The Inflation Criterion for Eurozone Membership:

What to do when you fail to meet it [*] [**]

Willem H. Buiter
Professor of European Political Economy,
European Institute, London School of Economics and Political Science

Anne C. Sibert
Professor of Economics,
Birkbeck College, University of London

10 September 2006

Introduction

The third round of Eurozone enlargement has just produced a new Economic and Monetary Union (EMU) member: Slovenia has been permitted to join the Eurozone on January 1, 2007. At the same time, Lithuania was turned down for Eurozone membership because it was deemed by the European Central Bank (ECB) and the European Commission to have violated the 'Maastricht' inflation criterion for EMU membership. Using the threat of assured rejection, Frankfurt and Brussels also bullied Estonia, which had joined the Exchange Rate Mechanism (ERM) together with Slovenia and Lithuania in June 2004, into dropping its application for EMU membership on January 1, 2007. Latvia, which also joined the ERM in 2004 but did not actively pursue a 2007 EMU entry and Slovakia, which joined the ERM in 2005 are the other new European Union (EU) members currently languishing in ERM purgatory. All non-EMU EU members, old and new, and soon-to-be EU members Romania and Bulgaria must be surprised and concerned that after a rich history of fudging and waiving the fiscal and exchange rate criteria for Eurozone membership, the Commission and the ECB have decided to enforce the inflation criterion with extreme rigour.[1]

---

[*] Background paper for a Panel Discussion at the Annual Meeting of the Turkish Economic Association, Ankara, September 11, 2006.

[1] See Tables 1 and 2 for the fiscal performance of the existing EMU members in the year prior the big-bang decision made in 1998 for the 11 original members (who created the EMU on January 1, 1999 and the year

This note explains the inflation criterion, how its recent (mis)application denied EMU membership to Lithuania and how its future use could keep other willing and able EMU candidates outside the Eurozone. It then looks at strategies for the excluded Eurozone candidates in response to this blackballing by Frankfurt and Brussels.

It was written as background material for a Panel sponsored by the Central Bank of Turkey, as part of the Annual Meeting of the Turkish Economic Association held in Ankara on September 11, 2006. I was asked specifically to draw out any implications of the inflation criterion for Turkey. Unfortunately, the implications for Turkey in the foreseeable future are negligible. Full EMU membership requires that there by EU membership first. Since even in the best foreseeable future, Turkey's EU membership is unlikely to be less than a decade away, considerations of the modalities of EMU membership for Turkey would be premature and pointless.

The inflation criterion

The inflation criterion for EMU membership states that the annual inflation rate cannot exceed the average of the *three best performing EU member countr*ies in terms of price stability by more than 1.5 percent during the year prior to the examination (the formal assessment of whether a candidate has met the EMU membership criteria). *Best performing in terms of price stability* has been interpreted by the Commission and the ECB as meaning '*with the lowest inflation rate'*, except when anomalies occur. Negative inflation is one such anomaly.

For later reference, the exchange rate criterion states that the exchange rate has to remain within the normal fluctuation margins provided for by the ERM of the European Monetary System without severe tensions for at least the last two years before the formal assessment. In particular, the candidate must not devalue its currency on its own initiative during the period. The 'normal fluctuation margins' have been interpreted by the ECB and the European Commission to be plus or minus 15 percent around a fixed central parity against the euro.

All Eurozone candidate countries easily meet most of the Maastricht criteria for Eurozone membership other than the inflation. They satisfy the exchange rate and interest rate criteria and only Slovakia narrowly misses one of the two fiscal criteria. This is in contrast to Germany, France, Greece, Italy and Portugal, which, if they were not already Eurozone members, would not have been able to meet the membership criteria had the examination taken place in the middle of 2006, as they do not meet the fiscal criteria. (see Table 1 and Table 2).

