

THE TIMETABLE FOR EURO ZONE ADMITTANCE

Simona Poladian and Eugen Andreescu*

Abstract

If several years ago we spoke about EU enlargement now we are talking about Euro Zone extension. The Euro Zone is preparing to receive more members. This aspect results from the political representatives from sides, Euro area and countries from outside. In spite of some postponements the next wave of Euro Zone enlargement is scheduled for January 2008 and includes Malta and Cyprus. That's why Euro Zone increases from 13 to 15 the number states that adopt Euro.

If several years ago we spoke about EU enlargement now we are talking about Euro Zone extension.

The Euro Zone is preparing to receive more members. This aspect results from the political representatives from sides, Euro area and countries from outside. After the Slovenian Euro adoption since January 2007, the number of Euro countries increased to 13. This is the first step to a greater enlargement after six years of break when Greece was accepted (2001).

The EU enlargement, by opening its borders since May 2004 to a more 10 countries, has initiated some kinds of euphoria atmosphere regarding Euro area admission in the following 2 or 3 years. But the practical integration process, namely the necessary conditions that should be implemented in society, has proved to create difficulties in these economies and has determined some countries such Czech Rep. Estonia, Latvia and Lithuania and Hungary to redraw the initial target established for entering into Euro Zone. The main cause of this postponement is the fulfilling of the Maastricht criteria.

In spite of some postponements the next wave of Euro Zone enlargement is scheduled for January 2008 and includes Malta and Cyprus. That's why Euro Zone increases from 13 to 15 the number states that adopt Euro.

The rest of the 12 EU countries is maintaining the status of "derogation member states" until they fulfill the necessary restrictions. Among these, only 10, namely, Sweden, Czech Rep., Estonia, Latvia, Lithuania, Poland, Hungary, Slovakia, Bulgaria and Romania have the obligations to adopt Euro when are

* Simona Poladian is researcher at the Institute for World Economy in Bucharest.
Eugen Andreescu is researcher at the Institute for World Economy in Bucharest.

ready. But only Slovakia (2009) and Romania (2014) has established target term for Euro adoption.

11 EU countries formed at 1 January 1999 the Euro Zone.

THE TIMETABLE OF EURO ADOPTION

EU members (since 1960)	Becoming EU Member	Becoming ERM member	Euro adoption	Currency	Currency regime	Central level of exchange
Denmark	1973	March 1979	-	Krona	ERM: between - 2,25 and +2,25%	7,46
Ireland	1973	March 1979	1999	Euro	-	-
UK	1973	October 1990-September 1992	-	Pound	Free floating	-
Greece	1981	March 1998	2001	Euro	-	-
Spain	1986	June 1989	1999	Euro	-	-
Portugal	1986	April 1992	1999	Euro	-	-
Austria	1995	January 1995	1999	Euro	-	-
Sweden	1995	-	2011	Krona	Free floating	-
Finland	1995	October 1998	1999	Euro	Euro	-

Greece has joined to the group since 2 Jan 2001. Next country that prefers Euro from Jan 2007 is Slovenia. Malta and Cyprus enlarged from the 1 Jan. 2008 the border of Euro Zone. Next is the turn of Slovakia for 2009, then it is estimated an enlargement with Lithuania, Latvia, Estonia; Bulgaria estimates the adoption of Euro for 2010, then Romania and Hungary in 2014).

Some postponements of these terms are possible. They depend on the respecting of the Maastricht restrictions. For example, Hungary is confronted with a very large budgetary deficit (10%) and a public debt that exceed 60% of the GDP. Baltic countries are fighting with a high inflation and Romania also. Slovakia is having problems with inflation and long term interest.

EU members (since 2004)	Becoming EU Member	Becoming ERM member	Euro adoption	Currency	Currency regime	Central level of exchange
Cyprus	2004	Since April 2005	2008	Pound	ERM between -15 and +15%	0,585
Czech Republic	2004	2008-2011	2011-2014	Krona	Free floating with Euro reference	-
Estonia	2004	June 2004	2009-2010	Krona	ERM between -15 and +15%; monetary board	15,65
Hungary	2004	2011	2014	Forint	Bilateral rates between -15 and +15%	282,0
Poland	2004	2010	2013	Zlot	Free floating	-
Slovenia	2004	June 2007	2007	Tolar	ERM between -15 and +15%	239,5
Malta	2004	April 2005	2009-2010	Lat	ERM between -15 and +15%	0,429
Latvia	2004	April 2005	2009-2010	Litas	ERM between -15 and +15%	0,703
Lithuania	2004	June 2004	2009	Krona	ERM between -15 and +15%; monetary board	3,45
Slovakia	2004	Nov. 2005	2009	Krona	ERM between -15 and +15%	38,45
Bulgaria	2007	2007	2010	Leva	Euro monetary board	1,96
Romania	2007	2010-2012	2012-2014	Leu	Floating	-

ERM II: The ERM is based on the concept of fixed currency exchange rate margins, but with currency fluctuations had to be contained within a margin of 15% on either side of the bilateral rates.

