
Contents

Opinion:	Stress-testing the monetary regime	1
People	Central bankers in the news	3
Banknotes	A round-up of news and salient issues that have affected central bankers in the past three months.	7
Interview: Milton Friedman	In an exclusive interview, the instigator of the monetarist revolution gives his verdict on inflation-targeting, prospects for Japan, the euro's chances and the performance of central banks over the last 20 years.	15
Interview: Mario Blejer	Mario Blejer describes how, as governor of the central bank of Argentina, he struggled to stabilise a financial system on the verge of meltdown. It turns out that preserving central bank independence was just as crucial in the crisis as in more normal times.	24
Sovereign bankruptcy	Jean-Jacques Rey, author of the G10 report on sovereign bankruptcy, offers his thoughts on the IMF's recent proposals, and ensuing debate. A pragmatic solution may be at hand.	32
Rational and irrational bubbles	Recent gyrations in the housing and equity markets have led to calls for central bank action on both sides of the Atlantic. Allan Meltzer presents his thinking on what exactly we mean by a "bubble", and what central banks should do about them.	36
Establishing the credibility of inflation targets	Inflation targetting is <i>de rigeur</i> for many central banks but a crucial aspect has often been overlooked, claims Jannie Rossouw of the South African Reserve Bank. What if people don't believe the numbers?	46
Why Britain should not join the euro	In a riposte to Richard Layard's article in the previous issue, Janet Bush refutes the alleged benefits of UK euro-entry. Economic logic demands a eurozone government which nobody appears to want, she counters.	51

SPECIAL FEATURE

The monetary dimension of European enlargement

Introduction	Edmond Alphandéry, chairman of the Euro 50 Group, introduces five articles on how accession countries are preparing to join the euro area and the obstacles they still face.	59
The pact's performance and prospects	Pedro Solbes, a member of the European Commission, defends the stability and growth pact. The pact itself is flexible, he maintains, but will be rigidly enforced.	61
Monetary implications of accession	Hanna Gronkiewicz-Waltz, a former president of the National Bank of Poland, weighs the pros and cons for candidate countries. What will accession mean in practice for central bankers?	68
Is Maastricht too tough?	György Szapáry, of the National Bank of Hungary, scores candidate countries on their suitability to join the currency union. Existing members have little to fear.	75
Challenges of accession: Estonia	After ten years of a currency board, Estonia is more than prepared for speedy entry to Europe argues Márten Ross, a deputy governor at the central bank.	92
The dangers of inflexibility	A clash of logics threatens plans for EU enlargement. Insistence on legal consistency, at the expense of economic reality, is dangerous, contends Charles Wyplosz.	103

Central Banking **Volume XIII No. 1**

Behind the scenes in Basel	The BIS is looking to redefine its role; meanwhile, international expansion, anti-counterfeiting software, and an e-mail network of central bank governors are some of the projects on the way, reports Neil Courtis.	114
The Polish conflict	A poisonous relationship with the government has threatened the central bank's independence and damaged the economy. Stanislaw Gomulka delves into the causes and suggests a European solution.	118
Accounting for reserves	Having three sets of accounts for reserves is more than just extravagant, argues John Nugée. It risks bad decisions and produces inefficient markets.	125
A shroud of secrecy	Central banks have improved, but they're still not up to scratch. Steve Hanke and Matt Sekerke investigate central bank transparency on the web.	131
Websites: why are we there?	Central banks presence on the Internet is increasing, but how can they make the most of it? Brent Eades, from the Bank of Canada, explains.	136
The IMF's assessment of internal controls	Management controls in central banks of many borrowing countries fall short of IMF standards. Ahmad Sartip reports on the work that needs to be done.	141
Booknotes	Graham Bannock reviews Joseph Stiglitz's "Globalization and its Discontents", and three books that tackle economic growth – what is the central bank's role in promoting this?	145