Abstract

The paper discusses how the EU accession countries should pursue full membership in the EMU – adopt the euro. The key messages are the following:

- Even the largest of the accession countries is too small, too open and too vulnerable to speculative attacks to be a viable optimal currency area.
- Achieving fiscal sustainability is a necessary condition for full EMU membership. It should also be sufficient.
- Convergence, prior to the adoption of the euro, of an EMU candidate's inflation rate to its Eurozone equilibrium inflation rate is helpful but not essential.
- Real convergence is irrelevant for EMU membership.
- Participation in ERMII is at best unhelpful. At worst it creates unnecessary risks of financial and macroeconomic instability.
- The Maastricht criteria for EMU membership include the simultaneous achievement of three nominal objectives: (1) a nominal exchange rate target (to stay, for at least 2 years, within a ± 15 percent nominal exchange rate band centered on a fixed parity with the euro); (2) a short-term inflation target (inflation, for at least 1 year, to be no more than 1.5 percent above the average inflation rates of the 3 EU Members States with the lowest inflation rates); and (3) a target for a long-term (10 year) nominal interest rate (that rate not to be more than 2 percent above the average of the 3 EU Members states with the lowest inflation rates, for at least one year). This is two nominal targets too many. It overburdens the monetary authority and confuses markets.
- The 2 – year ERMII participation requirement should be dropped. Instead, upon achieving fiscal sustainability (and preferably also inflation convergence), the EMU candidate should be given a firm *date* and (exchange) *rate* for full EMU membership. This will provide a necessary focal point for the markets and will permit the smooth approach of the market exchange rate to the irrevocable conversion rate with the euro. It should be possible to move into full EMU membership directly from an unrestricted float.
- Unilateral euroisation, in the sense of the adoption of the euro as a parallel currency and joint legal tender alongside the domestic currency, is not inconsistent with the Treaty, if it does not involve the abolition of the national currency and the unilateral determination of the ultimate conversion rate of the domestic currency and the euro. In addition, it should be possible for the new EU members to negotiate *consensual euroisation* (this could include the immediate disappearance of the domestic currency).

Key words**:** EU accession; fiscal sustainability; convergence; ERMII.
Journal of Economic Literature Classification System**:** E42, E52, E63, F32,F33, F41

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