Box 8

THE INTRODUCTION OF THE EURO IN ESTONIA ON 1 JANUARY 2011

The European Central Bank (ECB) and the European Commission prepared their respective Convergence Reports in 2010, pursuant to the requirement set out in Article 140 of the Treaty on the Functioning of the European Union to report to the Council of the European Union (EU Council) at least once every two years – or at the request of a Member State with a derogation – on the progress made by the Member States with a derogation in fulfilling their obligations regarding the achievement of Economic and Monetary Union. These reports were published on 12 May 2010. On the basis of the results of the underlying examination, the European Commission concluded that Estonia had fulfilled the necessary conditions for the adoption of the single currency. On 13 July 2010 the EU Council adopted a decision allowing Estonia to adopt the euro as its currency from 1 January 2011.

On 13 July 2010 the EU Council also adopted a regulation fixing the irrevocable conversion rate between the Estonian kroon and the euro. This conversion rate is set at 15.6466 kroons to one euro, which corresponds to the central rate agreed on 28 June 2004, when the Estonian currency entered the Exchange Rate Mechanism II (ERM II). Since entry in ERM II, the Estonian currency's central rate against the euro has not been devalued, and the exchange rate for the kroon has been maintained at its central rate as a unilateral commitment, thus placing no additional obligations on the ECB. The ECB supported the choice of the current central rate as the conversion rate upon adoption of the euro. Following the fixing of the conversion rate of the Estonian kroon, the ECB and Eesti Pank will monitor developments in the market exchange rate of the Estonian kroon against the euro in the context of the ERM II agreement until the end of 2010.

With the introduction of the euro by Estonia on 1 January 2011, the euro area will comprise 17 EU Member States. Estonia will be able to share the benefits of the single currency, which eliminates exchange rate uncertainty within Economic and Monetary Union and offers a credible monetary policy framework for maintaining price stability in an environment of low long-term interest rates, full price and cost transparency, reduced transaction and information costs, and a greater resilience to economic and financial shocks. At the same time, in order to fully reap the advantages of the euro and to allow adjustment mechanisms to operate efficiently within the enlarged currency area, it is important for Estonia to conduct policies that are fully geared towards meeting the challenge of ensuring the sustainability of the convergence process. Importantly, the Estonian authorities have publicly underlined their commitment to ensuring an economic environment that is conducive to sustainable output and employment growth, with balanced macroeconomic conditions, including price stability. Specifically, this implies: (i) maintaining prudent fiscal policies; (ii) continuing structural reforms to enhance cost competitiveness and productivity; and (iii) implementing appropriate financial sector policies to ensure financial stability and avoid the build-up of imbalances.