It should also be noted that the cost, if any, of a common monetary policy to countries such as Estonia and Lithuania would not necessarily be greater than the cost to the

---

prior to the decision to admit Greece, which joined on January 1, 2001. The fiscal criteria are (1) a general government financial deficit no larger than 3 percent of GDP and a general government gross stock of debt no larger than 60 percent of annual GDP.

existing Eurozone members. Quite the opposite In the fourteen years since their independence Estonia and Latvia have been remarkably successful in transforming themselves into flexible and resilient market economies. The World Bank publishes an index measuring the ease of doing business in different countries. The index depends on such factors as business regulations, property rights and labour market rigidities. On this index, for 2007, Lithuania and Estonia rank 15th and 17th in the world, respectively, not far behind the best EU25 performer (the UK in 6th place) and ahead of Germany (21st place) and France (35th place). More detailed data can be found in Table 4. Turkey comes in 91st, only ahead of one EU member (Greece at position 109) and one candidate country (Croatia at 124).The Heritage Foundation ranks all five ahead of France in its Index of Economic Freedom and Estonia, in seventh place, is ahead of the US.

The application of the inflation test by the ECB and the Commission led to the result shown in Chart 1: In April 2006 (the most recent month for which we have data), the three lowest inflation rates belonged to Sweden, Finland and either Poland or the Netherlands. These countries, two of which are not Eurozone members, had an average inflation of 1.1 per cent. Adding 1.5 points to this rate yields an inflation criterion of 2.6 per cent. Slovenia meets this benchmark and Lithuania, with inflation of 2.7 per cent, fails the test by the narrowest of margins - 0.1 percent. Estonia misses the boat by a wider margin and Latvia is not even close.

The decision to reject Lithuania as a Eurozone member and to badger Estonia into withdrawing its application, was both mean-spirited and erroneous. It was based on a *rigid application* of an *inconsistent interpretation* of a *flawed inflation criterion*.

The inflation criterion is *flawed* for four reasons.

- First, the inflation criterion is based on the behaviour of a price index, the HICP, which includes both traded and non-traded goods. That means, the criterion cannot allow for desirable equilibrium inflation differentials due to the Balassa-Samuelson effect. The Baltic candidate countries have seen their inflation rates rise in part because of impressive productivity gains in their traded sectors. As the candidate countries rapidly catch up with the Eurozone, the relative price of non-traded goods rises faster than in the Eurozone. With a fixed nominal exchange rate, this Balassa-Samuelson effect can easily amount to a 1.5% inflation differential per annum. It is insane to require a country that wishes to keep its currency peg with the Euro to create a recession simply to suppress, temporarily, the Balassa-Samuelson effect
- Second, it is based on the inflation behaviour of all 25 (soon 27) EU members rather than on that of the 12 existing Eurozone members. In fact, the only inflation criterion that would make sense is based on the rate of inflation of the existing Eurozone as a whole.
- Third, the inflation criterion is coupled with a nominal exchange rate criterion. No central bank should have two nominal objectives, or one nominal objective and one nominal constraint. It is insane to require a country with a currency board vis-à-vis the euro (or some other fixed exchange rate regime), to give up the

peg, achieve its inflation target with an appreciating exchange rate and then to fix the peg again, this time irrevocably.

- Fourth, the attempt, even if successful, to satisfy the inflation and exchange rate criteria is an investment without return. As a reward for being a skillful manager of monetary policy, including the exchange rate, the power to manage monetary policy and the exchange rate is taken away forever.

Adding insult to injury, this flawed inflation criterion was interpreted *inconsistently*. The ECB and the European Commission applied a definition of 'best performing in terms of price stability to the candidate members that differs from the definition is uses for the existing Eurozone members.' For candidate Eurozone members, the ECB and the Commission define "best performing" as having the lowest (positive) inflation rate. For Eurozone members, the ECB defines price stability as inflation below, but close to, 2 per cent. By its own definition, inflation in Sweden, Finland, Poland and the Netherlands is far too low. The ECB itself has not managed to maintain inflation in the Eurozone as a whole below 2 per cent. If we accept the ECB's own definition of what price stability means, then the target, achieved by several EU countries, should be about 1.8 per cent, putting the benchmark at 3.3 per cent. Slovenia, Lithuania and Slovakia satisfy this criterion but Estonia and Latvia do not. We maintain that sound economics would increase the benchmark by 1.5 points to allow for the Balassa-Samuelson effect, allowing Estonia to pass the test.

The entry treaty requires Lithuania to have inflation of no more than 1.5 percentage points above the average of the three best-performing member states in terms of price stability.

