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PROFESSIONAL PAPER

Challenges for Monetary Policy in the Enlarged European Monetary Union

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Summary: The eastward enlargement of the Euro area entails significant implications for the accession candidates in Central and Eastern Europe (CEE), the existing Euro system and the monetary policy of the European Central Bank (ECB). The present analysis assesses the challenges and critical aspects in monetary policy modeling with special emphasis to enlargement. The focus is on the difficulty of implementing a unique currency policy in view or growing heterogeneity within the enlarged monetary union, and secondly – the issue of the voting mechanism within the ECB. When analyzing those two issues, it is conclusive that the difficulties for the ECB and the current Euro zone members will increase. For the enlarged Euro zone, which is becoming more divergent, it will be very hard to find adequate recipes to meet the needs and requirements of all. The big question is: whether centralisation of monetary policy is a sustainable and superior solution?

Key words: European Monetary Union; EU enlargement, Monetary policy, ECB reform

JEL: D78, E50, E52, E58, F33

Introduction

The enlargement of the EU with ten new member states in May 2004 and two more in January 2007 has attracted much academic attention, especially with regard to the probable implications on further enlargement of the European Monetary Union (EMU).

It is assumed that for the new members, the Central and Eastern European Countries (CEECs) in particular, adoption of the euro as a legal tender may invoke inflationary pressures for the common currency. The critical issue is how reshaping of decision-making procedures of the European Central Bank (ECB), throughout the course of the EMU enlargement, will effect market expectations,

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particularly bearing in mind the uncertainty linked with the increasing number of actors within the ECB and their voting behavior.

The EMU enlargement is taking place at the time when the Union faces institutional and functional adjustments in the implementation of monetary and fiscal policies in the EMU. Whilst the European Central Bank (ECB) does not adjust its monetary policy in order to address economic challenges faced by individual member states, fiscal policies are tailored to national frameworks and, although limited by the prescribed criteria as regards the budget deficit and public debt, are often not properly coordinated (Cohen, 2008). Consequently, asymmetries between the centralized monetary policy and different inflation rates in the Eurozone are likely to occur.

In this context, the EMU enlargement could additionally intensify asymmetries within the Eurozone bearing in mind the heterogeneous economic structures of new EU member states, namely from the Central and Eastern Europe (CEE). Thus there is a motive, at least in theory, to slow down the accession of new member states to the Eurozone until a higher level of economic convergence within the EU-27 is reached.

According to the *acquis,* the new EU member states are legally obliged to adopt the euro and are currently undergoing the accession phase. That gives rise to certain important questions: 1) from the perspective of the new member states, the question of pace of transition towards the single European currency and 2) from the perspective of the current Eurozone member states, a dilemma is whether and as to what extent the monetary policy would have to be modified in order to recognize the needs and specific circumstances in new member states.

This paper summarizes the essence of EMU enlargement and its implications for the single monetary policy, with a special overview of reform of the ECB decision-making process in view of the Eurozone expansion.

1. The Eurozone enlargement

The first decade of euro was characterized by the biggest enlargement of the European Union (EU) to ten new Member States in May 2004 and another two in January 2007. The total number of Member States rose from 15 to 27, whereas the number of inhabitants rose to nearly 500 million. However, the economic effect of the enlargement was less impressive although the overall GDP rose by less than 10 percent bearing in mind that the "new Member States"[1] GDP per capita was mostly below the EU average.

[1] The term "old EU member states" is used for the EU-15, i.e. the EU composition until the fifth wave of enlargement in 2004, whereas the term "new EU member states" covers twelve EU mem-

Since 1999, when the euro became the common currency of 11 EU Member states, the Eurozone has expanded four times: Greece joined in 2001, Slovenia in 2007, Cyprus and Malta in 2008 and Slovakia in 2009. Ten years following its introduction, the euro is used by 16 EU Member States and it is expected that this number will increase considerably over the medium-term.

