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EUROSYSTEM

Enlargement of the euro area toward CESEE: progress to date and perspectives

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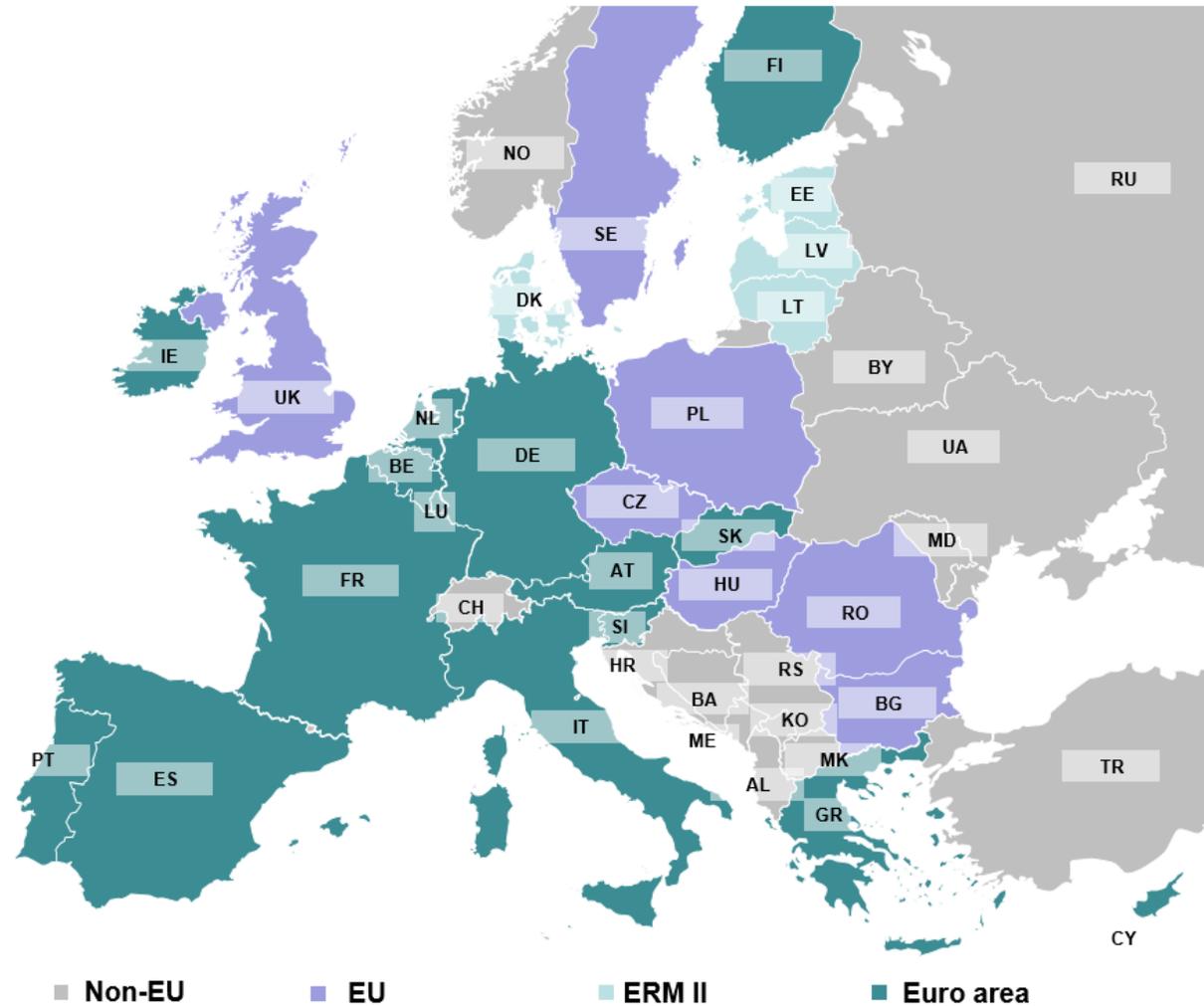


