Anchor, Float or Abandon Ship: Exchange Rate Regimes for the Accession Countries

Abstract

The paper considers alternative exchange rate regimes for the East European accession candidates, both prior to EU accession and following EU accession but prior to EMU membership. We conclude that, from an economic point of view, EMU membership should be as early as possible. There is, however, a risk that prevailing interpretations of the inflation and exchange rate criteria for EMU membership could lead to unnecessary delays in EMU membership for the accession countries. The exchange rate criterion for EMU membership requires that the candidate *"has respected the normal fluctuation margins provided for by the exchange rate mechanism of the European Monetary System without severe tensions for at least the last two years before the examination."* Both this text and the precedents of Finland, Italy and Greece, support the view that the exchange rate criterion can be satisfied without two years of formal ERMII membership. Insistence on at least two years of formal ERMII membership for the accession countries, would result in an unnecessary, costly and potentially risky stay in EMU purgatory.