

Table 1
10-Year Interest Rate Spreads over German Bunds
(basis points)

Likely core members of EMU	
Germany	-
France	-21
Netherlands	-14
Belgium	-14
Austria	- 4
Outer Core	
Finland	+39
Ireland	+65
Opt-Outs	
Denmark	+74
United Kingdom	+127
Less Likely	
Portugal	+37
Spain	+44
Sweden	+61
Italy	+76

Source: Paribas Capital Markets. Spreads are based on forward interest rates from January 1999 in the swap market as measured on January 14, 1997. Forward rates as of the EMU commencement date provide the best comparative measure of market expectations on the likelihood of the subject currency joining EMU.

EU political leaders are left facing a number of difficult trade-offs:

- The more stringently the convergence criteria are applied, the more credible and durable will be the monetary union, but the less chance there will be of having a critical mass of participants qualify right from the start.