The Adoption of the Euro in the New EU Member States: Repercussions of the Financial Crisis

Miriam Allam*

The new EU Member States are under the legal obligation to introduce the euro as soon as they meet the convergence/Maastricht criteria. However, their status as "Member States with a derogation" (Art. 122 TEC) gives them some leeway in setting the target date. In 2007, Slovenia was the only country of this group that joined the euro-area; Malta and Cyprus followed in 2008, and the latest Member State to adopt the euro was Slovakia in 2009. For the other Central and East European Countries (CEEC) the timing is still unknown; official announcements are not consistent and target dates vary from 2010 to 2015. This article discusses the obligations related to the European Monetary Union (EMU) during the different stages of the EU and eurozone accession process, whilst also reflecting upon the impact of the financial crisis on eurozone enlargement and addressing the current debate on unilateral euroisation.

Introduction

The new Member States that joined the EU in 2004 and 2007 have to adopt the euro as soon as they meet the Maastricht criteria since adoption of the euro is part of the requirement for EU accession. Participation in the eurozone is in fact mandatory: the clauses that permitted the United Kingdom and Denmark not to adopt the euro were provided under specific circumstances and were not applicable to the new Member States. Yet, the status of new EU Member States as 'Member States with a derogation' (Art. 122 of the Treaty establishing the European Community, TEC) gives them some leeway in setting the target date. In 2007, Slovenia was the first country of this group that joined the euro-area; Malta and Cyprus followed in 2008; and the latest new Member State to adopt the euro was Slovakia in 2009. For the other CEEC the timing is still unknown; official announcements are not consistent and target dates vary from 2010 to 2015.

The purpose of this article is to discuss the requirements related to EMU during the different stages of the accession process and to reflect upon the impact of the financial crisis on eurozone enlargement. The complex and dynamic process of enlargement and monetary policy convergence started well before the EU accession in 2004. The article therefore begins with a description of the obligations related to EMU during the pre-accession stage and continues with an analysis of the implications of EMU upon and after EU accession. It then concludes with a discussion on the financial crisis and its repercussions on the new EU Member States' prospects of joining the eurozone.

Pre-accession Relations, EU Accession and Implications of EMU

At the Copenhagen Summit held in June 1993 the European Council set out how accession would be granted once each applicant fulfilled the relevant economic and political criteria. These preconditions for EU accession – the so-called Copenhagen criteria – also addressed the need for monetary policy convergences and included:

1. The achievement of stable institutions guaranteeing democracy, the rule of law, respect for human rights and the protection of minorities.
2. The existence of a functioning market economy.
3. The capacity to cope with the pressure and market forces likely to be faced within the Union.
4. Full acceptance of the acquis communautaire, i.e., the ability to take on the obligations of EU membership, including adherence to the aims of political economic and monetary union (cf. Conclusions of the Presidency SN 180/1/93).

As the Copenhagen criteria included the ability of the candidate countries to adhere to the aims of EMU, the Directorate General for Economic and Financial Affairs of the European Commission launched its pre-accession fiscal surveillance mechanism in 2001. This mechanism comprised screening in the area of fiscal and monetary policy with respect to EU and EMU accession requirements and was divided into an annual debt and deficit notification and a pre-accession economic programme (PEP) (European Commission 2000b: 5).

In addition to the Copenhagen criteria and in an effort to facilitate the integration of the accession countries into the single European market (cf. Smith 2004: 122) and to develop the financial sector and ensure monetary and fiscal discipline, the candidate countries had to fulfil the following EMU-related conditions during the pre-accession phase:

- Establishment of independent central banks and monetary authorities (Art. 108 TEC).[1]
- Prohibition of direct public sector financing by the central bank (Art. 104a TEC) and of privileged access of the public sector to financial institutions (Council Regulation TEC No. 3604/93 specifying definitions for Art. 104a TEC).
- Liberalisation of capital movements (Art. 56 TEC).