When challenged, the ECB and European Commission do not defend their defective and inconsistent methodology for calculating the inflation benchmark. Instead they argue that this benchmark was used in all five earlier convergence reports. The logic of the argument is extraordinary. Suppose that for five years in a row, either deliberately or because we were incompetent, we successfully submitted tax returns that significantly understated our true tax liability. If we were caught in year six, would we get away with the argument: "You should let us get away with this because you always did before?" We think not. When you make a series of errors, the normal course of action after you have seen the errors for what they were, is not to repeat the error in the future. "We do it wrong because that's what we have always done" is not an argument that should be used by adults.

Furthermore, the earlier applications of the defective inflation benchmark calculation had not led to any country being denied entry because it had an inflation rate in excess of the defective benchmark *and* below the proper benchmark based on average Eurozone inflation or on the Eurozone inflation target. Fairness between past, current and future candidates is therefore not harmed by using a benchmark based on Eurozone average inflation.

Finally, the inconsistently interpreted and flawed inflation criterion was applied *rigidly*, by denying entry to a country, Lithuania, that missed the (inconsistent and flawed) benchmark by all of 10 basis points. Scrooge is alive and well and commutes between Frankfurt and Brussels.

What is to be done?

There are five courses of action open to the countries that have either been rejected for Eurozone membership by the ECB and Brussels or been cajoled into withdrawing or delaying their membership application because they were told they would not be accepted as members. [2]

- **Giving up.** Abandon any active effort to meet the criteria and join the EMU. The Treaty stipulates that there can be no new euro opt-outs (after the UK and Denmark), but it does not provide for ways of coercing an unwilling country to join.
- **Acceptance.** Accept the decision and wait till they can join on the ECB's and Commission's terms. This could lead to considerable delays and would expose the candidate Eurozone members to considerable risk and uncertainty in the purgatory of ERMII.
- **Hoping for the triumph of reason.** Convince the ECB, Brussels and the Council that, in a rational world, the inflation and exchange rate criteria ought to be modified, scrapped or ignored/fudged. There is ample precedent for fudging the other Maastricht criteria. Italy and Germany did not meet the fiscal criterion when they joined EMU. Greece fiddled its government debt and deficit data. With the now corrected data, Greece would not have been allowed to join EMU. Italy, Finland and Greece did not meet the exchange rate criterion. Unfortunately, this most sensible course of action is unlikely. The ECB and Brussels are stubborn as well as wrong.
- **Suing.** In the case of Lithuania, the country has been kept out of the Eurozone because of an inflation benchmark that violates both the spirit and the letter of the Treaty. It could appeal the matter to the European Court of Justice. That would, at best, be a long wait.
- **Gate crashing the Eurozone through unilateral euroisation**.

An obvious course of action for countries willing to join the Eurozone but blackballed by the ECB and the Commission would be unilateral euroisation of their economies. I believe that this would be the practical second-best solution for candidate Eurozone countries, since the first-best solution, formal membership of the Eurozone is not available without costly, unacceptable delays and/or unnecessary, costly conditionality. Unilateral euroisation as a policy would reinforce the considerable degree of *de-facto*, spontaneous, market-driven euroisation of the economies of the new EU members, as reflected in the growing use of the euro as a medium of exchange/means of payment, unit of account, unit of denomination of financial contracts, and store of value.

---

[2] The actual rejection decision was made by the European Council (the heads of state/heads of government of the EU, but the ECB and the Commission made the recommendation), who spinelessly rubber-stamped the recommendations by the ECB and the Commission.#

While providing many of the benefits of Eurozone membership, unilateral euroisation has three costs compared to formal Eurozone membership.

- First, the entrant would forego the revenue a country earns by issuing its own currency – as a member of the Eurozone it would get a share of the ECB's profits. But, the amount of 'seigniorage' foregone is likely to be small, perhaps 0.25 - .50 percent of GDP per year.
- Second, the country would not have a seat on the Governing Council of the ECB. However, the Governing Council is already so large that it cannot function as a meaningful deliberative body, and any candidate's influence would be marginal at best.
- Third, the country would have no lender of last resort in the event of a financial crisis as it could not print its own euros. For most candidate countries this problem is limited. First, their banking systems are foreign-owned (mostly by Eurozone banks). Second, their national Treasuries would be able to provide emergency funds limited only by the sovereign's ability to borrow euros. Finally, the lender in last resort function in the Eurozone has question marks hanging over it, because unlike national central banks, the ECB is not backed by a fiscal authority with deep long-term pockets based on its capacity to tax.