Currently, 11 EU Member States - characterized by significant differences in the legal status as regards its adoption and the degree of convergence - do not use the euro. Denmark and UK enjoy the special status based on the "opt out clauses" providing for the degree of convergence for entering the Eurozone to be considered only if these countries were to request it. The remaining states (Bulgaria, the Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Romania, and Sweden) are "Member States with the derogation". In other words they are legally obliged to adopt the euro. At the same time, the length and the optimum pace of accession of new EU member states to EMU is considered by the pertinent European institutions on individual merit.

It is envisaged that the EU enlargement will continue in the years to come, although at a slower pace. At the moment, three countries have the candidate status: Turkey as of 1999, Croatia as of 2004, and FYR Macedonia as of 2005. The fast track EU membership for Iceland may also be underway in 2009/10 along with Croatia which appears closest to reaching the EU membership goal in the foreseeable future. The remaining Western Balkan countries - potential candidate countries although characterised by minor differences in dynamics of the achieved progress have the prospect of EU membership. Bearing that in mind and in view the commitment to adopt the euro being an integral part of the EU Accession Agreement for the future member states, the EMU is likely to significantly increase the number of members over the forthcoming period (Radović, 2007).

2. Transition of the new EU Member States towards adopting the common currency

Regarding the pace of transition of the new EU member states towards the euro, two tendencies are evident. The first regards the aspiration of some countries to adopt the euro as soon as possible (Eichengreen and Ghironi, 2001; Rostowski and Dabrowski, 2006). This approach is based on an assessment that most of the new member states do meet the criteria for public debt, fiscal deficit, and central bank independence (ECB, 2008). Hence it is advocated that the current non-compliance with the monetary convergence criteria, due to somewhat higher

ber states which received full EU membership during the fifth and the sixth EU enlargement in 2004 and 2007, respectively.

inflation rates and long-term interest rates, is the result of global trends, and that the Maastricht Convergence Criteria are inadequate and incongruous transition mechanism of euro adoption given the nature of the present EMU enlargement (Dabrowski and Rostowski, 2006).

The new EU Member States are open economies trading heavily with the old EU member states – The trade accounts for around 60% of their import and export (Angeloni, Flad and Mongelli, 2005). Therefore, a stable exchange rate is preferred, i.e. the adoption of the euro, as it had been the case with the current Eurozone member states. Remaining in the exchange rate mechanism ERM II may be considered optimal in short-and medium-term, but from the longer perspective, this may expose countries to financial crisis, akin to the one of 1992 (Angeloni, Ehrmann, 2003).

Contrary to the view that the new EU member states should adopt the euro as soon as possible, other views point out that their fast transition towards the EMU calls for caution (Dabrowski and Rostowski, 2006). In countries coping with the fiscal consolidation, this will result in the contraction of economy, further leading to wages freeze and a consequent inability to follow the wage convergence within the Eurozone. The new member states are generally more exposed to risk given the heterogeneity of their economic structures in comparison with the Eurozone. It can be concluded that such countries need more manoeuvring space within the public debt benchmark prescribed by the EMU fiscal framework, in order to achieve efficiency of fiscal policy in neutralising asymmetric shocks. Attempts to abruptly reduce the structural deficit after joining the EU collide with the need of new member states to increase public investments in order to attain the EU level of development. CEECs countries need to finance new public investments and converge to EU income average, hence their commitment to fiscal consolidation will certainly remain a difficult challenge.

In general, a speedy transition of new member states towards the EMU could lead to a premature abandonment of monetary and exchange rate policies, and partly fiscal policy, which could in turn impair the quality of new member states' real convergence process and structural reforms of their economies (Angeloni, Flad, and Mongelli, 2005).