Upon accession, all new Member States went straight into stage three of EMU[2]. However, as Member States with a derogation, they remain outside the eurozone until they meet the convergence criteria. From the day of their accession the new Member States had to adopt the following policies (see European Commission 2000a: 37):

- Treatment of exchange rate policy as a matter of common interest and in light of the expected participation in the exchange rate mechanism (Art. 124 TEC).
- Avoidance of excessive government deficits and adherence to the relevant provisions of the stability and growth pact (Art. 104 TEC and Regulations 1055/05 and 1056/05).
- Participation in the European System of Central Banks (ESCB) from the date of accession (Art. 109 TEC).
- Progress towards a high degree of sustainable con vergence (Art. 121 TEC) and the Maastricht convergence criteria.
- Treatment of economic policies as a matter of common concern and coordination of economic policies among Member States through participation in Community procedures (Art. 98 & 99 TEC).

The latter point of participation in the EU's economic policy coordination contains the Broad Economic Policy Guidelines (BEPG) (Art. 99 (2) TEC) and the multilateral surveillance (Art. 99 (3)). The BEPG is the central reference document for the annual assessment of economic policies in the Member States. If the Guidelines are not followed, the Council can issue recommendations to the country concerned (Art. 99 (4) TEC). Multilateral surveillance is the procedure that allows the EU to monitor and assess national economic developments and policies. The multilateral surveillance of economic policy also comprises the two regulations that form the Stability and Growth Pact (SGP). While Member States with a derogation are not bound by the full provisions of the SGP, they have to submit annual medium-term convergence programmes in preparation for EMU in accordance with the procedures of the SGP (see European Commission 2001a: 25). These annual programmes are monitored by the European Commission and peer-reviewed in the Council of Ministers of Economics and Finance (ECOFIN); they are subject to the excessive deficit procedure but not submitted to procedure, according to which the Council may apply sanctions.

The status as Member State with a derogation gives the new Member States some leeway in setting the target date since there is no fixed timetable for the adoption of the euro. Of particular importance for setting the target date is the requirement for participation in the Exchange Rate Mechanism II (ERM) for at least two years and within a 15 per cent fluctuation range against the euro before adopting the single currency. Therefore, the earliest possible date for an enlargement of the eurozone by the new Member States that first joined ERM II on 28 June 2004 (Estonia, Lithuania and Slovenia), was the end of 2006 or the beginning of 2007, given that the convergence test can only take place after the two years of ERM II membership (thus after June 2006),[3] and which follows the recommendations by the European institutions. Following the reports from the European Commission and the European Central Bank (ECB) and after the consultation of the European Parliament, the Council – in the composition of the Heads of State or Government (Art. 122 (2)) – decides on a qualified-majority basis whether the criteria are sufficiently met and accordingly announces the date for the introduction of the euro. The irrevocable conversion rate between the respective national currency and the euro is then be set by the Council on the basis of a

decision taken unanimously by the current eurozone members and the country concerned.

The ERM participation requirement is one of the convergence or Maastricht criteria, as described in article 121 (1) TEC. The following convergence criteria need to be fulfilled in order to qualify for eurozone membership:

- Price stability: for a year before assessment, the inflation rate must not exceed by more than 1.5 per cent that of the three best-performing Member States.
- Budget deficit: the budget deficit must not exceed 3 per cent of GDP.
- National debt: government debt must not exceed 60 per cent of GDP.
- Long-term interest rates: the long-term interest rate should not exceed by more than 2 per cent the average of the three Member States with the lowest inflation rates.
- Participation in the Exchange Rate Mechanism: the currency must stay within the narrow ranges of the ERM, with no realignment for at least two years.