Straightforward adoption of the euro as the sole legal tender by a candidate country and elimination of the national currency would run into flak from Frankfurt and Brussels, although the Treaty and the relevant Protocol have nothing to say on the legality of the exercise. To get around legal nitpickers in Brussels and Frankfurt, we suggest that countries unilaterally adopting the euro retain their own currencies. The domestic currency and the euro should be joint legal tender and be freely and costlessly convertible into each other. The government can then take steps to discourage the use of the domestic legacy currency and encourage the use of the euro as a medium of exchange/means of payment, unit of account and store of value.

It could discourage the use of domestic currency as a store of value by adopting an exchange rate regime for the domestic currency that would prevent it from appreciating against the euro but would not resist it depreciating against the euro should market forces pull in that direction. Such a policy can always be implemented, because when the monetary authorities resist an appreciation of the domestic currency vis-à-vis the euro they can always accumulate euro reserves in whatever amount the market throws at them. Permitting the domestic currency to depreciate vis-à-vis the euro when there is market pressure in that direction requires no more than the monetary authorities not intervening to support the domestic currency by selling euros. Non-interest-bearing domestic currency notes and coin would therefore be an inferior ('dominated') store of value compared to non-interest-bearing euro currency notes and coin. No one would hold the domestic currency if there were any chance of it depreciating vis-à-vis the Euro. The authorities could even make the exchange rate regime 'Maastricht-compliant' (with a view to future formal EMU membership), by having a central parity defined in terms of the euro and a fifteen percent band on either side. However, inframarginal interventions would stop the national currency from appreciation above the central parity, while depreciations below the central parity would be tolerated as long as they did not threaten the lower bound of the band.

The government and monetary authorities of the candidate Eurozone member could also discourage the use of the legacy national currency as a medium of exchange and means of payment by issuing no new currency notes and coin or by issuing new national currency coins that don't fit the existing vending machines, while euros do (as is generally the case in the new EU member states).

Finally it could encourage the use of the euro as the numéraire or unit of account, invoicing and contracting currency by writing its own contracts in terms of euros and making it easier to settle debts with the government using euro-denominated bank accounts than using legacy national currency accounts. Voluntary conversion of existing legacy currency-denominated contracts into euro-denominated contracts could be encouraged or even subsidized. None of this would affect the legal tender status of the legacy national currency, as legal tender status only applies to currency notes.

Within a few years the only domestic money would be in the museums of central banks and the vast majority of all contracts would be denominated in euros. If the countries later wished to join the Eurozone, the European Council would determine the 'irrevocably fixed conversion rate' between the euro and the domestic currency, but this would have no significance.

While the ECB and the EC would not like this solution, they have no legal grounds, that is arguments based on the Treaty and the relevant Protocols, for opposing it. These institutions will in any case face the problem of what to do with a non-Eurozone country that has the euro as its currency, when Montenegro (which adopted the euro as its sole currency when it still was a constituent Republic of Serbia and Montenegro) becomes an EU member and a Eurozone candidate. We recommend that all three Baltic states immediately declare the euro to be joint legal tender. We also recommend that Bulgaria adopt it upon becoming an EU member and suggest that fiscally sound Visigrad countries consider it as well.

As a final tactical note, countries considering unilateral euroisation, whether openly by abolishing the national currency and adopting the euro as sole legal tender, or through the joint legal tender approach outline earlier, would be well-advised to coordinate among themselves and to euroise 'en bloc'. If, say, the three Baltics, Slovakia and Bulgaria were to euroise unilaterally as a group, the scope for harassment by appalled denizens of Frankfurt and Brussels, including unnecessary delays in the admission of the unilateralists to full membership of the EMU, would be virtually nil.