3. The impact of enlargement on the ECB monetary policy

Some of the expected effects of the EMU accession have already to a certain extent been materialised in the new member states. Notwithstanding expectations that the EMU accession itself would lead to increase in trade and investments (due to non-existent transaction costs and exchange rate uncertainty), a number of new member countries are/were already *de facto* EMU members at the time of EU accession - some of them having currency boards or other forms of peg to the euro. Therefore, the increase in the volume of trade and investments associated with the monetary union, albeit expected, would not be impressive.

On the other hand, the EMU enlargement will certainly affect the monetary policy decision-making through changes in the ECB Governing Council, both through increasing the complexity of the decision-making process and growing uncertainty with regard to shaping the optimal monetary policy for the enlarged monetary union.

Some authors (Dabrowski and Rostowski, 2006) think that the impact of enlargement will be limited. Namely, by recognising the relative economic “weight” of new member states in the expanded Eurozone (estimated at around 10 percent of the EU GDP), economic consequences of Central and Eastern European countries’ accession to the EMU ought to be limited. Furthermore, should generally higher inflation rates continue to persist in the new member states, due to the Balassa-Samuelson effect, it is important to highlight that in such cases inflation is confined to non-tradable goods and would thus insignificantly contribute to inflation increase in other Eurozone countries.

Nonetheless, should the ECB, bearing in mind the structural problems present in many of the new EU member states, decide to keep up with the current monetary policy in the enlarged Eurozone, it would lead to an increase in average unemployment rate in some of the new member states. The ECB would then have to consider the option of revising its target inflation rate upwards in order to avoid calling into question the enlarged Eurozone growth. The ECB – taking into account that the enlargement itself, with the previously explained risks, could contribute to generating structurally higher levels of inflation in the EMU - in accordance with the aforesaid, could also decide not to choose a more flexible approach in the monetary policy formulation. Thus, if structural reforms aimed at strengthening the supply in the EU-27 were to slow down, the ECB would have to opt for one of the two alternatives: 1) to completely adhere to the target inflation of below 2 percent and thus accept a long-lasting higher level of unemployment in the enlarged Eurozone or 2) to abandon the target value of inflation of below 2 percent in order to adapt itself to the needs of new member states. Both scenarios indicate the probability that the EMU will not see any serious enlargement as long as there is no visible progress in new EU member states with regard to structural reforms and approaching the EU standards.

4. Eurosystem and the decision-making in the enlarged EMU: changes in the ECB Governing Council

CEEC economies are characterized by structural shocks different from those the old EU member states are exposed to. Large EMU member states like Germany and France exhibit low or negative correlation with regard to supply and demand shocks that economies of new member states are exposed to (Fidrmuc and Korhonen, 2003). Moreover, some of the new countries have been experiencing high rates of growth and stronger inflationary pressures owing to, inter alia, the Balassa-Samuelson effect (Kenen i Meade, 2003).Therefore the new member states are likely to prefer different monetary policy with respect to current EMU members, thus exacerbating the existing problem that a single monetary policy does not fit all.

Aiming to address a complex situation regarding the ECB monetary policy decision-making, once the number of the EMU member states exceeds 15, the European Council adopted a plan in 2003 (ECB, 2003). Changes to the decision-making rules of the ECB have undoubtedly been inevitable in order to cope with the enlargement of the Eurozone. Finding a solution for the institutional dimension of the EMU enlargement was among the most complex task bearing in mind that 24 members (the current 16 EMU members and the remaining new 8 EU Member States outside the Eurozone yet legally obliged to adopt the euro with exceptions of Denmark, Sweden, and the United Kingdom) would call into question the balance between the ECB Executive Board and NCB governors sitting on the ECB Governing Council by shifting the balance towards the NCB governors. Prevailing national component in the decision-making on monetary policy of the ECB Governing Council, would likely affect an increase in inflation expectations, either due to uncertainty arising from greater heterogeneity in managing structures or due to a possibility that monetary policy strategy could be perceived in line with national interests of a group of countries rather than the reflection of general interest of the EMU as a whole.

