

**CANDIDATE COUNTRIES WITH CURRENCY BOARD ARRANGEMENTS:
ARE THEY BETTER PREPARED FOR JOINING THE EMU?**

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Introduction

When preparing its accession strategy, candidate countries with currency board arrangements (CBAs) have to deal with two basic issues: on the exchange rate system and on entering the EMU. The national legal framework regarding monetary issues and the negotiation positions of individual countries are the sources of information about these two aspects of monetary integration with the EU.

As regards the first issue on exchange rate systems the accession to the EU is not connected with the requirement to apply any exchange rate system. The candidate country is independent in choosing the exchange rate system. The EU institutions however are very clear, that the unilateral euroisation is an unacceptable instrument. This position is in contrast with the entire logic of the Treaty regarding the introduction of the euro.¹

The second issue, on entering the EMU, can be currently approached to the extent of the basic principles rather than of the details in designing the national strategies. It is clear however, that this process will pass through three stages:

- accession to the EU;
- participation in the ERM II;
- introduction of the euro (after meeting the convergence criteria).

It becomes evident, that although particular restrictions are imposed at the very beginning, the options of the respective country in choosing an exchange rate regime are gradually reduced when following the three stages.

1. Currency Board Arrangements. Experience of Candidate Countries

According to the rate of commitment an exchange rate regime is in position to secure they can be ranked as follows: euroisation; CBA, fixed exchange rate, crawling peg and floating exchange rates

During the 90-ies the CBA gained a particular importance among transition countries. CBA means:

- the national currency has a fixed exchange rate to the reserve currency²;
- full convertibility of the national currency is quarantined towards the reserve currency;
- the monetary authority is not more in a position to pursue discretionary monetary policy;
- the monetary authority has a limited scope of instruments in comparison to a central bank to influence quantities or prices on the money and credit market;

¹ ...it should be made clear, that any unilateral adoption of the single currency by means of “euroisation” would run counter to the underlying economic reasoning of EMU in the Treaty, which foresees the eventual adoption of the euro as an endpoint of a structured convergence process within a multilateral framework”. (Report by the (ECOFIN) Council to the European Council in Nice on the exchange rate aspects of the enlargement).

²If a proper reserve currency is chosen the currency board can import stability by fixing the exchange rate to the reserve currency.

- the monetary authority issues notes and coins;
- the monetary base is fully backed by foreign exchange;
- the reserve currency can be invested in high liquid assets in order for the monetary authority to earn interest payments (additional revenue to the budget or additional source of reserves).

Central banks under CBAs have the following limited functions:

- have no control over the money supply³;
- can not act as lenders of last resort;
- except of systemic risk, in case of bankruptcy the board can not bail out the particular bank;
- a prudential banking regulation is needed.

1.1 Comparative analyses of starting points and exchange rate regimes

The Baltic states introduced new currencies after gaining independence⁴, while Bulgaria kept the national currency after the political changes in 1989. The Baltic states had not directly inherited the old legal framework. But both the Baltic states and Bulgaria had to create a new legal basis for their monetary policy. In *Bulgaria* two completely new laws have been adopted - on the Bulgaria National Bank and the Law on Banking. These drafts gave the option to all four countries to realign their legislation with this existing in the EU.

At the beginning of the 90-ies the Baltic countries opted for a fixed exchange rate regime, while *Bulgaria* started with a floating rate. Both choices had deep implications on the following macroeconomic performance of these countries.

After a period of hyperinflation *Estonia* set up a CBA fixing the exchange rate to the DEM (since 1999 the exchange rate is pegged to the Euro). In Latvia the lats was initially allowed to float.

In *Lithuania* the exchange rate was initially pegged to the USD (4LTS/USD). Before introducing the national currency, in 1993 the Bank of Lithuania reduced the money supply growth by⁵ using required reserves and deposit and credit auctions. Inflation rates have been reduced and the foreign exchange rate has been stabilized. In June 1994 the CBA was introduced and the exchange rate remain the same. In the summer of 2001 Lithuania will announce the change of the reserve currency and peg the litas to the Euro from the beginning of 2002. This switch was foreseen for 1998, but was postponed because of the implications of the Russian crisis.

