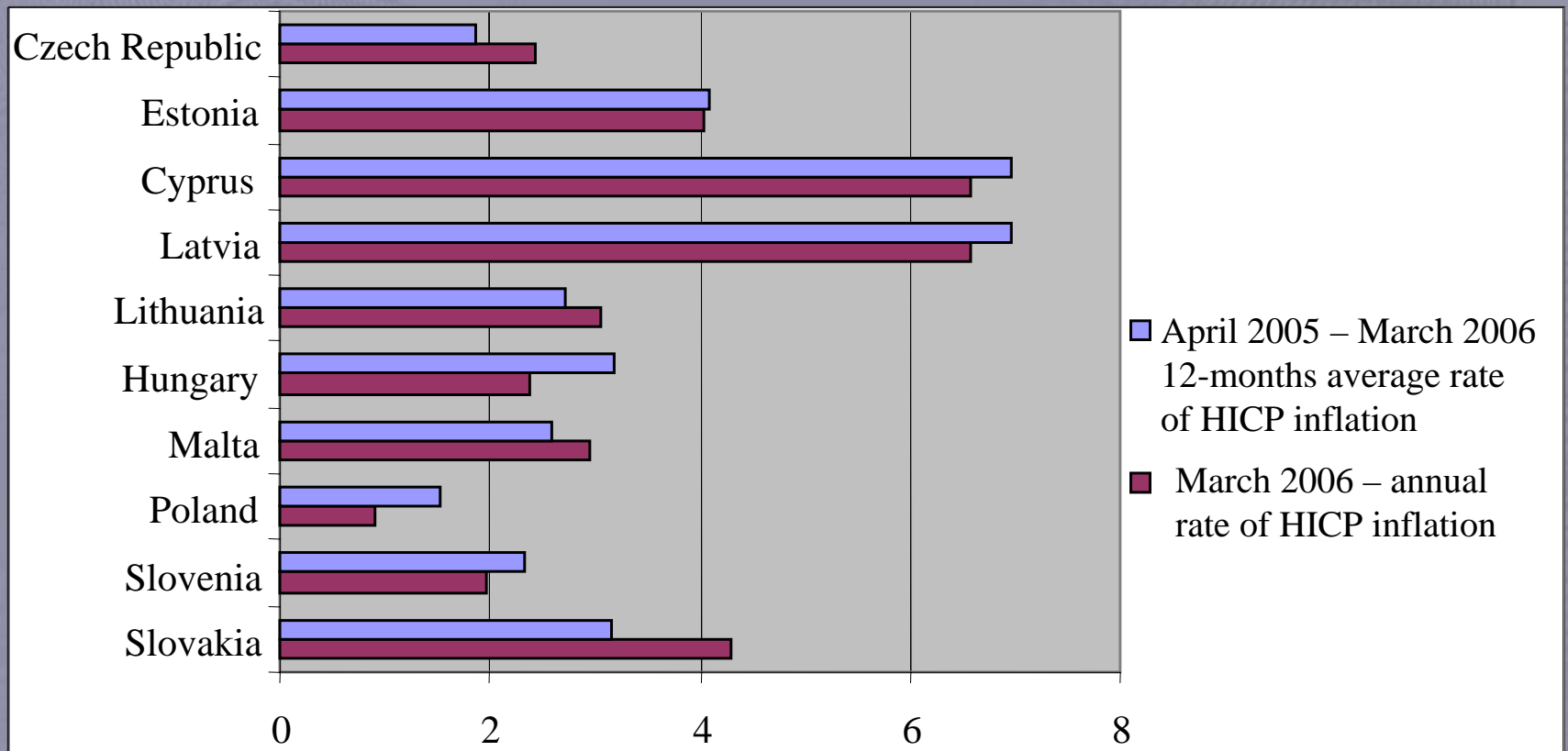
GDP per capita (in % of euro area average in PPP terms)