In order to provide a timely solution for this challenge, the European Commission and the ECB Governing Council proposed a reform in 2003, supported by the European Council. The new arrangement envisaged that 6 ECB Governing Council members would retain full voting rights. As far as the remaining votes are concerned, rotation schemes were established, each to come into force progressively in accordance with increase in the number of Eurozone member states.

According to the new system, NCB governors of larger member states will be a part of the ECB Governing Council and will exercise full voting rights more frequently than their counterparts from smaller EMU member states, whereas the number of NCB governors with voting rights in the ECB Governing Council would remain limited to 15 in order to ensure the strategic position of the ECB Executive Board in decision-making with regard to shaping and implementing the single monetary policy.

4.1 Reform of the decision-making process in the ECB Governing Council in view of enlargement

As prescribed by Article 107 of the Treaty, the European System of Central Banks (ESCB) is be governed by the decision-making bodies of the ECB – the Governing Council and the Executive Board. The ECB Governing Council consists of 6 members of the ECB Executive Board and NCB governors of the EU Member States that have adopted the euro. Bearing in mind the prospect of further EMU enlargement, without the reform the ECB Governing Council would have, in the medium-term, and through the growing presence of NCB governors, ended up with over 30 members. Against such backdrop, efficient and timely decision-making of the ECB Governing Council could have been challenged with regard to the quality of the decision making, from the perspective of the Eurozone average.

Taking into account the possibility of unbalanced influence of coalitions of smaller states on the EMU decision-making process, with a view to "preparing the EU institutions for the Union enlargement", Article 10 of the ECB Statute was amended in Nice in 2000 with regard to voting rights in decision-making of the ECB Governing Council[2]. It was envisaged that the Commission and the ECB would prepare a proposal to be adopted by the European Council after consulting the European Parliament. The reform was initiated in 2003 and the solution proposal was adopted and ratified in spring 2004.

The reform of exercise of voting rights in the ECB Governing Council decision-making process was seen as an optimal solution in given circumstances and as a success in balancing conflicting positions. It was confirmed by the unanimous vote and prompt ratification by 15 member states. It limited voting rights to a number smaller than the actual number of members of the ECB Governing Council. The voting is established through asymmetric rotation that is developed progressively, taking different modalities with the progress of the Eurozone enlargement. The asymmetry is reflected in division of NCB governors, first in two groups and then, with the EMU enlargement, in three groups. Governors will thus be part of different groups, subject to size of their economies' ratios in the Eurozone and the size of financial markets (Angeloni and Ehrmann, 2003).

Each group of countries is characterised by a certain number of allocated votes and within the group each governor may have the same voting frequency within as other governors in the same group. Although this is a complex solution, it has been evaluated that such a solution enables efficient functioning of

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[2] EU Council Decision EU 2003/233/EC of 21 March 2003 on amendment to Article 10.2 of the Statute of the European System of Central Banks and of the European Central Bank, OJ L 83/2003, 1/04/2003, pages 66–68.

the ECB Governing Council ECB (Gros D., 2003). It's most important features are that it preserves both the strategic position of the ECB Executive Board and participation of national governors in the decision-making process, in accordance with economic weight of their respective states. At the same time, governors of national central banks (NCB) without voting rights are entitled to participate in the discussion on monetary policy.

4.2 Implementation of the ECB Governing Council decision-making process reform in two stages

In order to ensure a smooth introduction of the rotation system in the ECB Governing Council decision making process and "pre-empt" the situation in which the "one member, one vote" principle would affect interests of the system as a whole in view of coalitions of smaller states, the project is established in two stages. Once the number of countries in the Eurozone reaches the level between 16 and 21, the rotation system is designed to operate based on two rotation groups whilst when the Eurozone reaches 22 members, the system is based on three groups. Governors in each group hold the right to vote for equal periods of time.