³The money supply is more predictable in those countries with CBA, where foreign banks are operating branches

⁴ *Estonia* introduced its national currency (the kroon) in June 1992. In March 1992 *Latvia* introduced an interim currency (the Latvian Rouble) in order to overcome the shortage of Russian Roubles. A year later the new national currency (the lats) was created. In May 1992 *Lithuania* introduced an interim currency (the talonas), which were in circulation together with the rouble. Since October 1992 only the talonas remained as a legal tender. A big amount of operations has been conducted in foreign currencies (especially in USD) until June 1993, when the Litas was introduced.

⁵ Kregzde, A. Op. cit., p. 2.

After reaching independence *Latvia* experienced a period of hyperinflation. Initially a floating rate regime has been adopted, followed by an informal peg. Since February 1994 the peg and the fixed exchange regime has been formally introduced.

1.2 Differences between countries

The analyses of experience of accession countries with CBAs show, that there are more differences than similarities between them:

- a) The starting point of using CBA differs between the three countries. Estonia introduced the CBA in June 1992, Lithuania – in April 1994. Latvia has a conventional exchange rate peg since 1994, but its monetary policy is hard to distinguish from that of currency board countries.⁶ Bulgaria introduced a CBA in July 1997.
- b) The Deutsche Mark/Euro have been chosen by Estonia and Bulgaria and the USD by Lithuania as a reserve currency. Latvia pegged its national currency to the SDR.
- c) There are different reasons for using a CBA in the three countries. The two Baltic states created simultaneously a national currency. In Bulgaria the CBA has been introduced after a severe political and financial crisis.
- d) Until imposing the CBA Bulgaria had a traditional autonomous central bank. In 1991 the Bulgarian National Bank was constituted as an institution having at its disposal the full range of instruments for pursuing a discretionary monetary policy.
- e) Estonia has been invited earlier to start accession negotiations in 1998 (in Luxembourg) and Lithuania and Bulgaria – in 1999 (in Helsinki).

1.3 Testing existing CBAs

The CBA in *Estonia* was introduced in order the country to break from the Soviet past.⁷ Main features of the CBA are:

- The Parliament can make the decision to change the exchange rate;
- does not allow central bank's liabilities to exceed reserves in high-quality foreign assets or gold;
- Current account and capital account convertibility is assured.

The CBA not only overcame the impact of the Russian crisis, but gained additional credibility on international financial markets.

Because of the dollarization phenomena the CB in *Lithuania* has been tested several times. After the introduction of the CBA (in June 1994) until the summer 1995 there were rumors of devaluation.⁸ As a result the process of dollarization⁹ deepened and reached his peak in July

⁶ For that reason this paper will make occasional reference to the experience of Latvia.

⁷ Corker, R. C. Beoumont, R. Van Alkan, D. Iakoval Exchange Rate Regimes in Selected Advanced Transition Economies, IMF Discussion Paper, N 4, 2000.

⁸ Vetlov, I. Dolarization in Lithuania, Bnk of Finland BOFIT, 6 February, 2001.

1995. The next test of CB credibility was the banking crisis in 1996. A further test was the statement of the Bank of Lithuania Government on the intention to remove the CBA and the resignation of the prime minister. All these tests actually prepared the CBA for the Russian crisis (1998), making it more resistant.

The CB in *Bulgaria* has not been tested yet. This is due to the banking crisis the country experienced before adopting the CBA (late 1996-early 1997). After that a period of restructuring and rehabilitating of the banking system has been entered. The currency reserves have been maintained on an acceptable level.

1.4 Central bank's goals

The *Estonian* central bank has the main objective to ensure the stability of the national currency. According to the CBA the central bank has not the possibility to act as a lender of last resort. Such an legal option is limited to cases, where the banking system is facing a systemic risks.

The central bank of *Lithuania* is aimed at ensuring stability of the national currency.

The objective of the central bank of *Latvia* is to maintain price stability.

The *Bulgarian* central bank has the goal to maintain internal and external stability of the local currency.

2. Characteristics of the three stages of entering the EMU¹⁰

2.1 Accession to the EU

At this stage the country is free to choose an appropriate exchange rate regime. There is no a formal requirement. This choice is related to the general macroeconomic stability, basic goals of the economic policy and smooth accession to the EU. The EU institutions only evaluate the process of implementation of the regime. The issue on the exchange rate system however is not a separate topic for discussion between the EU institutions and the candidate country. It is a part of the general economic policy coordination process.

⁹ There are assessments, that the dolarization was due to the lack of public trust in the banking system. (See OECD Report, 2000.)