Source: Eurostat

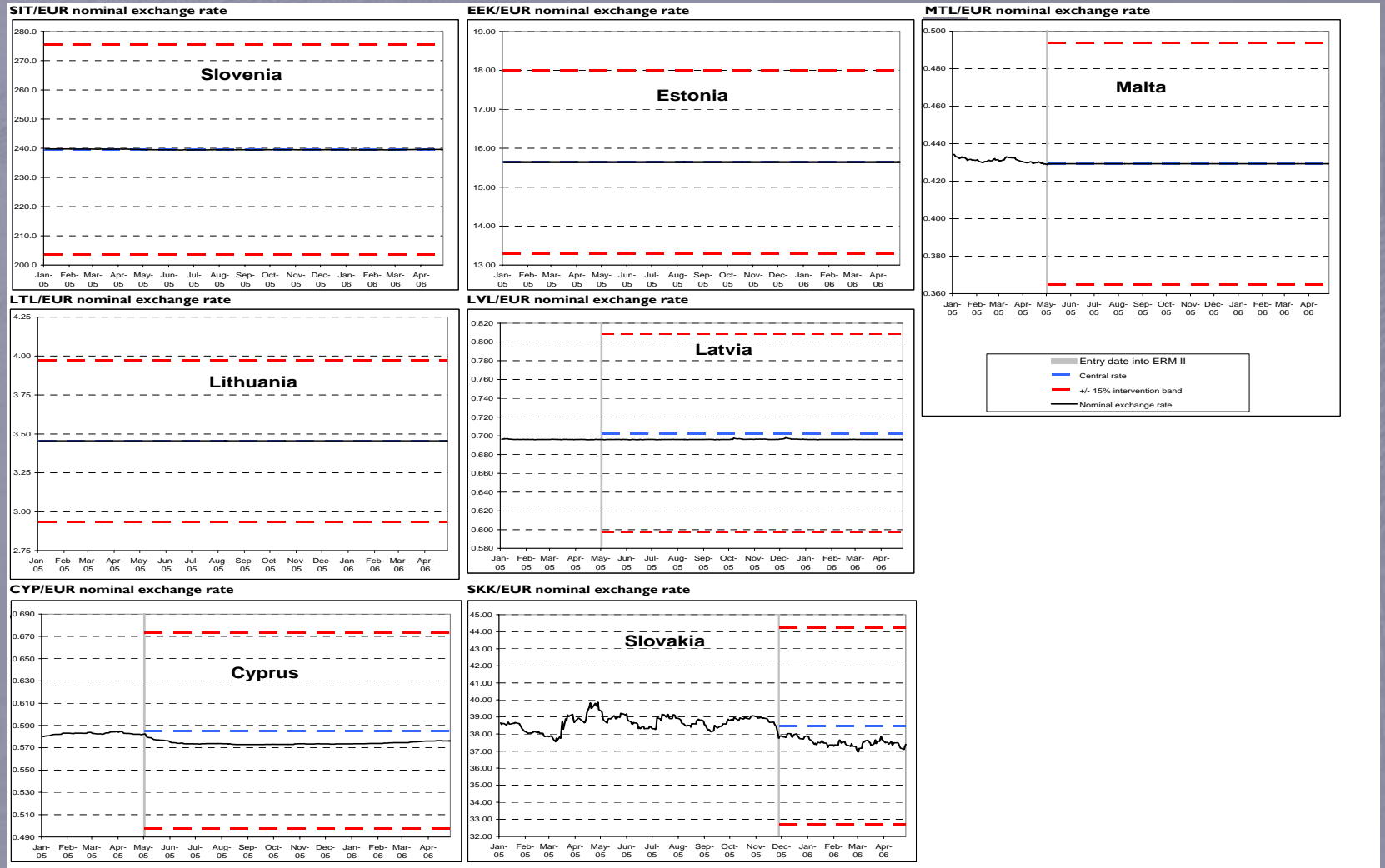
Price stability – recent developments

HICP inflation (annual percentage changes)