Table 1: General Government Budget Balance of Eurozone Member States, EU-15, New Member States and EU-25 (% of GDP at Market Prices)													
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Austria	-4.2	-4.9	-5.6	-3.9	-1.8	-2.3	-2.2	-1.5	0.1	-0.5	-1.5	-1.1	-1.5
Belgium	-7.3	-5.0	-4.3	-3.8	-2.0	-0.7	-0.4	0.2	0.6	0.0	0.1	0.0	0.1
Finland	-7.3	-5.7	-3.7	-3.2	-1.5	1.5	2.2	7.1	5.2	4.1	2.5	2.3	2.6
France	-6.0	-5.5	-5.5	-4.1	-3.0	-2.7	-1.8	-1.4	-1.6	-3.2	-4.2	-3.7	-2.9
Germany	-3.1	-2.4	-3.3	-3.4	-2.7	-2.2	-1.5	1.3	-2.9	-3.7	-4.0	-3.7	-3.3
Greece	-13.4	-9.4	-10.2	-7.4	-4.0	-2.5	-1.8	-4.1	-6.1	-4.9	-5.8	-6.9	-4.5
Ireland	-2.7	-2.0	-2.1	-0.1	1.1	2.4	2.4	4.4	0.8	-0.4	0.2	1.5	1.0
Italy	-10.3	-9.3	-7.6	-7.1	-2.7	-2.8	-1.7	-0.6	-3.2	-2.9	-3.4	-3.4	-4.1
Luxembourg	1.5	2.7	2.1	1.9	3.2	3.2	3.7	6.0	6.1	2.0	0.2	-1.1	-1.9
Netherlands	-2.8	-3.5	-4.2	-1.8	-1.1	-0.8	0.7	2.2	-0.2	-2.0	-3.1	-1.9	-0.3
Portugal	-8.9	-6.6	-4.5	-4.0	-3.0	-2.6	-2.8	-2.8	-4.2	-2.9	-2.9	-3.2	-6.0
Spain	:	:	:	-4.9	-3.2	-3.0	-1.2	-0.9	-0.5	-0.3	0.0	-0.1	1.1
Eurozone	:	:	:	:	:	:	:	:	-1.9	-2.5	-3.0	-2.8	-2.4
Denmark	-3.7	-3.2	-3.1	-1.9	-0.5	0.2	2.4	1.7	2.6	1.2	1.0	2.7	4.9
Sweden	-11.6	-9.3	-7.0	-2.7	-0.9	1.8	2.5	5.1	2.5	-0.2	0.1	1.8	2.9
UK	-8.0	-6.8	-5.7	-4.3	-2.0	0.2	1.0	3.8	0.7	-1.6	-3.3	-3.3	-3.6
EU-15	:	:	:	-4.2	-2.4	-1.6	-0.7	1.0	-1.2	-2.2	-2.9	-2.6	-2.3
Czech Republic	:	:	:	:	-2.5	-5.0	-3.6	-3.7	-5.9	-6.8	-6.6	-2.9	-2.6
Cyprus	:	:	:	:	:	-4.3	-4.5	-2.4	-2.3	-4.5	-6.3	-4.1	-2.4
Estonia	:	:	:	:	1.9	-0.3	-3.7	-0.6	0.3	1.0	2.4	1.5	1.6
Hungary	:	:	:	:	-6.8	-8.0	-5.6	-3.0	-3.5	-8.4	-6.4	-5.4	-6.1
Latvia	:	:	:	:	:	-0.6	-4.9	-2.8	-2.1	-2.3	-1.2	-0.9	0.2
Lithuania	:	:	:	:	-1.1	-3.0	-5.6	-2.5	-2.0	-1.4	-1.2	-1.5	-0.5
Malta	:	:	:	:	-10.7	-10.8	-7.6	-6.2	-6.6	-5.6	-10.2	-5.1	-3.3
Poland	:	:	:	:	-4.0	-2.1	-1.4	-0.7	-3.7	-3.2	-4.7	-3.9	-2.5
Slovenia	:	:	:	:	:	-2.2	-2.1	-3.5	-3.9	-2.7	-2.8	-2.3	-1.8
Slovakia	:	:	:	:	-5.5	-4.7	-6.4	-12.3	-6.6	-7.7	-3.7	-3.0	-2.9
NMS-10	:	:	:	:	:	-3.7	-3.1	-2.5	-4.1	-4.7	-4.9	-3.6	-2.9
EU-25	:	:	:	:	:	-1.7	-0.8	0.8	-1.3	-2.3	-3.0	-2.6	-2.3
Source: Eurostat													