Whereas the Copenhagen criteria set standards related to a functioning market economy, the capacity to cope with market pressures within the EU and to adhere to the aims of political, economic and monetary union, the Maastricht criteria were designed to achieve price stability, low long-term interest rates, low public deficits and exchange rate stability. Thus, the Copenhagen criteria focus on real and legal-institutional convergence, i.e., on convergence in the economies' structural and institutional characteristics, while the Maastricht criteria place emphasis on the nominal convergence of the inflation rates, interest rates and budget deficit GDP-ratios. In fact, the real convergence parameters of the Maastricht criteria are only secondary in nature as their fulfilment may promote but does not automatically result in structural adjustment and real income catching up (see Backé 1999: 121). Accordingly, the Copenhagen and Maastricht criteria follow two distinctive aims and types of benchmarks. In addition, whereas the Copenhagen criteria are also accession criteria, meeting the Maastricht criteria is not a precondition for EU accession. Nevertheless, prior to their EU accession, the Maastricht criteria put pressure on the then candidate countries, since they had already paid close attention to the requirements when designing domestic fiscal, monetary and exchange rate policies. Scholars argue that this was because the Maastricht criteria had a meaning for the new Member States, especially in post-communist Europe, beyond that of defining the overall framework for a sound monetary and fiscal policy: fulfilment demonstrated readiness for EU accession and the definitive break with the communist past (Lavrac 1999: 116). Indeed, as a recent study on public opinion on eurozone membership in post-communist countries demonstrates, eurozone membership may still *"serve as focal points that provide guidance on the future path of transition as the adoption of the euro is viewed as the necessary incentive to continue with the reform process, to leave the past behind and to establish institutional trust as well as personal security. This implies that the opinion on the euro is not merely an expression about an EU issue. Instead, it is in large part a function to vote on free market reforms"* (Allam and Goerres 2008: 24).

Moreover, after EU accession, the commitment to the Maastricht criteria develops a further dimension as the Council can decide not to provide funds for new projects to the EU Member State concerned if it "has failed to take action to correct an excessive deficit or has not respected the Stability and Growth Pact" (Jones 2006: 97; Council Regulations 1164/1994 and 1264/1999). The technical implications of EMU accession therefore have a considerable impact on the economies and politics of the new Member States. Indeed, the prospect of EMU membership is guiding and constraining today's new Member States' monetary and fiscal policies. Certainly, EMU membership brings benefits and would enhance the new Member States' economic and political credibility, which are especially important for attracting international investors; but the adherence to the Maastricht criteria also entails adjustment costs (Buiter and Grafe 2004). Here, the new Member States, especially in Central and Eastern Europe (CEE), face a policy dilemma arising from the intention to meet the Maastricht criteria at an early stage of transition on the one hand, and the need for structural reforms on the other. This is due to the new EU Member States in post-communist Europe still encountering special transition problems that require high levels of public spending and investment (e.g. on infrastructure), but who stand in conflict with the EMU's deficit criterion.[4] In addition, bringing down the inflation rate and meeting the Maastricht Treaty's stable exchange rate criterion are to a certain extent incompatible (cf. Balassa 1964; Samuelson 1964).[5] During the catching-up process, the CEEC will either be under enormous inflationary pressure or have an appreciating nominal exchange rate, deriving from the need to reform expenditure and from faster growth than in the euro area. In addition to the question of economic burden-sharing, the adoption of the euro touches upon issues of state sovereignty and culture (Jones 2002: 23), as giving up its national currency is related to the risk of losing a 'symbolic marker in nation-building efforts' (Risse 2003: 487); an aspect which should not be underestimated especially when studying the political economy of new democracies. Eurosceptic politicians may use this argument to mobilise public opinion and influence the political agenda. For example, the Czech President Vaclav Klaus, who has a very sceptical view on EMU, refers to the euro and Maastricht Treaty as a forced imposition of a new European identity (Bugge 2000: 213).

In addition to the question of economic burden-sharing, the adoption of the euro touches upon issues of state sovereignty and culture

Related to the fear of losing the national identity is the argument made by Vaclav Klaus that EMU will mean the loss of the just-regained sovereignty to the bureaucratic and centralised Brussels (Interviews Klaus Handelsblatt 17/11/1992; Radio FreeEurope 10/02/2004).

Repercussions of the Financial Crisis on Eurozone Enlargement

As discussed above, technical implications of EMU accession have a considerable impact on the economies and policies of the new EU Member States. Understanding the euro-adoption strategies merely on the basis of economic accounts and cost/benefit analyses, however, would overlook the political reality. In fact, the real difficulty in reforming the economy is political, given that policy adjustment involves significant costs, especially at the outset of reforms. It is therefore no surprise that while all euro-adoption strategies as such aim to fulfil the Maastricht criteria, the strategies of the new Member States differ in terms of their target dates and political support (for a discussion on the domestic political context see Dyson 2006). Slovenia, Cyprus, Malta and Slovakia are the only countries so far that have already adopted the euro; the timing is still unknown for the other new Member States; official announcements are not consistent and target dates vary from 2010 to 2015.