Table 1: Two-group rotation system (first stage) – voting frequencies of governors

Number of governors in the Governing Council	16	17	18	19	20	21	22 +
1st group:							IT
No. of voting rights/No. of governors	5/5	5/5	5/5	4/5	4/5	4/5	GOES TO
Voting frequency	100%	100%	100%	80%	80%	80%	PHASE II
2nd group:							
No. of voting rights/No. of governors	10/11	10/12	10/13	11/14	11/15	11/16	**Total number of votes 15**
Voting frequency	91%	83%	77%	79%	73%	69%	

Source: ECB, Monthly Bulletin, May 2003.

During *the first stage* applicable on the monetary union consisting of 16 to 21 member states, governors are allocated to two groups. The first group is composed of governors from five strongest economies in the Eurozone (measured by the size of their GDP, i.e. their share in the aggregate GDP of the EU, and the size of their banking sector). The first group thus shares 4 or 5 votes depending on the number of EMU members (see Table 1). The second group is composed of all other NCB governors, representing smaller economies. The total number of national representatives - NCB governors - is restricted to 15. As the table shows, the allocation of voting rights to the two groups is subject to change depending on the dynamics of the Eurozone enlargement. Such approach ensures that the voting frequency of the NCB governors in the first group is in balance with the voting frequency of those in the second group and that it conforms with the economic strength of countries represented by the governors.

The second stage comes into being as soon as the 22nd member state joins the Eurozone. The voting system in the ECB Governing Council will operate on the basis of three groups, in which case, the first group would have 4 votes (members of this group would be entitled to voting rights 80% of time); the second group that would be composed of half of EMU member states would have 8 votes; and the smallest economies would be entitled to 3 votes, i.e., their governors would vote between 37 and 50% of time depending on the size of EMU (see Table 2).

Since representatives of the respective groups exercise their voting rights on the basis of the rotation system, "larger" states exercise this right more frequently than "smaller" member states, according to their economic power. Simultaneously, all member states, through NCB governors in the ECB Governing Council, have the right to participate in discussions on monetary policy and thus the EMU members without voting rights at the moment when the decision takes place contribute with their expertise and articulated views pertinent to forming of policies. Members of ECB Executive Board retain 6 voting rights, so that the total number of votes within the ECB Governing Council is maintained at 21, with the relative power being shifted towards the ECB Executive Board.

Table 2: Three-group system (second stage) – Voting frequencies of governors

Number of governors in the Governing Council	16-21	22	23	24	25	26	27
1st group:							
No. of voting rights/No. of governors		4/5	4/5	4/5	4/5	4/5	4/5
Voting frequency	PHASE I	80%	80%	80%	80%	80%	80%
2nd group:							
No. of voting rights/No. of governors	**Total number of votes 15**	8/11	8/12	8/12	8/13	8/13	8/14
Voting frequency		73%	67%	67%	62%	62%	57%
3rd group:							
No. of voting rights/No. of governors		3/6	3/6	3/7	3/7	3/8	3/8
Voting frequency		50%	50%	43%	43%	38%	38%

Source: ECB, Monthly Bulletin, May 2003.

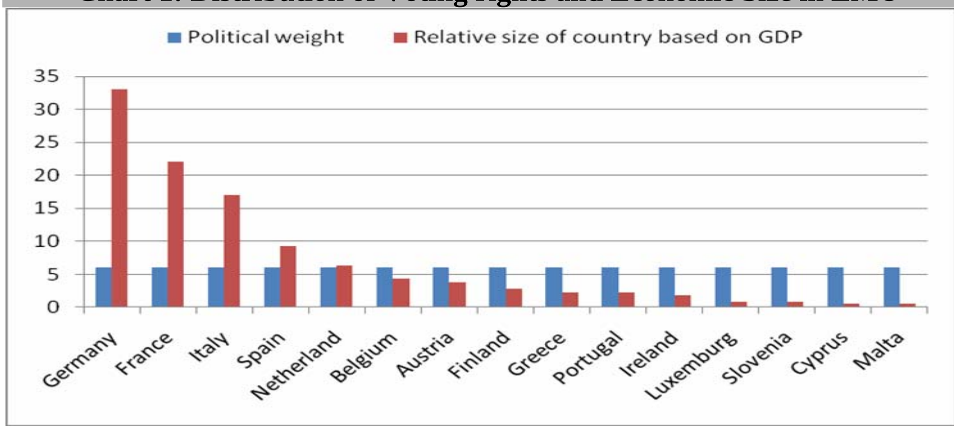
4.3 Complexity of monetary policy in the enlarged EMU