Table 2: General Government Consolidated Gross Debt of Eurozone Member States, EU-15, New Member States and EU-25 (% of GDP at Market Prices)													
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Austria	60.5	63.4	67.9	67.6	63.8	64.2	66.5	67.0	67.0	66.0	64.4	63.6	62.9
Belgium	137.9	135.9	134.0	130.2	124.8	119.6	114.8	109.1	108.0	103.2	98.5	94.7	93.3
Finland	55.9	58.0	57.1	57.1	54.1	48.6	47.0	44.6	43.6	41.3	44.3	44.3	41.1
France	45.3	48.4	54.6	57.1	59.3	59.5	58.5	56.8	56.8	58.2	62.4	64.4	66.8
Germany	46.9	49.3	57.0	59.8	61.0	60.9	61.2	60.2	59.6	60.3	63.8	65.5	67.7
Greece	110.1	107.9	108.7	111.3	108.2	105.8	105.2	114.0	114.4	110.7	107.8	108.5	107.5
Ireland	95.1	89.6	81.8	73.3	64.5	53.8	48.6	38.3	35.9	32.1	31.1	29.4	27.6
Italy	118.7	124.8	124.3	123.1	120.5	116.7	115.5	111.2	110.9	105.5	104.2	103.8	106.4
Luxembourg	6.8	6.3	6.7	7.2	6.8	6.3	5.9	5.5	6.7	6.5	6.3	6.6	6.2
Netherlands	79.3	76.4	77.2	75.2	69.9	66.8	63.1	55.9	51.5	50.5	51.9	52.6	52.9
Portugal	59.1	62.1	64.3	62.9	59.1	55.0	54.3	53.3	53.6	55.5	57.0	58.7	63.9
Spain	58.4	61.1	63.9	68.1	66.6	64.6	63.1	61.1	56.3	52.5	48.9	46.4	43.2
Eurozone	:	:	:	:	:	:	:	:	69.3	68.1	69.3	69.8	70.8
Denmark	81.1	77.4	73.2	69.7	65.7	61.2	57.7	52.3	48.0	46.8	44.4	42.6	35.8
Sweden	:	73.9	73.7	73.5	70.6	68.1	62.7	52.8	54.3	52.0	51.8	50.5	50.3
UK	45.4	48.6	51.8	52.3	50.8	47.7	45.1	42.0	38.7	37.6	39.0	40.8	42.8
EU-15	:	66.4	70.8	72.6	71.0	68.9	67.9	64.1	63.1	61.5	63.1	63.4	64.6
Czech Republic	:	:	:	:	12.2	12.9	13.4	18.2	26.3	28.8	30.0	30.6	30.5
Cyprus	:	:	:	:	:	61.6	62.0	61.6	61.9	65.2	69.7	71.7	70.3
Estonia	:	:	:	:	6.4	5.6	6.0	4.7	4.7	5.5	6.0	5.4	4.8
Hungary	:	:	:	:	64.2	61.9	61.2	55.4	52.2	55.0	56.7	57.1	58.4
Latvia	:	:	:	:	:	9.8	12.6	12.9	15.0	13.5	14.4	14.6	11.9
Lithuania	:	:	:	:	15.2	16.5	23.0	23.8	22.9	22.3	21.2	19.5	18.7
Malta	:	:	:	:	51.5	64.9	56.8	56.4	63.5	61.2	71.3	76.2	74.7
Poland	:	:	:	:	44.0	39.1	40.3	36.8	36.7	39.8	43.9	41.9	42.5
Slovenia	:	:	:	:	:	23.6	24.9	27.4	28.4	29.7	29.1	29.5	29.1
Slovakia	:	:	:	30.6	33.1	34.0	47.2	49.9	49.2	43.3	42.7	41.6	34.5
NMS-10	:	:	:	:	:	34.1	37.7	36.5	38.5	38.4	39.7	43.1	41.1
EU-25	:	:	:	:	:	67.5	66.7	62.9	62.0	60.5	62.0	62.4	63.4
Source: Eurostat													