In fact, the target dates have not been static, but have changed on a number of occasions. For example, by the late 1990s, the Czech Republic and Hungary announced target dates for entry into the eurozone for 2005 and 2006 (Jarai 2001). However, given that at that time accession negotiations had not been concluded and no date for EU accession had yet been set, the target dates for 2005 were quite optimistic and, as later became clear, unrealistic. In 2002, the Czech Republic, gave up plans for a quick approach to eurozone entry and the Spidla government announced that the adoption of the euro would only be possible by 2010 or 2011 (Financial Times 09/10/2002). In January 2009, former Prime Minister Topolanek then declared that the government would announce the official target date only in November 2009 (Radio Prague 02/01/2009). Gradually, Hungary also readjusted its strategies and presented its official euro-adoption strategy in August 2003, which called for eurozone entry by 2008 (National Bank of Hungary 2003). In May 2004, the Hungarian government submitted its first convergence programme and readjusted its strategy stating that, with the present macroeconomic problems encountered by the Hungarian economy, eurozone entry would be possible only by 2010. This target date has been postponed again and analysts estimate an adoption of the euro by 2014 (Bloomberg, 16/04/2009).

Table 1: Monetary and exchange rate strategies in the new EU, non-eurozone Member States

	Exchange rate regime	Currency	Features
Currency board			
Bulgaria	Currency board to the euro	Lev	Introduced in 1997
Estonia	Currency board to the euro and member of ERM II with 0% margin since 2004	Kroon	Introduced in 1992
Lithuania	Currency board to the euro and member of ERM II with 0% margin since 2004	Litas	Introduced in 1994; Re-pegged from the US dollar to the euro in February 2002
Conventional fixed peg			
Latvia	Peg to the euro (earlier pegged to Special Drawing Right SDR) and member of the ERM II with 1% margin	Lats	
Managed floating			
Romania	Managed float	Leu	Currency basked (US dollar, euro) is used informally as reference. Inflation targeting
Free float			
Czech Republic	Free float	Koruna	Inflation targeting 2%-4% by end-2005
Hungary	Free float. Until February 2008 unilateral shadowing of ERM II (peg to the euro with +- 15% fluctuation bands).	Forint	Exchange rate regime combined with inflation targeting 3%
Poland	Free float	Złoty	Inflation targeting: 2.5% +-1%

Adapted from Rollo (2006: 63), updated by the author

Likewise, the exchange rate regimes have been amen-ded on a number of occasions (Corker et al. 2000; Darvas and Szapary 2008). All CEEC have had to deal with problems arising from strong capital inflows putting more and more pressure on the money supply, and most central banks reacting with costly but ineffective sterilisation operations. At the outset of the transition process, Poland, Hungary and the Czech Republic, for example, opted for peg strategies. However, with growing external imbalances (foreign trade and the current account balances are still deteriorating in most of the new EU Member States) and aninflation targeting strategy as a goal of monetary policy, these exchange rate regimes were later abandoned or radically adjusted (Hallerberg et al. 2002: 345). Table 1 shows the current monetary and exchange rate strategies in the new Member States that are not yet eurozone members. The exchange rate regimes can be divided into countries with euro-based currency boards and conventional fixed peg (Bulgaria, Estonia, Latvia and Lithuania) and countries with flexible exchange rates (Czech Republic, Hungary, Poland and Romania).

