

The Euro After Five Years

Achievements and Challenges

The challenges for new member states

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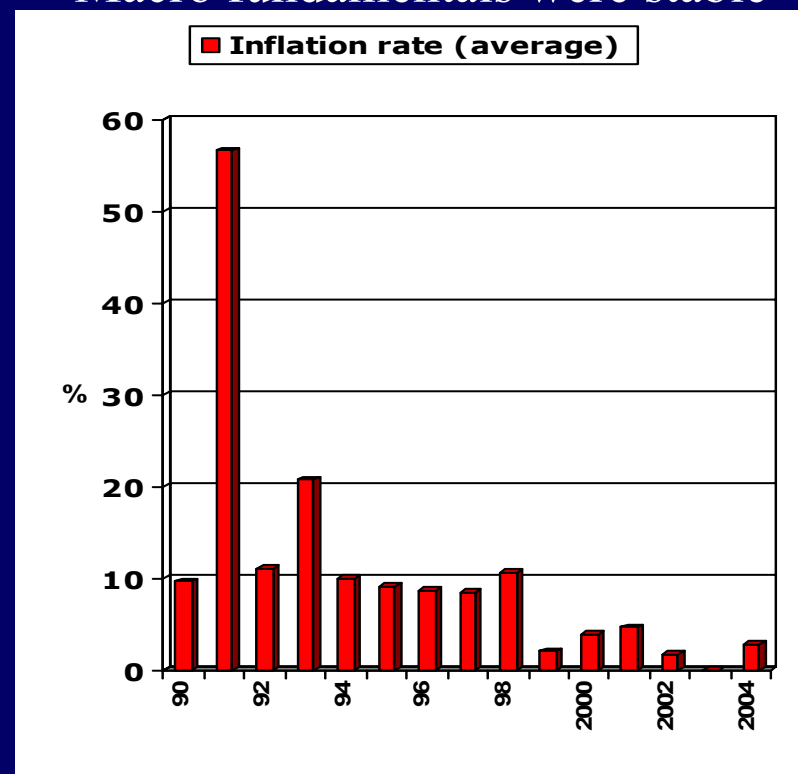
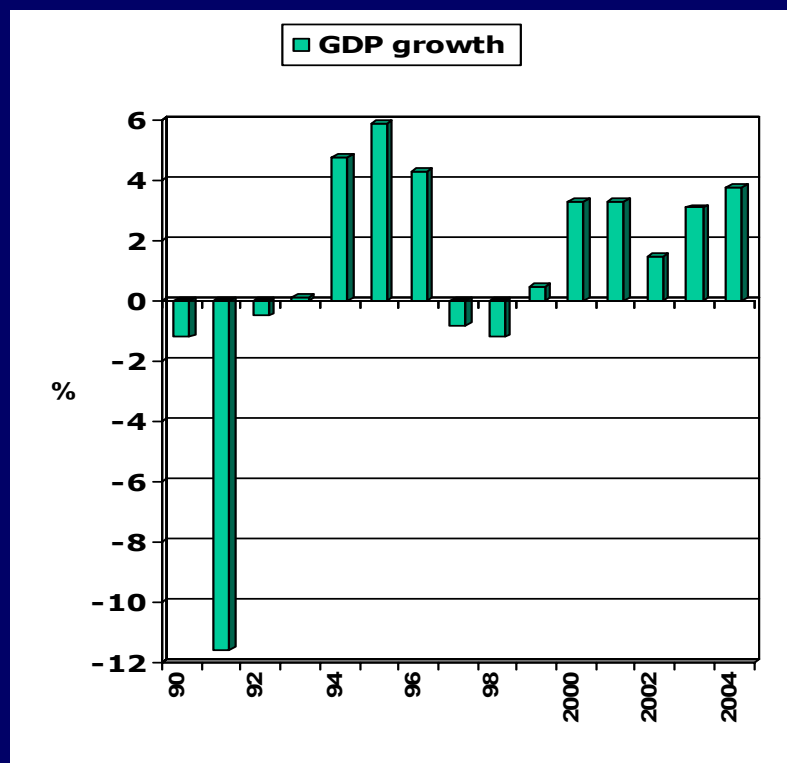
CNB, Prague