Table 3: General Government Primary Budget Balance of Eurozone Member States, EU-15, New Member States and EU-25 (% of GDP at Market Prices)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Austria	0.1	-0.9	-1.8	-0.1	1.7	1.2	1.2	2.1	3.8	2.6	1.4	1.7	1.2
Belgium	3.8	4.6	4.9	5.1	6.0	6.8	6.6	6.9	7.2	5.7	5.4	4.8	4.5
Finland	-2.8	-1.5	0.3	1.1	2.7	5.1	5.3	10.0	7.9	6.2	4.2	3.8	4.1
France	:	:	:	-0.1	0.7	0.9	1.4	1.7	1.6	-0.3	-1.4	-1.0	-0.3
Germany	0.2	0.9	0.3	0.3	0.9	1.4	2.0	4.7	0.4	-0.8	-1.0	-0.8	-0.5
Greece	-2.0	3.1	1.0	3.1	4.2	5.3	6.5	4.0	3.7	1.1	-0.3	-1.5	0.5
Ireland	3.9	4.1	3.3	4.4	5.3	5.7	4.7	6.4	2.4	0.9	1.4	2.7	2.2
Italy	2.8	2.1	3.9	4.4	6.7	5.2	5.0	5.8	3.6	2.7	1.7	1.3	0.4
Luxembourg	1.9	3.1	2.4	2.3	3.6	3.5	4.0	6.2	6.5	2.3	0.4	-1.0	-1.8
Netherlands	3.4	2.3	1.7	3.8	4.1	4.1	5.1	6.0	3.3	0.8	-0.5	0.7	2.2
Portugal	:	:	:	1.4	1.3	0.9	0.4	0.4	-1.2	0.0	-0.2	-0.5	-3.3
Spain	:	:	:	0.4	1.6	1.2	2.4	2.4	2.6	2.4	2.3	1.9	2.9
Eurozone	:	:	:	:	:	:	:	:	2.2	0.9	0.3	0.3	0.6
Denmark	3.6	3.4	2.7	3.6	4.2	4.6	6.3	5.3	6.3	4.1	3.6	4.9	6.8
Sweden	-5.7	-2.9	-0.3	3.8	5.3	7.4	7.1	9.2	5.7	2.6	2.1	3.4	4.5
UK	-4.9	-3.4	-2.1	-0.6	1.7	3.8	3.9	6.6	3.1	0.4	-1.3	-1.3	-1.5
EU-15	:	:	:	1.2	2.5	2.9	3.3	4.8	2.5	1.0	0.1	0.2	0.5
Cyprus	:	:	:	:	:	1.1	1.0	1.1	1.1	-1.3	-2.8	-0.9	1.0
Czech Republic	:	:	:	:	:	:	-2.7	-2.8	-4.8	-5.6	-5.5	-1.7	-1.4
Estonia	:	:	:	:	:	:	-3.4	-0.3	0.5	1.2	2.6	1.8	1.8
Hungary	:	:	:	:	:	:	1.9	2.6	1.0	-4.4	-2.5	-1.2	-2.3
Latvia	:	:	:	:	:	:	-4.1	-1.8	-1.1	-1.5	-0.5	-0.2	0.8
Lithuania	:	:	:	:	:	:	-4.1	-0.8	-0.4	-0.1	0.0	-0.5	0.3
Malta	:	:	:	:	:	:	-4.0	-2.5	-2.8	-1.8	-6.5	-1.1	0.7
Poland	:	:	:	:	:	-0.2	0.6	1.4	-0.7	-0.4	-1.9	-1.3	-0.1
Slovenia	:	:	:	:	:	:	0.2	-1.0	-0.4	-0.3	-0.7	-0.5	-0.1
Slovakia	:	:	:	:	:	:	-3.1	-8.2	-2.0	-4.1	-1.2	-0.8	-1.1
NMS-10	:	:	:	:	:	:	-0.4	0.0	-1.1	-2.2	-2.4	-1.2	-0.6
EU-25	:	:	:	:	:	:	3.1	4.6	2.4	0.8	0.0	0.2	0.4
Source: Eurostat													