EMU enlargement is an ongoing and dynamic process running parallel to the EU enlargement. The Eurozone has exceeded 15 countries with the entry of Slovakia in January 2009 and larger number of member states is expected to join EMU over the medium term.

As already underscored, the vote rotation scheme in two stages is perceived as an optimal solution in given circumstances and as a result of appreciation of conflicting positions of "larger" and "smaller" EU member states, both old and new. In practice, if one takes a look at a governor with a 5-year term as an example, depending on the size and economic weight of the country represented, once the number of Eurozone member states exceeds 21, such governor will have to abstain from voting for monetary policy formulation for one year (if it is a country in the first group), and for 1.35 or even 2.5 years if his country is in the second or third group.

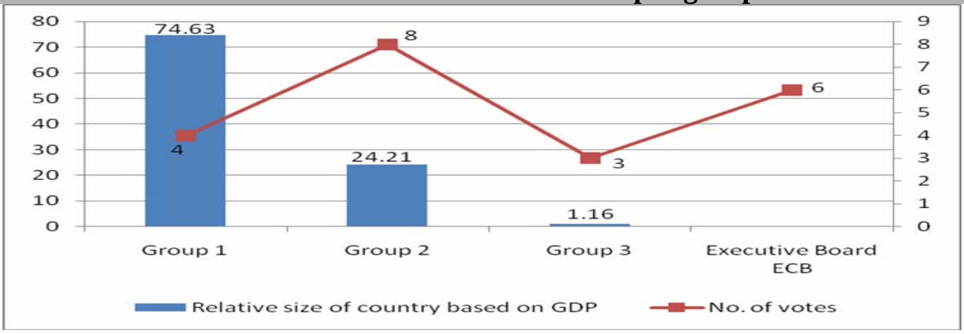
Evidently, the model of reform of the ECB decision-making process favours governors of larger member states and, as suggested by Chart 2, it points to a lack of symmetry between the economic importance of countries and roles that they will have with the Eurozone enlargement. In addition, it points to the lack of correlation between the economic power of countries and role of national governors in the decision-making process: in the second phase of the reform the first rotation group with economic weight of 74.63% is entitled to 4 votes in the ECB Governing Council, whilst the group of countries with a share of 24.21% in EU GDP is entitled to 8 votes. The last group of countries represents only 1.16% of EU GDP and governors in this group share 3 votes in the ECB Governing Council (Sebea, 2006).

Chart 1: Distribution of Voting rights and Economic Size in EMU



Source: Sebea (2006)