Amsterdam, 11-12 October, 2004

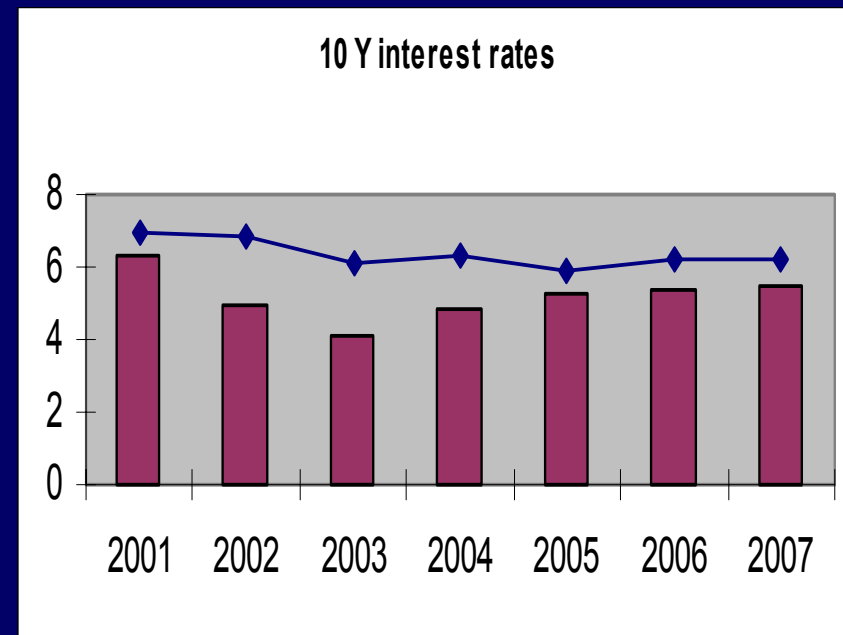
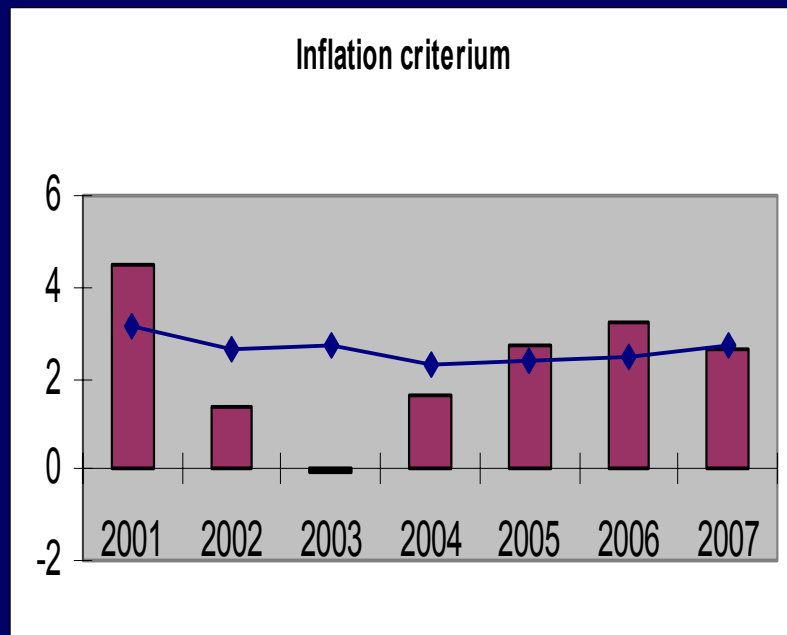
Transformation is only 15 years old ...