The eurozone is perceived as a safe harbour in a stormy sea

The currencies of the new EU Member States with flexible exchange rates depreciated between 29% and 17% from July 2008 to March 2009, with the Polish Złoty depreciating the most during this period. It is therefore no surprise that the high volatility of the Polish Złoty has fuelled the debate of Poland's eurozone membership. While politicians have kept a low key debate on eurozone accession, the financial crisis has mitigated opposition to adopting the euro. The Polish Prime Minister Donald Tusk announced in December 2008 that Poland should strive to adopt the euro as early as 2012. This is an important turn in the government's position given that it has so far refrained from announcing a clear target date. Similar debates are also taking place in the other CEEC. Indeed, given the volatility on the exchange rate market with sharp depreciations of most CEE currencies and stronger market disturbances in the past months, eurozone membership has gained in attractiveness as it is perceived to provide protection during times of financial crises. Risk aversion has led to a withdrawal of capital from emerging market economies. In addition to a decrease in FDI and the related negative impact on the economies in CEEC, a high portion of the credited granted to households and private business has been in foreign currency and mainly in euro. The foreign currency borrowing was encouraged by lower interest rates in the eurozone as compared to the domestic interest rates. Equally, some CEEC have high euro-denominated foreign debt levels making currency depreciation especially painful (Berger 2004: 15). The most dramatic events took place in Hungary in October 2008 and in Latvia and Romania earlier this year. The three states are on the brink of financial collapse and are relying on financial bailouts from international organisations. In fact, the catastrophic default and the high potential for contagion could only be avoided as a result of loans from the IMF and financial support from the EU.

The combination of higher debt service, job losses and economic downturn led to a sharp increase in non-performing loans. The resulting credit crunch is reinforced by the fact that the percentage of foreign banks in CEEC is very high. Since their mother banks in the West are already experiencing financial difficulties in their home countries, they are restricting funding to their branches in CEEC. By extension, banks have therefore cut back lending and increased real lending rates, perpetuating the credit squeeze; in turn, this exacerbates the economic decline. A speeding up of the eurozone accession process is therefore in the interest of the countries, since through irrevocably fixing the domestic currency to the euro, CEEC debt service would no longer be dependent on currency fluctuations. Indeed, the eurozone is perceived as a safe harbour in a stormy sea [read currency fluctuation and capital flight]. In a leaked report, the IMF has even recommended a unilateral euroisation (Financial Times 6 April 2009).[6] Euroisation became the axiom for an adoption of the euro as legal tender without a previous convergence process and without having a common central bank. The main advantages of euroisation may include much lower interest rates and the elimination of currency risk (cf. Meade et al. 2002). Yet, the ECB strongly rejects the idea as unilateral euroisation bypasses the convergence criteria and therefore eases the pressure for the new EU Member States to attain fiscal consolidation and low inflation.

In addition, euroisation weakens the EU's institutional framework by undermining the treaty criteria and creates the risk of decreasing confidence in the euro. Euroisation is therefore neither likely nor desirable. Considering the tight trade links between EU Member States, adopting the euro in Central Europe would certainly be in the interest of the existing eurozone Member States as this would stimulate trade creation. However, a speeding up of the eurozone accession process should not come at the cost of undermining the convergence criteria.

However, with higher inflation rates due to currency depreciation and growing fiscal deficits due to lower economic activities, compliance with the Maastricht criteria has moved to a further distance in some CEEC. Since the start of the financial crisis, governments have launched

Table 2: Maastricht criteria before the crisis

Inflation rate		Long-term government interest rates (bond yields)		General government surplus or deficit		General government gross debt	
April 2008		April 2008		2007		2007	
Average of 3 lowest EU member	1.9	Average of 3 lowest inflation countries	4.42				
Reference value	3.4	Reference value	6.42	Reference value	-3.0	Reference value	60.0
Malta	1.9	Euro area	4.3	Bulgaria	3.4	Estonia	3.4
Slovakia	2.4	Slovakia	4.46	Cyprus	3.3	Latvia	9.7
Euro area	2.6	Slovenia	4.47	Estonia	2.8	Romania	13.0
Cyprus	3.2	Lithuania	4.59	Latvia	0.0	Lithuania	17.3
Poland	3.4	Cyprus	4.6	Slovenia	-0.1	Bulgaria	18.2
Czech Republic	4.8	Czech Republic	4.72	Euro area	-0.6	Slovenia	24.1
Slovenia	5.0	Malta	4.77	Lithuania	-1.2	Czech Republic	28.7
Romania	6.4	Bulgaria	4.8	Czech Republic	-1.6	Slovakia	29.4
Hungary	7.3	Latvia	5.93	Malta	-1.8	Poland	45.2
Lithuania	8.0	Poland	5.99	Poland	-2.0	Cyprus	59.8
Estonia	8.8	Romania	7.34	Slovakia	-2.2	Malta	62.6
Bulgaria	10.1	Hungary	8.02	Romania	-2.5	Hungary	66.0
Latvia	13.0	Estonia	n.a.	Hungary	-5.5	Euro area	66.6