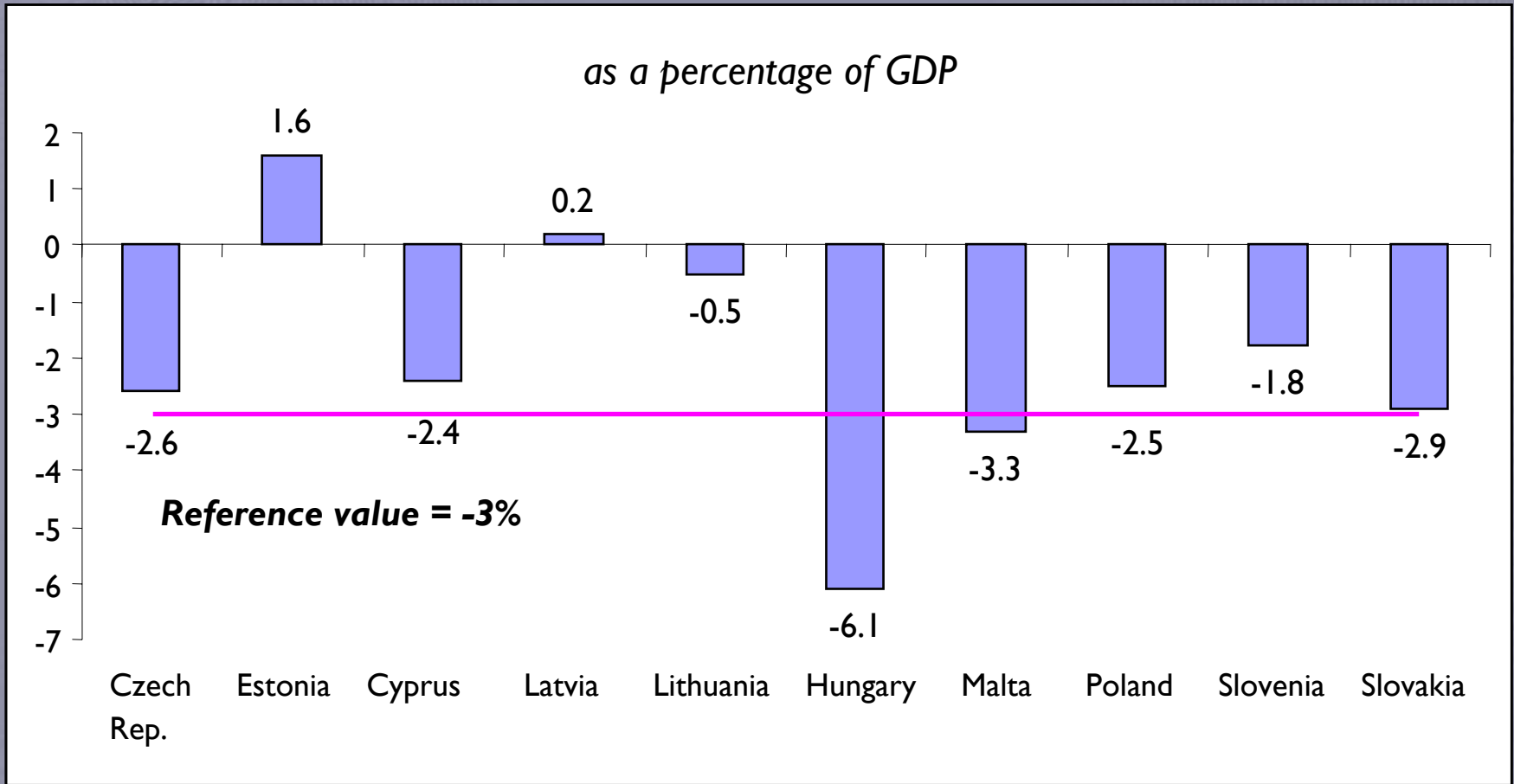
Source: Eurostat, ECB calculations

Exchange rate developments in new ERM II countries



General government balances in 2005