- Speed of catch up was moderate
- Macro fundamentals were stable



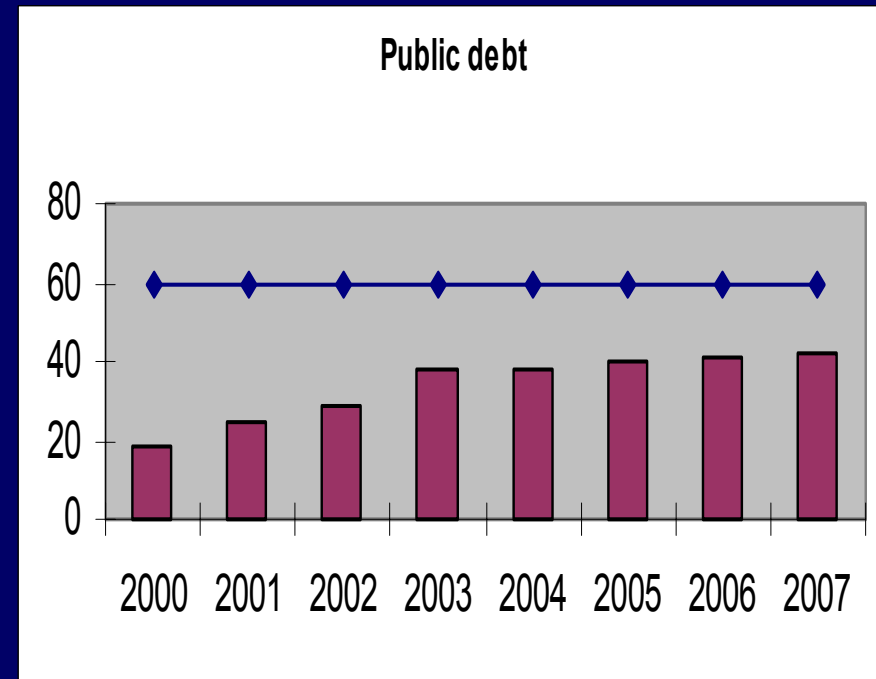
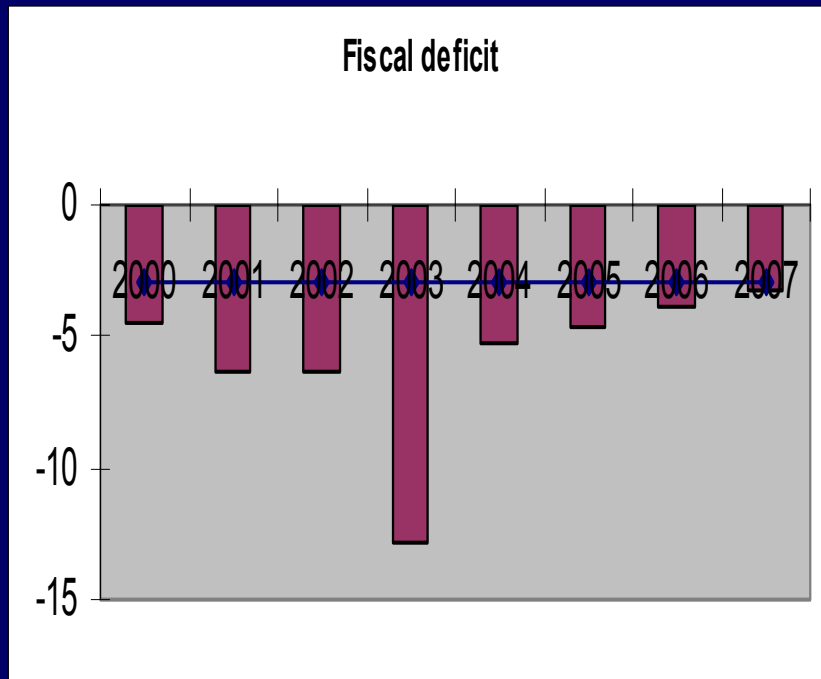
... and new members are thinking about Euro zone...