Structure of the paper

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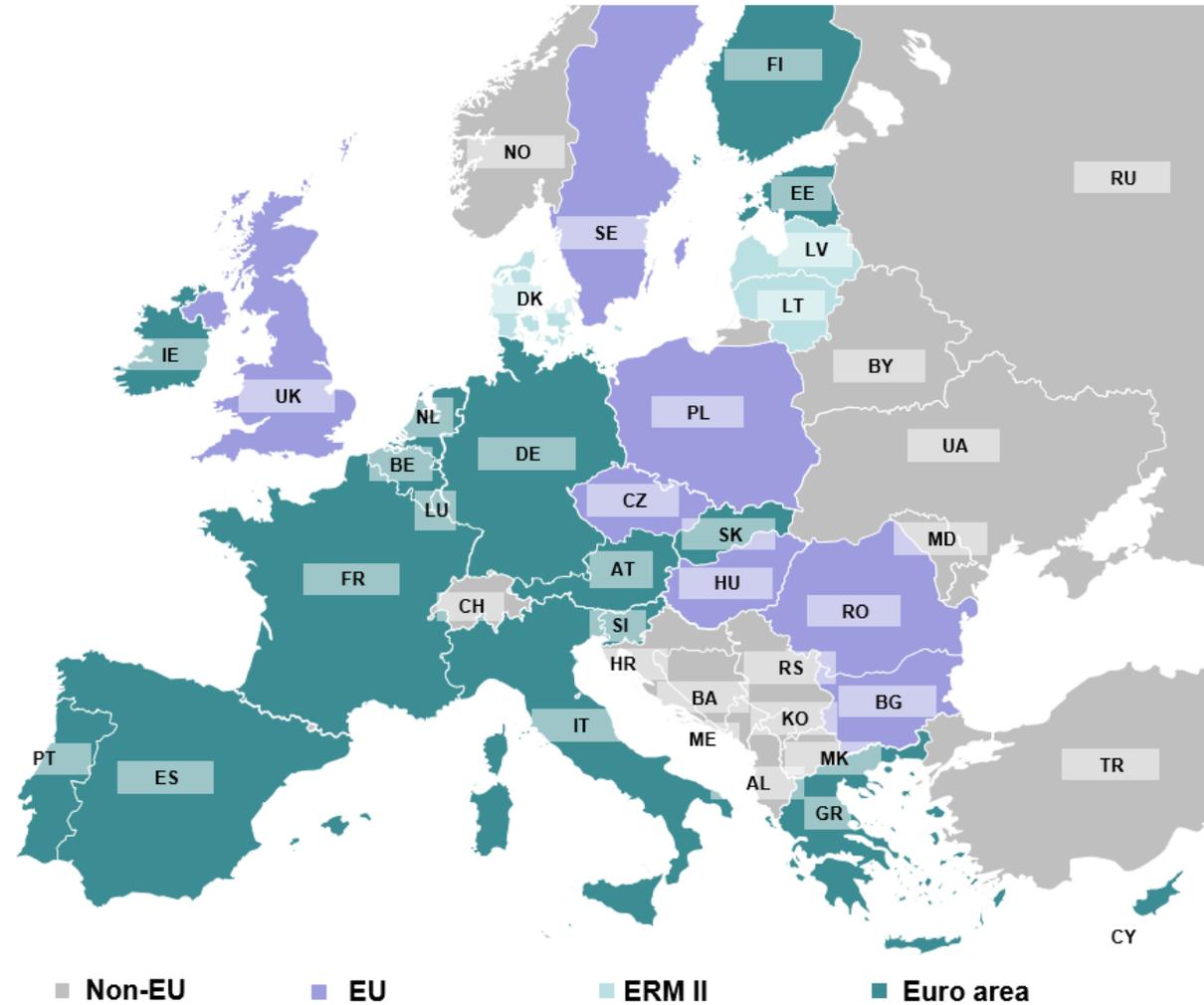
I.I The record of euro area enlargement from 2010 to 2018