Chart 2: Economic ratio and number of votes per group of countries



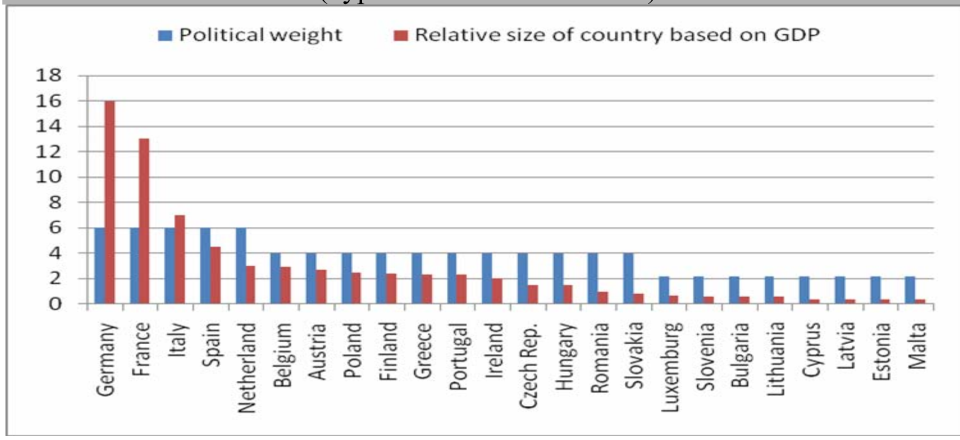
Source: Sebea (2006)

Another negative aspect is that the new rotation system is not likely to significantly increase the efficiency of the Governing Council since all NCB governors will be entitled to take part in the discussions on monetary policy and therefore increase the cost of decision-making. Over the short and medium term, that will is likely to become an obstacle since the Governing Council will grow in size significantly from 21 of today, to possibly over 30 members. In the hypothetic scenario presented in Chart 3 taking into account the current membership of the EU, with prospective 24 members of Eurozone, including Romania and Bulgaria, up to 30 governors will are likely to participate in meetings of the ECB Governing Council in the medium term.

One of the recommendations which would be a step forward in terms of overcoming aforementioned challenges, ensuring adequate monetary policy making and ultimately preventing the gap between old and new, “larger” and “smaller” EU member states has to do with further centralisation of EMU, through transfer of decision-making or part of decision-making to the ECB Executive Board.

Inevitably, the implementation of reformed decision-making scheme in the ECB Governing Council has to do with qualitative changes that the reformed decision-making system will introduce with respect to the outcome of monetary policy design for Eurozone as a whole. In that regard particular attention must be paid to distinctive features of the new member states’ economies and the attained level of convergence with Eurozone.

Figure 3: Distribution of Voting rights and Economic Size in EMU
(hypothetical case EMU 24)



Source: Sebea (2006).

5. Increased divergence of monetary transmission

One of the most important enlargement-related challenges of monetary policy is associated with the fact that the new ECB Governing Board will be faced with increased heterogeneity of economic structures among prospective EMU member states. Diverse structures of economy, industry, different banking systems, and different levels of centralisation of labour markets suggest that the monetary policy transmission will be more complex in comparison to the current EMU 16, where a dose of divergence in the transmission has been evident in the recent years (ECB, 2008; Angeloni and Ehrmann, 2003). Individual empirical studies (Ganev et al, 2002) indicate that the ECB monetary policy has asymmetric effects in countries aspiring towards EMU membership. This raises the question of what it means for the ECB monetary policy.

With regard to the monetary policy in Eurozone, the more an individual country deviates from the average, the less adequate ECB policy will be defined to suit the Eurosystem and, accordingly, the higher the risk of output fluctuation and higher inflation rates in new member states may become. Accordingly, proposals concerning the need to pay special attention to the countries deviating from average performance, where asymmetry in monetary policy transmission is more striking are gaining prominence (Gros and Hefeker, 2002, Benigno, 2004). This implies that problems in the transmission have been defined and that the central bank can influence them, which need not be the case in enlarged EMU or at least not immediately after the enlargement. In addition to asymmetric monetary policy transmission, one might also expect uncertainty, given that the ECB cannot estimate the effects of monetary policy on real variables in new member states, in view of the restructuring process taking place in them (De Grauwe and Senegas, 2004). The usual response is weaker reaction of the central bank to economic shocks, which leads to a conclusion that ECB will lead less active monetary policy than it had been the case in the past.