- Price stability below the target
- Long interest rates too ...

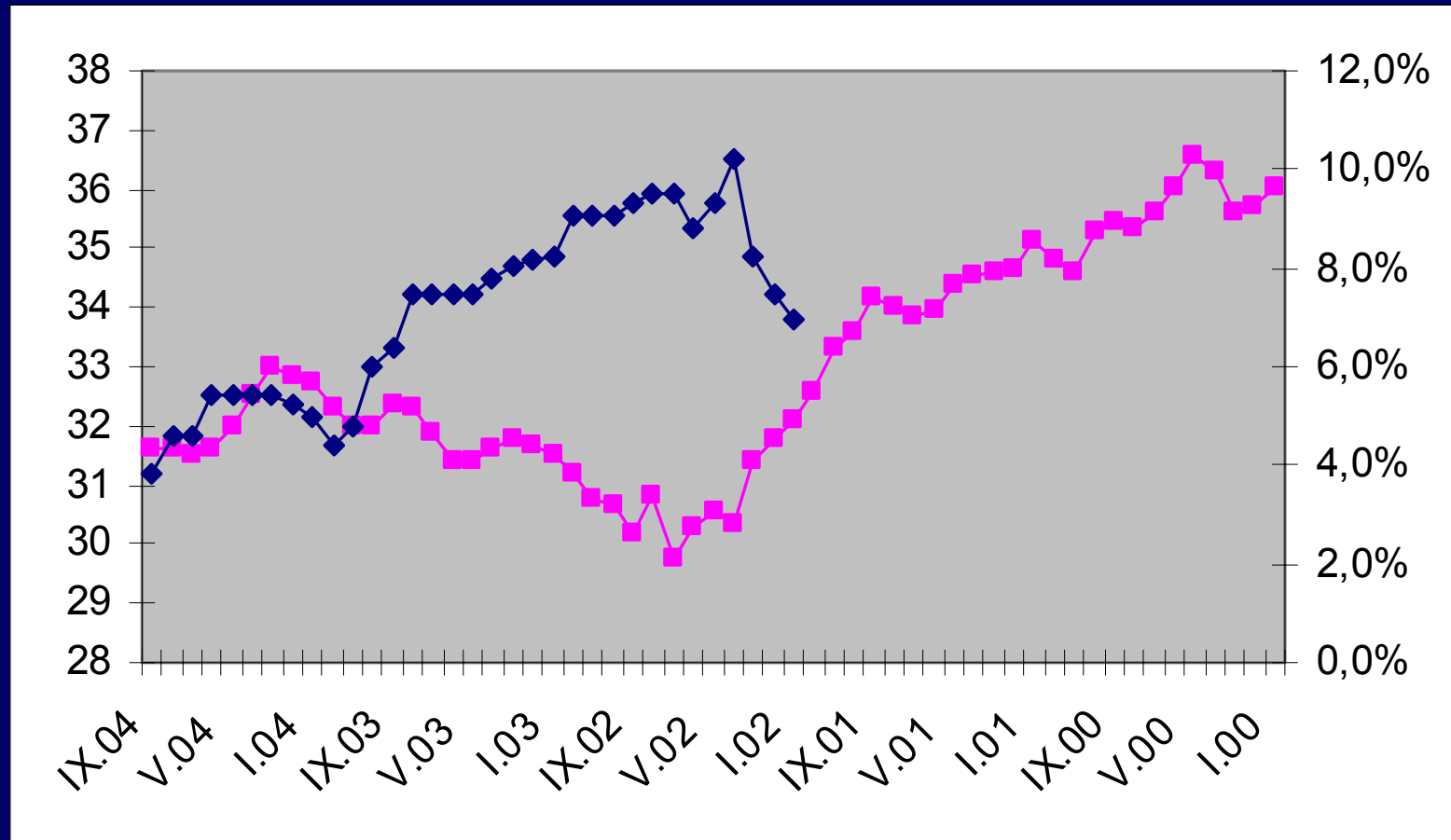


... but fiscal policy is source of concern ...