Monetary integration in Europe – as of 1 January 2010



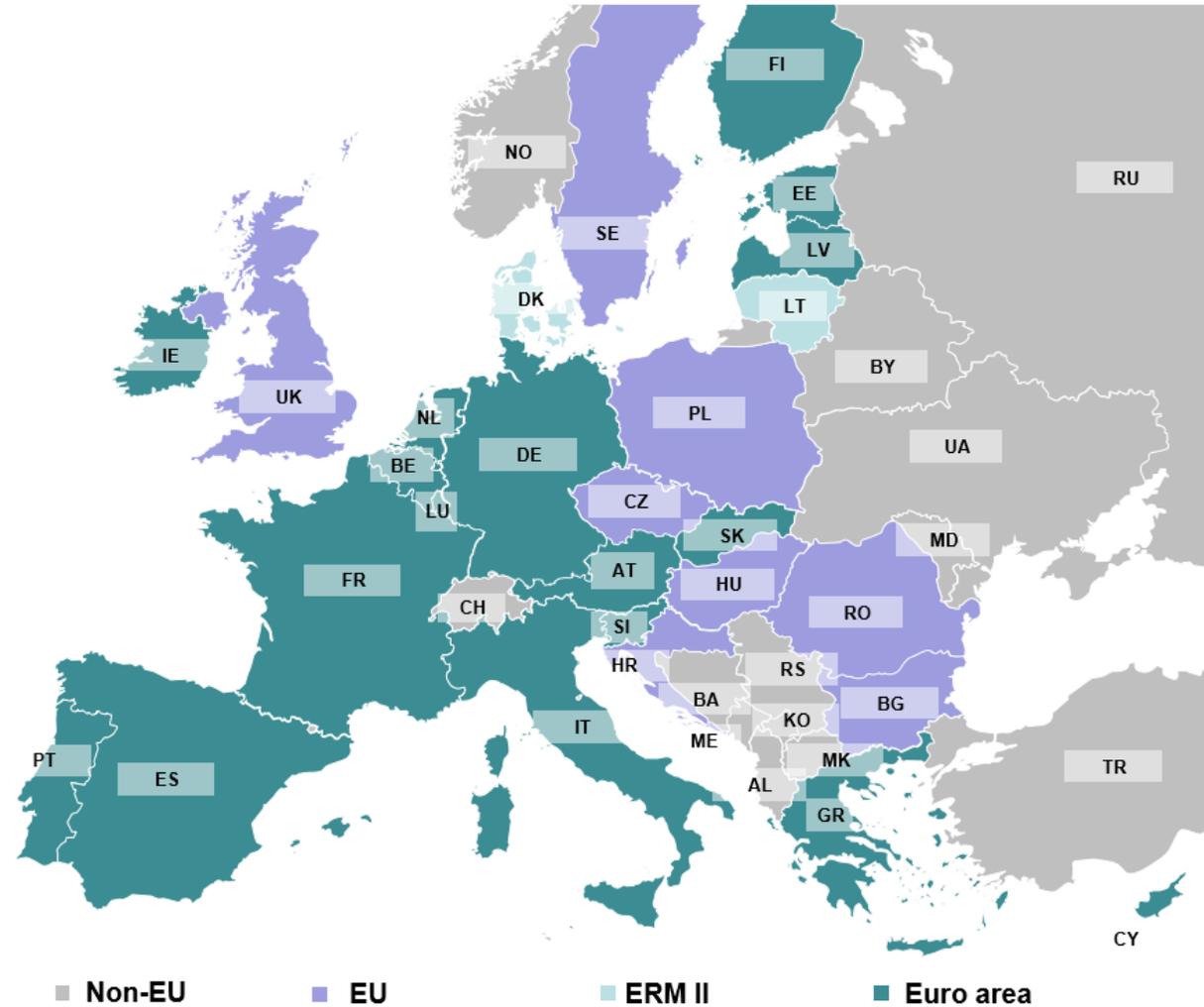
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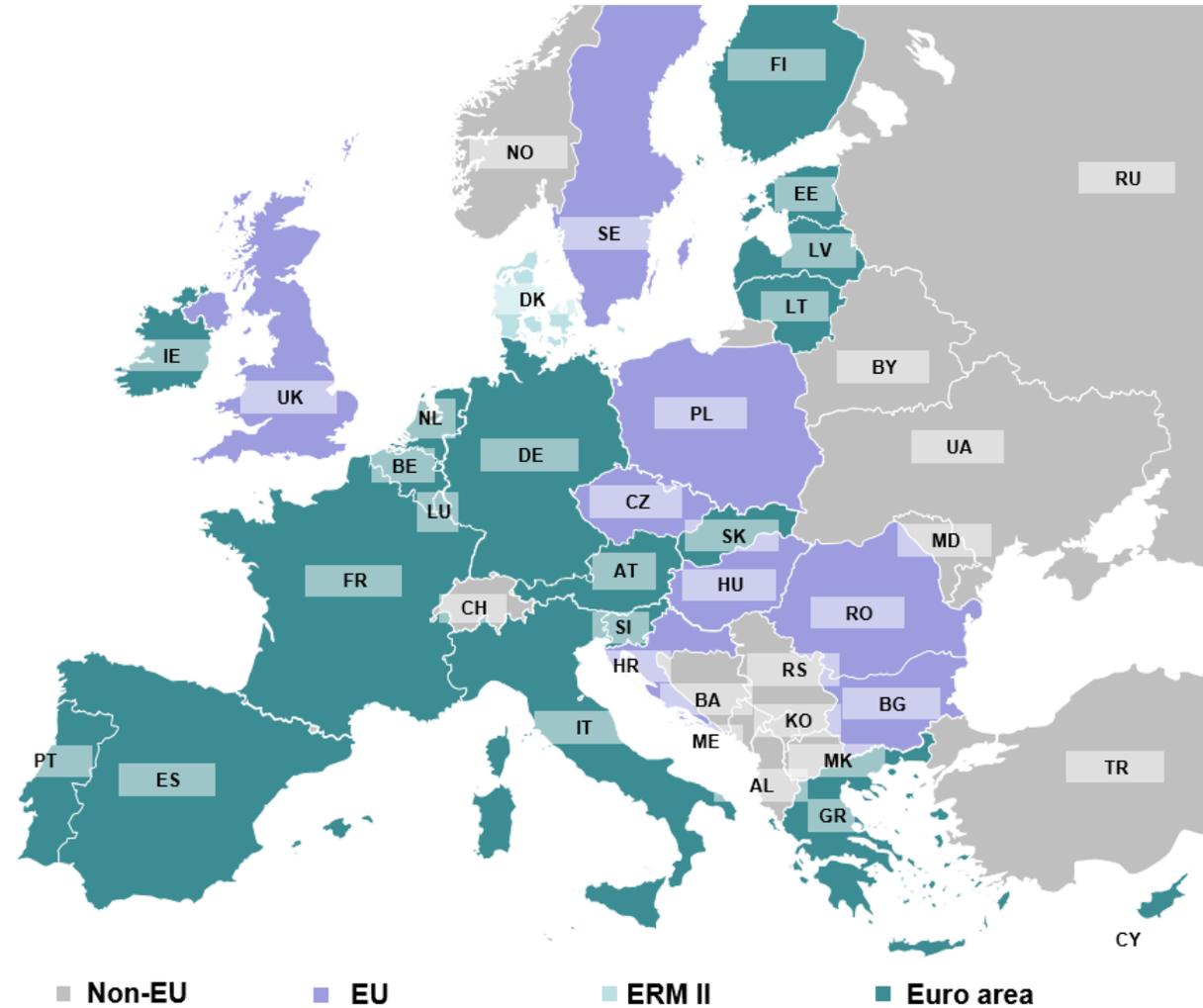
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I.II Economic performance of euro-area CESEE EU MS in the 2010s