¹⁰ The The ECOFIN Council is defining the three stages as follows: pre-accession stage; the accession stage, covering the period from accession to the Union to the adoption of the euro; the adoption of the euro.

2.2 Participation in the ERM II

During this stage the respective country is member of the EU. At this stage the issue on foreign exchange rate receives another standing. It is no more considered as a part of the economic policy coordination mechanism. It is a separate topic subject to coordination. From the date of accession new Member States will treat their exchange rates as a matter of common interest as per Art. 124.¹¹ Respectively, more exchange rate systems that do not comply with the requirements on integration with the EMU (the participation in the ERM II) are specified.

It is realistic to expect, that after entering the EU the economy of the particular country would be exposed to shocks, while adjusting to the new economic area. The economy may need more time to reach the balance again. Some countries may consider it appropriate to use exchange rate changes as an instrument for decreasing the implications of the shocks or to prevent (or reduce) a substantial part of the negative implications. The lack of requirement for introducing a specific exchange rate regime is understandable and that is why it is not obligatory to participate in ERM II from the very beginning of becoming EU member. The idea is based probably on the assumption, that economies are more capable for adjusting by amortizing shocks through prices rather than to exchange rate changes.

The country has a free room in deciding when to participate in ERM II. But one has to have in mind, that the introduction of the euro is not possible without taking part in ERM II. This participation is based on the agreement on the central exchange rate and exchange rate fluctuation margins. The ERM II was established by a resolution of the European Council on the New Exchange Rate System.¹² basic characteristics of the mechanism are:

- > The exchange rate mechanism is based on central rates;
- > The standard fluctuation band is +/- 15 per cent of the central rate;
- > Central rates and standard wide bands are set up by mutual agreements between the ECB, the ministers of the euro area member states and the ministers and governors of central banks of the non-euro area member states;
- > The intervention at the margins will be principally automatic and unlimited;
- > There is a possibility for closer exchange rate cooperation by reaching formal agreements on narrower fluctuation bands;
- > Individual countries will be allowed to maintain narrower fluctuation bands under unilateral commitment.

These basic characteristics of the ERM II brings us to the conclusion, that there is no much room for maneuver, when making the choice about the exchange rate system. A free floating or a crawling peg would be not possible to apply. For countries with CBA this would mean that one of the options is formally to retain the exchange rate within the ERM II. It might be considered an unilateral obligation of the country to maintain the fixed exchange rate within narrower margins. Some countries with small and open economies (Lithuania) consider this strategy most

¹¹ Exchange Rate Strategies for EU Candidate Countries, European Commission.

¹² Signed in June, 1997 at the Amsterdam Summit.

acceptable in avoiding additional shocks which could arise due to the change of the exchange rate system and one of the important conditions in ensuring stable economic growth and developing capabilities of the economy for future participation in the EMU.¹³

The issue of timing of participating in ERM II is of particular importance. The main limitation comes from the requirement, that in the second stage the exchange rate is an issue of joint coordination between the respective country and the EMU. For this reason it is difficult to speculate not only about the exact time but also the conditions under which the respective country will participate in ERM II.

2.3 The framework for participating in adopting the euro

Meeting the Maastricht convergence criteria is not a prerequisite for joining the EU. In the Copenhagen criteria, reference is only made to the ability of applicant countries to adhere to the aims of EMU, rather than to their fulfillment of the criteria for adopting the euro, at the time of accession.

No “opt-out” clauses, such as those negotiated by the United Kingdom and Denmark, shall be granted to new member states. When joining the EU new member states will be committed to adopting the euro. However, they will not be expected to transfer their monetary sovereignty upon accession to the EU, but instead to participate in EMU with a status of member states with derogation.

Nevertheless they will have to prepare to full participation in EMU. Upon accession to the EU the respective central banks will be integrated into the European System of Central Banks (ESCB).

Adopting the euro is a part of a three stages process: pre-accession to the EU; EMU membership with a derogation and full EMU membership. There are two different steps to the accession process: EU accession and final adoption of the euro.

There is no timetable for the final adoption of the euro and countries do not need to enter the euro area at the same time. The Treaty envisages an assessment of convergence at least once every two years, or at the request of a member state with a derogation.¹⁴

¹³ Kregzde, A. The way of Lithuania in Joining the EMU, a paper presented at the conference *Economic Policy in the Framework of Accession to the EU and EMU*, Vilnius, march, 2001, p. 2 and 4.