The Estonian kroon, Lithuanian litas, and Slovenian tolar were included in the ERM II on 28 June 2004; the Cypriot pound, the Latvian lats and the Maltese lira on 2 May 2005; the Slovak koruna on 28 November 2005.

The currencies of the three largest countries which joined the European Union on 1 May 2004 (the Polish zloty, the Czech koruna, and the Hungarian forint) are expected to follow eventually. Plans for Bulgaria are to apply for ERM membership in the beginning of 2007 and to commit to its rules regardless of the European Commission decision, while Romania plans to join ERM in 2010-2012.

EU countries that have not adopted the euro are expected to participate for at least two years in the ERM before joining the Euro zone. As Slovenia adopted the euro in 2007, the Slovenian tolar was removed from the ERM and from circulation.

Sweden is expected to participate in ERM in order to meet the convergence criteria required for switching currency, but has deliberately chosen to stay out of the mechanism, thus maintaining their currency Swedish krona. This choice is currently tolerated by the ECB, but it has been warned it won't be tolerated for newer union members.

The ERM member states are: Cyprus, Denmark, Estonia, Lithuania, Latvia, Malta and Slovakia.

The bilateral rates of the ERM members (22 march 2007)

Country/currency	Bilateral rates/Euro	Floating margin
Denmark/ Krona	7,46038	+ or - 2,25%
Estonia	15,6466	+ or - 15%
Lithuania	3,45280	+ or - 15%
Letonia	0,702804	+ or - 15%
Slovenia/talar ¹	239,640	+ or - 15%
Cyprus/pound	0,585274	+ or - 15%
Malta/ lira	0,429300	+ or - 15%
Slovakia/krona	35,4424	+ or - 15%

A very important aspect regarding the Euro adoption is its weight in export and import volumes.

-The highest-

Austria	63%
Italy	54%
Spain	54%
Nederland	53%
Belgium	50%

¹ Already Slovenia has entered into Euro Zone since 1 Jan 2007

-The lowest-

Greece	28%
Luxembourg	30%
France	43%
Finland	44%

-on the whole Euro area the weight of Euro in export volumes account for 49.7% versus \$ that accounts for 44%-

As to the Euro weight in import volumes we could see:

-The highest-

Austria	61%
Belgium	46%
Spain	44%
Portugal	43%

-The lowest-

Greece	18%
Ireland	19%
Nederland	23%

-on the whole Euro area the weight of Euro in import volumes account for 35.2% versus \$ that accounts for 55.7 %-

Among the newly EU countries the Euro weight in export volumes are:

-The highest-

Slovenia	88%
Czech Rep.	72%
Poland	70%
Romania	54%

-The lowest-

Cyprus	39%
Lithuania	51%

As to the Euro contribution in import values

-The highest-

Slovenia	82%
Romania	71%
Czech Rep.	71%
Poland	60%
Bulgaria	60%

-The lowest-

Lithuania	51%
Cyprus	58%

We could observe Slovenia having 88%, the highest weight of Euro in export volumes and 82% for import volumes. Austria is on the second place, at a large distance from the first position with a weight of 63% by exports and 61% by imports.

Generally speaking the newly EU countries are very tight by Euro in comparison with the former 15 EU countries. That's why we have reasons to believe that the way toward Euro Zone is not an easy one but is the right way.

Concerning the future EU enlargement we summarize in the following table countries that are willing to obtain full EU membership:

EU member (after 2011)	EU request	Negotiations process (since 2005)	EU member	ERM member	Euro adoption	Currency	Currency regime	Central level of exchange
In the process of negotiations								
Croatia	2003	2005	2011-2012	2011	2014	kuna	Limited floating with Euro reference	-
Turkey	1967	2005	2015 - ?	2015 - ?	2018 - ?	Turkish pound	Free floating	-
Outside negotiations								
Albania	2008	2012	2017	2017	2020	leka	Limited floating with Euro reference	-
Macedonia	2004	2008	2013	2013	2016	dinar	Limited floating with Euro reference	-
Bosnia	2009-2010	2015	2020	2020	2022	marka	Monetary Board with Euro reference	1,96
Serbia	2008	2011	2015	2015	2018	dinar	Free floating with Euro reference	-
Montenegro	2008	2011-2012	2015	2015	2018	Euro	German Mark adoption since Nov. 2000	-
Ukraine	2010	2012	2017	2017	2020	hrivna	Dolar Reference	5,0-5,1