Heterogeneity in performance across countries

- Good and less good performances both inside and outside CESEE-EA

Empirical evidence suggest that this heterogeneity is

- mostly due to different structural and institutional features at the outset and to the crisis response (in terms of comprehensiveness, forcefulness, speed)
- much less due to the question of whether a country was a euro-area member or not

There is some empirical evidence that euro area participation has slightly speeded per-capita income convergence, no evidence that it has slowed it

I.III Nominal convergence developments

The convergence criteria and the CESEE EU Member States in the 2018 Convergence Reports

	HICP	Long-term interest rates	EDP going on	Fiscal balance		Public debt		ERM II participation
	4/17-3/18 vs. 4/16-3/17	4/17-3/18		2016	2017	2016	2017	
	%			% of GDP				yes/no
<i>Reference value</i>	<i>1.9</i>	<i>3.2</i>		<i>-3.0</i>	<i>-3.0</i>	<i>60.0</i>	<i>60.0</i>	
Bulgaria	1.4	1.4	no	0.2	0.9	29.0	25.4	no
Croatia	1.3	2.6	no	-0.9	0.8	80.6	78.0	no
Czech Republic	2.2	1.3	no	0.7	1.6	36.8	34.6	no
Hungary	2.2	2.7	no	-1.7	-2.0	76.0	73.6	no
Poland	1.4	3.3	no	-2.3	-1.7	54.2	50.6	no
Romania	1.9	4.1	no	-3.0	-2.9	37.4	35.0	no
<i>Memo items:</i>								
<i>Euro area</i>	<i>1.4</i>	<i>1.1</i>		<i>-1.5</i>	<i>-0.9</i>	<i>89.0</i>	<i>86.7</i>	

Source: Eurostat

Note: Bold letters indicate that the criterion was numerically met at the given time.