Over the previous period, the ECB was frequently criticised for its strategy as being less responsive in comparison to the American Fed, but the reality is such that the design and implementation of monetary policy in Eurozone is far more complex than in the US, taking into account heterogeneity of economies of EMU members states in relation to other optimum currency areas. This challenge for ECB is gaining prominence with the EMU enlargement, and it is therefore expected that ECB will be more cautious in shaping the monetary policy.

In this context, one must also take into consideration other ramifications of a less active monetary policy on financial markets and private sector. Since monetary policy will not be available as an instrument of salary increase adjustments in the enlarged Union, the trend pronounced in larger new member states that have not renounced on independent monetary policy yet, one could expect less aggressive approach of trade unions and more cautious approach of employers in forming salaries, which leads to positive effects with respect to lower exposure of these economies to shocks (Hefeker, 2005; Posen and Gould, 2006).

In addition to private sector, governments will need to adjust to growing uncertainty surrounding the responsiveness of ECB, in terms of increasing political will to implement structural reforms regarding the labour market (Hefeker, 2006). With the loss of national monetary policy as an instrument for alleviating economic shocks, more space will need to be created for private sector, and the role of the government ought to be instrumental in terms of increasing flexibility of labour market and production in order to make economy less susceptible to shocks. With the loss of monetary policy, even the governments that may pay a significant political price for the reform of structural policies will be “forced” to pursue them, given that the growing uncertainty in the behaviour of ECB will stress the need for implementation of structural reforms of high quality.

6. Growing uncertainty in the ECB’s actions

Further to growing uncertainty related to ECB itself, the EMU enlargement and its impact on decision-making in Eurosystem entails uncertainty for financial markets and private sector. This had also been the case during the first years of EMU. Financial markets needed time to form adequate perception of the behaviour and response of ECB to economic developments (Goldberg and Klein, 2005). In view of the EMU enlargement, the stress is on the fact that new member states with differing preferences with respect to monetary policy have seats on the ECB Governing Council, and as their number grows bigger, effects on monetary policy decisions will be changed in comparison to EU 15, given that systemically different preferences affect the median solution which determines the monetary policy (Hefeker, 2003).

There are also opposing views that the ECB Governing Council currently takes decisions that are primarily in the interest of larger member states and that the current voting principle does not reflect the *de facto* distribution of power (Fatum, 2006). Furthermore, even some NCB analysts support highlight that the reform of the decision-making process in the ECB Governing Council contributes to uncertainty, despite a number of unknowns about the manner and quality of decision-making in the enlarged EMU (Servais, 2006).

Conclusion

An insufficient degree of political unification of the European Union has influenced the birth of a unique institutional framework for the monetary policy in terms of functioning and accountability. Against such a backdrop the EMU enlargement process brings additional challenges: a) for the prospective Eurozone members - renouncing of national sovereignty as regards monetary policy, process of uncertain transition, particularly from the aspect of real convergence; b) for the current Eurozone members – increased heterogeneity and uncertainty related to accession of economies that have not been adjusted to the Eurozone average and c) for the ECB in terms of implementation of efficient monetary policy for 24 or more member states.

Notwithstanding the prevailing view that the reformed decision-making in the ECB Governing Council reflects the relation of economic power and influence more “equitably”, one cannot neglect that the system favours governors of larger countries which can be seen a drawback given the initial design and nature of decision making. Additionally, the reform will not contribute to raising the efficiency of ECB because all NCB governors will be entitled to take part in deliberations without voting right and therefore increase the cost of decision-making, which is not negligible considering the intensity of the Eurozone enlargement.

Whilst findings regarding the impact of EU enlargement and reform of the ECB Governing Council decision-making on the EMU’s stability remain in the zone of speculation, there is a significant degree of agreement that underdevelopment and insufficient degree of real convergence of the new member states with the Eurozone, and consequently significantly different interests in monetary policy designing, could ultimately result in a less active monetary policy of ECB and bring in a dose of uncertainty re quality and sustainability of the European monetary project.

It appears that further centralisation of monetary policy imposes itself as a sustainable and superior solution.

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