¹⁴ A new member state with a derogation could request any time the application of the procedure laid down in Art. 121 (1) (ex-109j (1) in order to determine which member states with a derogation fulfil the necessary conditions to adopt the euro and to abrogate their derogation. Otherwise, according to the same article the procedure will be applied at least once every two years.

Upon entering the EU new member states have to “treat (...) exchange rate policy as a matter of common interest”¹⁵. In their progress in adopting the euro they are expected to participate in the ERM II.

Member states shall “regard their economic policies as a matter of common concern”.¹⁶ and will also take part in the EU policy coordination and surveillance procedures as member states with a derogation.¹⁷

Once a new member state has adopted the euro, the central bank concerned will become a component of the Eurosystem. The Eurosystem is not formally involved in negotiations on accession. However it will be involved on a way to ensure, that its views are properly taken into account on the adoption and implementation of the EMU-related *acquis communautaire*.¹⁸

Documents of the EU are very sensitive to the process of the adoption of the euro by new member states. Following the language of these documents, one can follow actually the grading up of the level of sureness, that accession countries must adopt the euro.

As this enlargement will be the first after the adoption of the euro, the Commission prepared a Paper on *Accession to the EU and Implications for the EMU*.¹⁹ The paper points out the time sequence by which future member states will enter EMU upon accession and, eventually, adopt the euro. The paper reminds, that a new member state does not need to negotiate a transition period for the adoption of the euro, as it cannot adopt it upon accession.²⁰ The Paper also draws the attention to the regulation, that upon accession, the new member state will have to show adherence to the aim of economic and monetary union. It will participate in the Single Market and EMU, but will not adopt the euro.²¹ *The Exchange rate Aspects of the Enlargement*²² is another basic document envisaging the adoption of the euro by new member states. The Report expresses clear the position, that “after application of the procedure provided for in the relevant parts of the Treaty, the new member states will adopt the euro in a manner, that ensures equal treatment with the initial participants in the euro area.”

The same document for the first time is considering also countries with currency boards. There are two basic issues discussed: on the participation in ERM II and on the adoption of the euro.

- When a country with a Currency Board pegged to the euro wants to join ERM II, the decision on the compatibility of a particular CBA with participation in ERM II could only be taken on the basis of a careful assessment of the appropriateness and sustainability of the Currency Board in question.
- Although currency boards arrangements cannot be regarded as an acceptable substitute for participation in the ERM II, they may in some circumstances constitute an appropriate unilateral commitments within ERM II.

¹⁵ Art. 124 of the Treaty, ex Art. 109m.

¹⁶ Art. 99 of the Treaty, ex Art. 103.

¹⁷ This relates in particular to the provisions of the excessive deficit procedure and the Stability and Growth Pact.

¹⁸ The Eurosystem and the EU Enlargement Process, ECB Monthly Bulletin, Feb. 2000, p. 47.

¹⁹ European Commission, DG II, Brussels, 25 June, 199, II/384/99 – EN.

²⁰ Ibid., p. 36.

²¹ Ibid., p. 37.

²² Report by the ECOFIN Council to the European Council in Nice, November 2000.

- Such a unilateral commitment would not impose any additional obligation of the ECB beyond those deriving from the ERM II resolution and the Central Bank Agreement.²³

3. National Strategies and Preparation to Participating in the EMU

In assessing the strategies the main question is to answered: whether CBAs can serve the respective countries well throughout the period ending by the adoption of the euro. In this respect two issues are worth pointing out:

- Whether currency boards are compatible with participation in ERM II;
- Are any reasons for unilateral eurization.

It is obvious, that during this period the exchange rate regime must perform several functions: must facilitate nominal convergence; must allow the market to test for exchange rate stability; to ensure, that the country is entering the euro-zone at an appropriate exchange rate etc.²⁴. Currency boards can satisfy all these requirements and if policies and circumstances remain right, a direct transition from a CBA to EMU without any transition period of bigger exchange rate flexibility could be the first best policy for prospective EU member countries with currency boards.

Unilateral euroization has been considered by some experts as an option for adopting the euro. The discussions have been followed by statements of the central banks governors on the issue.²⁵

There are two very clear positions expressed on the way of using currency boards when entering the EMU – of Bulgaria and of Estonia.

