EUROPEAN CENTRAL BANK

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PRESS RELEASE

ECB PUBLISHES ITS CONVERGENCE REPORT 2016

- The period covering the latest rounds of EU enlargement has seen many countries making considerable progress towards participating in Economic and Monetary Union (EMU)
- The seven countries under review comply with most of the quantitative economic criteria, but none of them fulfils all of the obligations laid down in the Treaty, including the legal convergence criteria
- Sustainable convergence is needed for a successful adoption of the euro

The European Central Bank (ECB) is today publishing its Convergence Report 2016, which covers Bulgaria, the Czech Republic, Croatia, Hungary, Poland, Romania and Sweden. It examines whether a high degree of sustainable convergence has been achieved in these countries (economic convergence) and gauges compliance with the statutory requirements to be fulfilled by national central banks to become an integral part of the Eurosystem (legal convergence). When assessing the sustainability of convergence, the Report also takes into account the EU's enhanced economic governance framework (e.g. Stability and Growth Pact, macroeconomic imbalance procedure).

Economic convergence

The cross-country differences in **inflation** have decreased substantially, which shows the progress that has been made towards convergence in the recent past. Over the 12-month reference period from May 2015 to April 2016, inflation was very low in the EU, mainly owing to the significant fall in oil prices. This was reflected in the reference value of 0.7% for the price stability criterion, which was met by six of the seven countries over the reference period. Looking ahead, while inflation is expected to increase moderately in the coming years, there are concerns regarding the sustainability of inflation convergence over the longer term in several of the countries examined.

Some improvement can be also detected as regards the **fiscal criteria**. In 2015 six of the countries under review posted a fiscal deficit-to-GDP ratio below the 3% of GDP reference value; the exception was Croatia, which is still subject to an excessive deficit procedure. This is in contrast with 2013, when the Czech Republic and Poland were also subject to such a procedure. With regard to general government debt, Croatia and Hungary were the only countries with a ratio above the 60% reference value. In Croatia, the debt ratio has increased since 2013, while in Hungary it has decreased slightly.

None of the countries under review participates in the **exchange rate mechanism (ERM II)**. In Sweden, Hungary, Poland and Romania, the exchange rate exhibited a relatively high degree of volatility over the two-year reference period.

With regard to the convergence of **long-term interest rates**, all seven countries under review recorded long-term interest rates below the reference value of 4%, as was already the case in 2014 report. Long-term interest rates were lowest in the Czech Republic and Sweden.

Fulfilment of the numerical convergence criteria at a point in time is, by itself, not a guarantee of smooth entry into EMU. Countries adopting the euro should be able to demonstrate the sustainability of their convergence processes. To this end, lasting policy adjustments are required in many of the countries under review. In particular, the improvements made with regard to the fiscal criteria need to be secured for the longer term. Adequate fiscal and macroprudential policies need to be in place to prevent the build-up of imbalances, along with an appropriate framework for the supervision of financial institutions. Structural reforms should aim at establishing sound institutions and economic governance, thus creating favourable conditions, among other things, for an efficient use of capital and labour, as well as for flexible labour and product markets.

Legal convergence

In none of the seven countries examined is the legal framework fully compatible with all the requirements for the adoption of the euro. Incompatibilities persist regarding central bank independence, in particular central banks' institutional and financial independence, as well as personal independence. In addition, in all countries under review, with the exception of Croatia, there are incompatibilities as regards the prohibition of monetary financing and the legal integration of the respective central banks into the Eurosystem.

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Note to the editor:

In producing this report, the ECB fulfils its requirement under Article 140 of the Treaty on the Functioning of the European Union to report to the EU Council at least once every two years or at the request of a Member State with a derogation on the progress made by the Member States with a derogation in fulfilling their obligations regarding the achievement of EMU.