The table does not capture sustainability issues, the full spectrum of exchange rate stability or legal convergence matters.

II. Current views of non-euro area CESEE EU member states on future euro adoption

Non-euro area CESEE EU MS:

Current exchange rate and monetary policy regimes, ERM II and euro adoption intentions

	Exchange rate and monetary policy regime	ERM II entry intentions of national authorities	Euro adoption plans of national authorities
Bulgaria	euro-based currency board	entry intended by July 2019	no target date specified, but general preference for joining as soon as possible
Croatia	tightly managed float (euro-oriented)	future entry intended, no time-line specified	euro adoption strategy approved by government in spring 2018, no time-line specified
Czech Republic	managed float, inflation targeting	not on the agenda	annual review process, no intentions currently or in the near/medium-term future
Hungary	managed float, inflation targeting	not on the agenda	not on the agenda
Poland	free float, inflation targeting	not on the agenda	not on the agenda
Romania	managed float, inflation targeting	future entry intended, no time-line specified	euro adoption intended at some future point in time, but no strategy / time-line yet

Source: Authors' own compilations from public documents and media reports.

III. How the crisis impacted on convergence assessments

- Reflection of balance-of-payment support and other support measures
- Numerical development of reference values

Inflation reference value in previous and current Convergence Reports

Convergence Report adoption date	Cut-off month	Three best performers ^{1) 2)}	Reference value ³⁾	Euro area average inflation rate ⁴⁾
1998	January 1998	Austria, France, Ireland	2.7	1.5
2000	March 2000	Sweden, France, Austria	2.4	1.4
2002	April 2002	United Kingdom, France, Luxembourg ⁵⁾	3.3	2.4
2004	August 2004	Finland, Denmark, Sweden	2.4	2.1
2006 May	March 2006	Sweden, Finland, Poland	2.6	2.3
2006 December	October 2006	Poland, Finland, Sweden	2.8	2.2
2007	March 2007	Finland, Poland, Sweden	3.0	2.1
2008	March 2008	Malta, Netherlands, Denmark	3.2	2.5
2010	March 2010	Portugal, Estonia, Belgium	1.0	0.3
2012	March 2012	Sweden, Ireland, Slovenia	3.1	2.8
2013	April 2013	Sweden, Latvia, Ireland	2.7	2.2
2014	April 2014	Latvia, Portugal, Ireland	1.7	1.0
2016	April 2016	Bulgaria, Slovenia, Spain	0.7	0.1
2018	March 2018	Cyprus, Ireland, Finland	1.9	1.4

Source: European Commission, Convergence Report 2018, p.29

Strengthened economic governance

- in particular reflection of **macroeconomic imbalances procedure** in the convergence reports

The establishment of the Single Supervisory Mechanism (SSM) and its reflection in the convergence reports

“Statement on Bulgaria's path towards ERM II participation” of July 12, 2018: main elements

- prior commitments taken by Bulgaria, in particular **Bulgaria** “is expected [...] to enter into [SSM] **close cooperation** with the ECB [...] including an ECB’s **comprehensive assessment.**”
- ECB and Commission will **monitor** [...] implementation of these commitments
- Once [...] positive assessment, a decision will be taken by the ERM II parties on the formal application of the Bulgarian authorities for **ERM II participation.**
- ERM II decision will be linked to the ECB decision on SSM close cooperation. This implies that Bulgaria **simultaneously joins ERM II and Banking Union.**
- “In the **future**, we expect to follow a **similar approach for Member States wishing to join ERM II**, in line with the principle of equal treatment.”

V. Conclusions and outlook

- Profound change in the setting in which the monetary integration of CESEE EU Member States is taking place
 - Experience from the crisis has sharpened the views of policymakers
 - Institutional set-up of EMU substantially transformed as a reaction to the crisis
- The next enlargement of the euro area is at least a few years away, since
 - currently no CESEE country participates in ERM II and
 - ERM II entry has a lead time
 - the new institutional set-up (SSM) has to be taken into account
- Going forward, it is key to strike a balance between lessons drawn from the crisis and equal treatment
 - need for an even-handed application of this principle, which combines continuity with a careful and well-grounded integration of the lessons from the past and the institutional reforms that have resulted as a consequence, for the mutual benefit of all stakeholders in the process

Danke für Ihre Aufmerksamkeit

Thank you for your attention

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