Bulgaria is refusing any kind of unilateral eurization. Bulgaria wishes to get into the Eurosystem through the front entrance and not through side paths.²⁶ According to the official Bulgarian statement the currency board assures an even more serious link to the euro, than ERM II. the adoption of the euro is the ultimate point in joining the European economic area. Bulgaria will seek options to shorten the interim period from the accession to EU to the adoption of the euro. On the one hand, Art. 109 k (2) allows a country with a derogation to request a report from the Commission and ECB in order to abrogate the derogation earlier than the standard two-year term. On the other hand, a more radical solution for omitting the interim phase (respectively the ERM II) could be considered.²⁷

²³ Ibid., p. 2-3.

²⁴ See Gulde, A.-M, Juha Kähkönen, and Peter Keller, Pros and Cons of Currency Board Arrangements in the Lead-up to EU Accession and Participation in the Euro Zone, a paper presented at the Seminar Currency Boards in the Context of Accession to the EU, organized by the European Commission, 25 November, 1999, Brussels, p. 19.

²⁵ The gathering has been initiated by the ECB and the Bank of Finland and held in Helsinki on 10-12 November 1999.

²⁶ Currency Boards and EMU – A Bulgarian Perspective, Presented by Sv. Gavriisky, Governor of the Bulgarian Central Bank, at the Seminar, organized by ECB and the Bank of Finland, Helsinki, 10-12 November 1999.

²⁷ I am convinced, that a country with a currency board, which has adopted the *acquis communautaire*, in the monetary area, will be completely ready to adopt the euro from its very accession to the EU. The results achieved by a currency board are identical with those expected from ERM II – to ensure exchange rate discipline and convergence, needed for the economy to comply with the Third stage of EMU. Ibid., p. 4.

If countries, however, (for good reasons) choose to maintain currency boards up to the point of adopting the euro, they will face a number of challenges, which can be summarized in two basic groups of issues:

- These countries have to maintain the strict policy discipline required by CBAs (conservative fiscal stance, healthy banking system, cautious external debt management, and flexible labor market).
- These countries need to be prepared to deal with possibly large capital inflows and asymmetric external shocks.²⁸

Estonia is basing its position on the understanding that CBA is the best option for the country to secure stability and confidence. For this country becoming a member of the Eurosystem is something more than adopting the euro unilaterally. The central bank of Estonia is opposing to such an option. Scenarios on introducing the euro but do not open the door for full EMU membership, should be considered strategic failure.²⁹ The ‘anti-eurozation’ position is explained by the willingness in no way to endanger the accession to the EMU, which is in all respects beneficial to Estonia.

From a substance point of view, Estonia is considering unilateral eurozation (like dollarization) not a proper policy, because it is associated with countries which have serious economic problems. The choice of unilateral eurozation could be a signal to the international financial markets, that Estonia is joining such group of countries with an unsuccessful economic policies.

Estonia is going to join the ERM II by the end of stage one (when becoming member of the EU). To achieve this goal Estonia is preparing its medium term economic program and a joint assessment of its final version together with the European commission.³⁰ The Estonian central bank is open to discussions on alternative strategies when preparing for stage two, i.e. the accession to the exchange rate mechanism.

4. Preparation to join the EMU. Challenges to monetary policies

To join the EMU candidate countries have to meet the convergence criteria of the Maastricht Treaty. At an early stage however, they have to adjust to the legal and institutional requirements, mechanisms and systems of the EMU in following areas:

a) central bank independence

Central bank independence is crucial in institutional preparing to the EMU. Compliance with rules on the appointment, dismissal, and the term of office of the chief executive of the central bank is required. Central bank independence means also the capacity and discretion to formulate monetary and exchange rate policy without government interference.

The amendments to the Law on the *Bulgarian* National Bank provided a high degree of independence of the central bank. It is reporting to the Parliament.

²⁸ Gulde, A.-M. and others, op. cit., p. 19.

²⁹ Kraft, V. Estonia on its way to the eurozone: the position of the central bank. Briefing on the monetary policy overview on 27 January 2000. (presented at the workshop, organized by the TAEX Office of DG in close cooperation with the Eesti Pank, Tallin, 19-20 September, 2000.

³⁰ Ibid.

The *Estonian* central bank possesses a high degree of independence.³¹ Since 1998 it can not provide funding to the government. The central bank is reporting on its activities before the Parliament.

