Convergence criteria

Following comes from ECB official website: www.ecb.int

1. Price stability

The criterion on price stability means that an average rate of inflation, observed over a period of one year before the examination, that does not exceed by more than 1½ percentage points that of, at most, the three best-performing Member States in terms of price stability.

Application

- the inflation rate is calculated using the increase in the latest available 12-month
- The notion of “at most, the three best-performing Member States in terms of price stability”, which is used for the definition of the reference value, is applied by using the unweighted arithmetic average of the rate of inflation in the three countries with the lowest inflation rates

2.Government deficit

The ratio of the planned or actual government deficit to GDP does not exceed a reference value (defined as 3% of GDP), unless:

- either the ratio has declined substantially and continuously and reached a level that comes close to the reference value; or, alternatively,
- the excess over the reference value is only exceptional and temporary and the ratio remains close to the reference value;

3. Government debt

The ratio of government debt to GDP does not exceed a reference value (defined as 60% of GDP), unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace.

4. Exchange rate developments

“The observance of the normal fluctuation margins provided for by the exchange-rate mechanism of the European Monetary System, for at least two years, without devaluing on its own initiative against the currency of any other Member State”.

This refers to the criterion of participation in the European exchange rate mechanism (ERM until December 1998; superseded by ERM II as of January 1999). The ‘normal fluctuation margins’ are ±15%.

5. Long-term interest rate developments

“the criterion on the convergence of interest rates means that, observed over a period of one year before the examination, a Member State has had an average nominal long-term interest rate that does not exceed by more than 2 percentage points that of, at most, the three best performing Member States in terms of price stability. Interest rates shall be measured on the basis of long-term government bonds or comparable securities.”

Application

The notion of “at most, the three best performing Member States in terms of price stability” which is used for the definition of the reference value has been applied by using the unweighted arithmetic average of the long-term interest rates of the three countries with the lowest inflation rates.

Euro area – euro zone

1 January 1999: The euro was launched on 1 January 1999 – for non-cash transactions (only used for accounting purposes, e.g. in electronic payments).

1 January 2001: Greece joins euro zone

1 January 2002: Euro cash was introduced. It replaced the banknotes and coins of the national currencies

1 January 2007 - Slowenia successfully adopts the euro.

1 January 2008 - Cyprus and Malta adopt the euro, bringing euro-area membership to 15 EU countries
1 January 2009 - The euro becomes legal tender in Slovakia

16 Member States of the European Union use the euro as their currency

- Belgium
- Germany
- Ireland
- Greece
- Spain
- France
- Italy
- Cyprus
- Luxembourg
- Malta
- The Netherlands
- Austria
- Portugal
- Slovenia
- Slovakia
- Finland

All the Member states of EU, exept of United Kindom and Denmark are obliged to join euro!

<u>Outside the EU, the euro is also the sole currency of Montenegro and Kosovo and Andorra, Monaco, San Marino and Vatican City).</u>