Table 4: Ranking of Ease of Doing Business, 2007 - 2006

2007	2006		2007	2006		2007	2006	
1	2	Singapore	60	58	Kiribati	119	113	Iran
2	1	New Zealand	61	56	Slovenia	120	115	Albania
3	3	United States	62	57	Palau	121	122	Brazil
4	4	Canada	63	82	Kazakhstan	122	119	Suriname
5	6	Hong Kong, China	64	70	Uruguay	123	120	Ecuador
6	5	United Kingdom	65	78	Peru	124	134	Croatia
7	7	Denmark	66	60	Hungary	125	125	Cape Verde
8	9	Australia	67	72	Nicaragua	126	121	Philippines
9	8	Norway	68	95	Serbia	127	127	West Bank and Gaza
10	10	Ireland	69	61	Solomon Islands	128	132	Ukraine
11	12	Japan	70	64	Montenegro	129	124	Belarus
12	11	Iceland	71	75	El Salvador	130	135	Syria
13	14	Sweden	72	65	Dominica	131	126	Bolivia
14	13	Finland	73	63	Grenada	132	129	Gabon
15	16	Switzerland	74	66	Pakistan	133	130	Tajikistan
15	15	Lithuania	75	74	Poland	134	138	India
17	17	Estonia	76	67	Swaziland	135	131	Indonesia
18	19	Thailand	77	68	United Arab Emirates	136	133	Guyana
19	18	Puerto Rico	78	73	Jordan	137	139	Benin
20	20	Belgium	79	76	Colombia	138	143	Bhutan
21	21	Germany	80	77	Tunisia	139	136	Haiti
22	22	Netherlands	81	79	Panama	140	137	Mozambique
23	23	Korea	82	69	Italy	141	156	Côte d'Ivoire
24	31	Latvia	83	80	Kenya	142	150	Tanzania
25	25	Malaysia	84	83	Seychelles	143	142	Cambodia
26	26	Israel	85	85	St. Kitts and Nevis	144	141	Comoros
27	27	St. Lucia	86	87	Lebanon	145	140	Iraq
28	24	Chile	87	86	Marshall Islands	146	152	Senegal
29	28	South Africa	88	81	Bangladesh	147	151	Uzbekistan
30	30	Austria	89	89	Sri Lanka	148	146	Mauritania
31	29	Fiji	90	104	Kyrgyz Republic	149	148	Madagascar
32	32	Mauritius	91	84	Turkey	150	157	Equatorial Guinea
33	33	Antigua and Barbuda	92	94	FYR Macedonia	151	154	Togo
34	37	Armenia	93	108	China	152	147	Cameroon
35	47	France	94	102	Ghana	153	145	Zimbabwe
36	34	Slovakia	95	91	Bosnia and Herzegovina	154	161	Sudan
37	112	Georgia	96	97	Russia	155	166	Mali
38	35	Saudi Arabia	97	96	Ethiopia	156	155	Angola
39	38	Spain	98	101	Yemen	157	149	Guinea
40	45	Portugal	99	100	Azerbaijan	158	158	Rwanda
41	36	Samoa	100	90	Nepal	159	164	Lao PDR
42	39	Namibia	101	93	Argentina	160	170	Niger
43	62	Mexico	102	92	Zambia	161	153	Djibouti
44	42	St. Vincent and the Grenadines	103	88	Moldova	162	159	Afghanistan
45	41	Mongolia	104	98	Vietnam	163	171	Burkina Faso
46	40	Kuwait	105	99	Costa Rica	164	144	Venezuela
47	43	Taiwan, China	106	105	Micronesia	165	165	Egypt
48	44	Botswana	107	103	Uganda	166	160	Burundi
49	71	Romania	108	109	Nigeria	167	162	Central African Republic
50	48	Jamaica	109	111	Greece	168	163	Sierra Leone
51	46	Tonga	110	106	Malawi	169	167	São Tomé and Principe
52	50	Czech Republic	111	107	Honduras	170	168	Eritrea
53	49	Maldives	112	110	Paraguay	171	169	Congo, Rep.
54	59	Bulgaria	113	118	Gambia	172	172	Chad
55	52	Oman	114	116	Lesotho	173	173	Guinea-Bissau
56	51	Belize	115	117	Morocco	174	174	Timor-Leste
57	53	Papua New Guinea	116	123	Algeria	175	175	Congo, Dem. Rep.
58	54	Vanuatu	117	114	Dominican Republic			
59	55	Trinidad and Tobago	118	128	Guatemala			

Source: World Bank, Doing Business 2007

Chart 1
Who meets the inflation benchmark?