The central bank of *Lithuania* has an independence from the government and is not allowed to lend to it.

The degree of independence of the central bank of *Latvia* has been increased in 1999 by amendments to the Bank Law. Before the amendments the Minister of Finance had the right to request for a decision taken by the central bank council to be delayed by 10 days³².

b) financing of the government

The Maastricht Treaty is prohibiting any form of direct central bank financing of the government and any privileged access of public authorities to financial institutions. Also the assumption of liabilities of an EU country by another EU country or the EU budget is not allowed.

In comparison to Bulgaria, Estonia and Lithuania the provision on forbidding any lending to the government of *Latvia* has been introduced later - in 1999.

c) free movement of capital

Free movement of capital is essential component of the EMU. Candidate countries have to adopt their legislation to achieve capital account liberalization.

d) coordination of economic policies

Multilateral coordination of macro-economic policies. Negotiating countries have to be prepared to become part of the EU mechanisms for policy coordination.

e) Candidate countries have to develop an efficient market-based financial sector.

f) Candidate countries have to connect their national real-time gross settlement systems through an interlink network with TARGET.

Assessing monetary policy challenges it is important to point out, that there are two basic implications on countries with CBAs. The first is positive one and can be derived from the direct link between the CBA country and the euro area, provided price stability and low interest rates will be followed by the ECB. The second implication is directly connected with the instrumentarium of central banks in countries with CBAs.

First, the interesting development of countries with CBAs is that they de facto are members of the euro zone. This is especially true for Bulgaria and Estonia, which pegged their national currencies to the German mark (and after 1999 to the euro). They opted for a external nominal anchor and are following to a high extent the European monetary policy.

³¹ See: OECD Regional Assessment: the Baltic States, Paris, 2000, p. 61.

³² This provision has not been actually applied.

For this reason monetary area in these countries will be directly influenced by three factors: interest rate movements in the euro area; implied country risk, i.e., the overall risk level of financial instruments used in the local economy and the position of the euro in the global market.³³ On the one hand, stability among EMU countries improves the effectiveness of currency board based monetary policies. As the reserve currency framework is widening, the transmission mechanism of monetary and exchange rate policies are expected to be better understood by market participants.

Another beneficial result is that the ECB is committed to ensure low inflation in the euro area. Potential volatility of interest rates and capital flows are expected to be lower. If euro area inflation and interest rates remain stable, there will be positive effects to the countries with CBAs and an euro reserve currency. Under these conditions, the unpredictable movements of short and medium term capital will be decreased. In addition, if exchange rate movements between the euro and other major currencies are limited, the terms of trade of these countries will be favored.

Second, as regards, the monetary policy instrumentarium, different experiences have been made by countries with CBAs.

Conclusions:

1. The process of entering the EMU will pass through three stages: accession to the EU; participation in the ERM II; introduction of the euro (after meeting the convergence criteria). It becomes evident, that although particular restrictions are imposed at the very beginning, the options of the respective country in choosing an exchange rate regime are gradually reduced when following the three stages.
2. The basic characteristics of the ERM II brings us to the conclusion, that there is no much room for maneuver, when making the choice about the exchange rate system. A free floating or a crawling peg would not be possible to apply. For countries with CBA this would mean that one of the options is formally to retain the exchange rate within the ERM II.
3. There are substantial differences in applying monetary policy instruments by accession countries with CBAs. Those countries applying a wider range of instruments (e.g. Lithuania) or countries with experience in using classic monetary policy instruments before introducing the CBA (e.g. Bulgaria) are likely to adjust easier to the ECB instruments and carry out a smoother participation in the European System of Central Banks.
4. One of the indisputable benefits of CBAs is the high level of independence of Central Banks from the Governments. This independence is manifest in two aspects: first, reporting to the Parliament and, second, the lack of legal possibilities to finance the budget or Government bodies. This status, and more importantly, the Central Banks' practical experience in implementing such policies, are a valuable asset to cope with the Maastricht criteria.

³³ Ross, M. Estonian Monetary System and the Euro, a paper presented at the *conference Economic and Monetary Union: Challenges and Risks*, 11 – 12 May, 2001, Tartu, Estonia.

5. Unilateral euroization seems to be avoided by candidate countries with CBAs . Most probably, these countries will seek options to immediately adopt the euro without making use of the ERM II.