- The deficits are high...
- ...And debt is going up ...



.. So how far we are from Euro ...



CR vs. Maastricht

- Even 3 % limit of public deficit requires a substantial reform
- Uncertainty about the ability to limit the volatility of the FX rate, the issue of monetary policy regime could be discussed

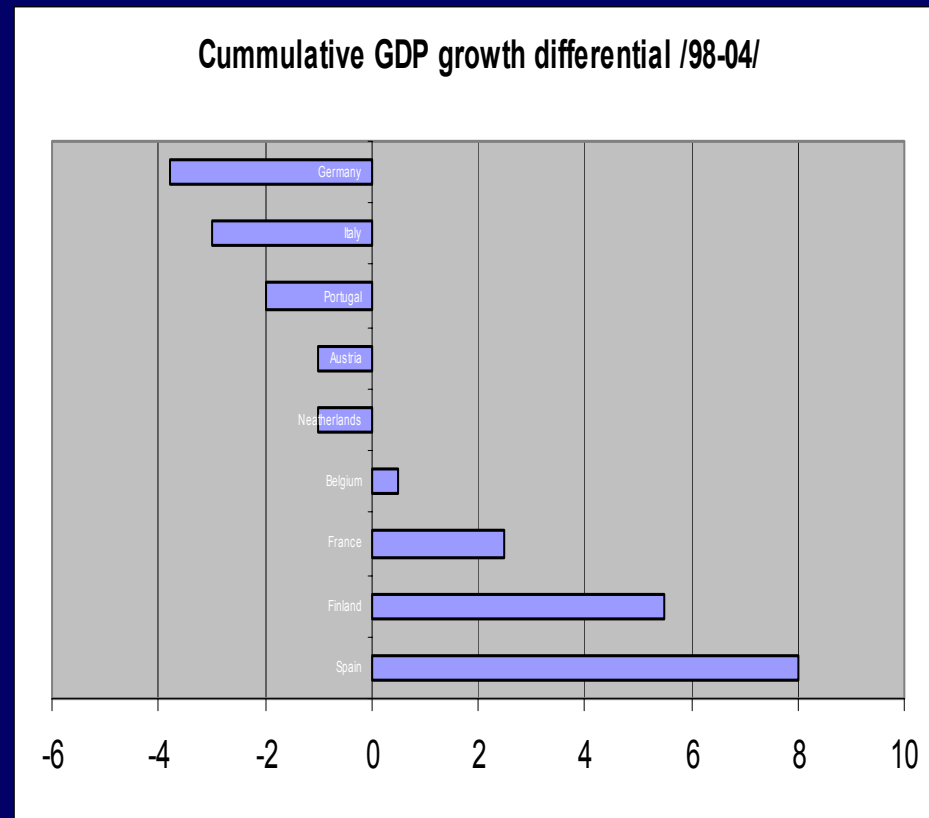
" *Real convergence* "

- Correlation of the macro indicators "moderate" at maximum
- Structure of the economy still different from most EU members
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- The EU growth - very strong determinant of our GDP
- Very high proportion of foreign trade with EU and FDI as well
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If anything matters, than it is a flexibility of the economy ...
.... but how to measure it ?????

Monetary union vs. "catching up"

- Wealth difference between "richer" and "poorer" members very large
- But even inside Euro zone significant differences in growth
- What is an optimal process of the catching up ???



Current CR strategy

- The fiscal consolidation is not bringing deficits below 3 % until 2007
- The time of entry to Euro zone should be 2009 or 2010
- CZK will not join ERM II until it is very likely that conditions will be fulfilled after minimum stay