Summary

The adoption of the euro at the beginning of 2007 is a primary goal of macroeconomic policy, demanding its co-ordinated action to fulfil the Maastricht criteria in the next year and a half. However, besides accomplishing nominal convergence it must be achieved with a sustainable mix of macroeconomic policies in order to ensure the preservation of the main macroeconomic equilibria after joining the EMU. This goal is even more challenging since the role of macroeconomic policies has permanently changed since entry to the EU. Therefore, in order to meet the Maastricht criteria and ensure the preservation of the main macroeconomic equilibria even after the euro has been adopted, the adjustment of some key macroeconomic policy guidelines is needed. Some adjustments will be required before the end of this year while other changes should not be made until after the euro's adoption.

Up until the middle of 2006 it will be of the foremost importance to fulfil the inflation criterion; monetary policy can contribute to this goal mainly by preserving the stable exchange rate, while other macroeconomic policies must support these efforts. In addition, the Bank of Slovenia must ensure the convergence of interest rates no later than at the time of adopting the euro. Namely, due to the differences in inflation rates and risk premia on one hand, and in order to ensure a stable exchange rate on the other, interest rates might stay relatively high until then. As for swap agreements, they must be closed down by the time of adopting the euro. To maintain fiscal stability even in the period before adoption of the euro, it will be crucial to ensure the stability of general government revenue on one hand and to increase the flexibility of general government expenditure on the other, thus increasing fiscal policy's ability to react to potential shocks and to enable co-financing receipts from the EU budget. At the same time, the reforms concerning general government revenue, which would affect the structure of the tax system and thus increase the risk of additional revenue volatility, should be postponed until the euro has been adopted. Concerning incomes policy, the adopted Social Agreement minimises the risk of breaching the Maastricht criteria; therefore it is a reasonable policy to preserve its main guidelines in 2006 as well. However, after the euro's adoption they should be realigned to comply with the sustainable macroeconomic framework.

Key words: EU, ERM II, macroeconomic policies, Maastricht convergence criteria, monetary policy, inflation, exchange rate, swap agreements, fiscal policy, structural deficit, general government expenditure, social transfers, wage policy, Social Agreement, tax wedge, labour market flexibility