

The intensive preparation for EMU will start in early 1998 and will last until January 1, 1999. It will involve a decision on the starting date and participating countries as early as possible in 1998, when 1997 convergence criteria data will be available; the establishment of the European Central Bank (ECB) and the European System of Central Banks (ESCB); and the approval of legislation for the currency changeover. Individual members must ensure compatibility between their national legislation and the requirements of the Maastricht Treaty and the statute of the ESCB.

The proposed starting date of January 1, 1999 will be a "big bang" in terms of monetary policy. There will be only one underlying term structure of interest rates and, while the national currencies will continue to exist, they will become merely surrogates for the new euro. The start will involve the irrevocable fixing of conversion rates between the participating currencies and the euro and the transfer of responsibility for monetary policy to the ECB. The ESCB will carry out all its money market and foreign exchange transactions in euro and will convert all accounts held by its counterparties; the ESCB will provide the real-time gross settlement payment system in euro and offer conversion facilities. It is anticipated that a market-driven changeover for large transactions, securities markets, and accounting processes will take place over the three year transition period. Over the last year, European business has begun preparing transition plans and analyses of the technical and legal details. Banks are most advanced in this process, large multinational firms are in the midst of their planning, while small business and the retail sector will follow later.

The replacement of notes and coins and completion of the currency changeover will start on January 1, 2002 at the latest and will last a maximum of six months. Completion of the currency changeover in all sectors is to happen on July 1, 2002 at the latest. National notes and coins will lose their status as legal tender. Chart 1 on the following page illustrates the implementation process.

Only Luxembourg, Denmark, and Ireland (the latter two by virtue of the significant reduction in their public debt) are viewed as meeting the convergence criteria at the moment. Germany, which was one of the first countries to meet the criteria, saw its deficit rise to 3.6% of GDP in 1995, up from 2.5% in 1994, and its debt/GDP is rising, not falling. Denmark has declined to participate and the UK will decide on its participation at the time Stage III is to begin.

Over the last several years public sentiment has swung back and forth between optimism and pessimism over the prospects of achieving a monetary union in Europe. This has compelled EU Finance Ministers and Central Bank Governors to reassure markets frequently of their resolve to achieve the EMU according to the guidelines set out in the Maastricht Treaty. Even if the EMU goes ahead with a core group of strong currency countries, there remains a big question mark about how the union will function under a two-