To join or not to join: that is the question. The question is not only a Danish one but it is also a question for the Central and Eastern European (C&EE) countries, including Hungary. Joining the EU is not a question for some of the C&EE countries: it is a wish expressed when they answered the questionnaire issued by the EU, which is a precondition of starting negotiations to join. Joining the economic and monetary union (EMU) demands fulfilling the so-called convergence criteria. However, the prospects for EMU are not so clear. Even Western European countries have to analyse the costs and benefits of EMU and the obligations of the particular countries. These problems could be similar for the C&EE countries as well. Instead of a detailed analysis of EMU, I will summarise the main problems and deal with the special problems of C&EE countries.

1. THE TRANSITION TO EMU

The European Council reached agreement on the Treaty on European Union at Maastricht in December 1991, which came into effect in November 1993. According to the Maastricht Treaty, EMU is to be realised in three stages. EMU entered Stage 1 on 1 July 1990. The major elements of Stage 1 were the full liberalisation of capital movements and closer cooperation between the member states on economic, fiscal and monetary matters.

Stage 2 has been in effect since 1 January 1994 and is intended as the preparatory phase for subsequent monetary union, one of the most important measures being the establishment of the European Monetary Institute (EMI). In Stage 3, which is to commence on 1 January 1999, monetary union will be completed. When Stage 3 commences, the parities of the participating EU states will be fixed irrevocably and conversion rates of the national currencies to the new European currency will also be set.
According to the Maastricht Treaty, at the start of EMU on 1 January 1999 the number of participants shall not necessarily comprise a majority of member states.

2. EMU CONVERGENCE CRITERIA

Participation in EMU is conditional on fulfilment of the so-called convergence criteria, which are as follows:

- The average inflation rate of a country must not exceed that of, at most, the three best performing countries in terms of price stability by more than 1.5 percentage points for the period of one year before the examination. Inflation is to be measured using the consumer price index calculated on a comparable basis.

- The annual government budget deficit must not exceed 3 per cent of gross domestic product (GDP) unless the ratio has declined substantially and continuously and is close to the reference value, or if the reference value is exceeded only temporarily and as an exception, and the ratio remains near to the reference value.

- Total outstanding government debt must not exceed 60 per cent of GDP unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace.

- The average nominal long-term interest rate of a member state must not exceed the corresponding average rates in, at most, the three countries with the lowest inflation rates by more than two percentage points for the period of one year before the examination. Interest rates are to be measured on the basis of long-term government bonds or comparable securities.

- A member state’s currency must have participated in the Exchange Rate Mechanism (ERM) of the EMS and kept within its normal fluctuation margins without severe tensions for at least the last two years before the examination. The currency’s bilateral central rate against any other member state’s currency must not have been devalued on the initiative of the country for the same period.

The criterion of inflation is sometimes criticised as a relative requirement. Some economists argue that an absolute standard of inflation rate would be better. Considering the exchange rate stability in 1991, the ERM bands were ± 2.25 per cent whereas from 1993 it became ± 15 per cent. The question is which band is the ‘normal’ one? The narrow band seems to correspond to EMU requirements but the broad band does not seem to be a temporary one, which gives the system more flexibility but less credibility. The purpose of the interest rate criterion is that a country can prove