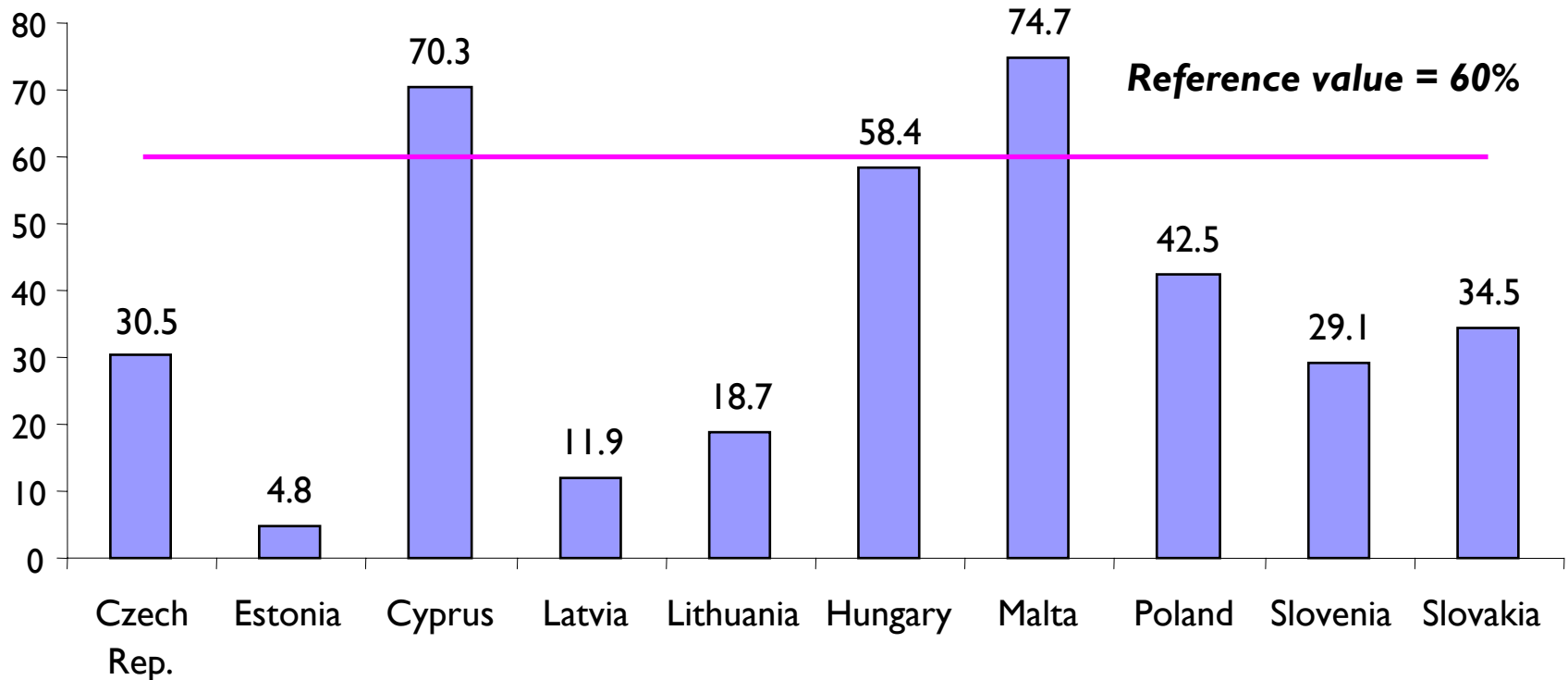
General government surplus (+) or deficit (-)



Government debt in 2005

General government gross debt

as a percentage of GDP



Source: Eurostat