Source: Szapary (2009)

Table 3: Maastricht criteria in December 2008 and January 2009

Inflation rate		Long-term government interest rates (bond yields)		General government surplus or deficit		General government gross debt	
December 2008		December 2008		2009 (19 January forecast of DG ECOFIN)		2009 (19 January forecast of DG ECOFIN)	
Average of 3 lowest EU member	2.6	Average of 3 lowest inflation countries	3.57				
Reference value	4.1	Reference value	5.57	Reference value	-3.0	Reference value	60.0
Euro area	3.3	Euro area	3.71	Bulgaria	2.0	Estonia	6.1
Slovakia	3.9	Malta	4.17	Cyprus	-0.6	Bulgaria	12.2
Poland	4.2	Czech Republic	4.30	Czech Republic	-2.5	Lithuania	20.0
Cyprus	4.4	Slovenia	4.56	Malta	-2.6	Romania	21.1
Malta	4.7	Cyprus	4.6	Slovakia	-2.8	Slovenia	24.8
Slovenia	5.5	Slovakia	4.72	Hungary	-2.8	Czech Republic	29.4
Hungary	6.0	Poland	5.7	Lithuania	-3.0	Slovakia	30.0
Czech Republic	6.3	Bulgaria	7.76	Estonia	-3.2	Latvia	30.4
Romania	7.9	Hungary	8.31	Slovenia	-3.2	Cyprus	46.7
Estonia	10.6	Romania	8.38	Poland	-3.6	Poland	47.7
Lithuania	11.1	Lithuania	9.0	Euro area	-4.0	Malta	64.0
Bulgaria	12.0	Latvia	9.03	Latvia	-6.3	Euro area	72.7
Latvia	15.3	Estonia	n.a.	Romania	-7.5	Hungary	73.8

Source: Szapary (2009)

rescue packages consisting mainly of government guarantees and increased spending on major infrastructure projects. Because of the economic recession, the revenue side will be characterised by a deterioration of tax revenue allocation due to huge losses in corporate enterprise productivity and growing unemployment. This all will translate into higher fiscal deficit in 2009 (see Table 3). Indeed, while in 2007 Hungary was the only country not to comply with the Maastricht deficit criterion (see Table 2), it is expected that all but the Czech Republic and Bulgaria will have a deficit above -3% in 2009 (see Table 3). The relatively low fiscal deficit in transition countries in the past few years was not due to low structural deficits but mainly due to the exceptionally high growth rates of the GDP between 5-10%. Certainly, with a slow-down in economic activities, the GDP growth rate will decline, revenue collection will deteriorate and the state deficit will further increase.

To conclude, while the financial crisis has increased the attractiveness of eurozone membership as it is perceived to be a 'safe harbour in a stormy sea', the currency depreciation and slow-down in economic activities make it more difficult for the new EU Member States to comply with the Maastricht criteria. The current debate on unilateral euroisation in CEEC, sparked by the IMF, underlines the dramatic situation in some of the new EU Member States that are on the brink of a financial collapse. However, unilateral euroisation bears potential risk for European integration as it undermines the institutional framework and unity of the EU. Euroisation is therefore neither likely nor desirable. Rather than bypassing the Maastricht criteria, the debate should concentrate on possible adjustments of the current rules in hard times.

NOTES

* Miriam Allam, Researcher, European Centre for Public Financial Management, EIPA Warsaw.
The author would like to thank Jacek Tomkiewicz for his comments on an earlier version of this article.

[1] All articles refer to the Treaty establishing the European Community as amended by the Treaty on European Union signed in Maastricht on 7 February 1992, the Treaty of Amsterdam signed on 2 October 1997 and the Treaty of Nice, signed on 26 February 2001.

[2] Stage one started for the then Member States in 1990 with the complete abolition of capital controls as under Article 56 of the TEC. In stage two (1 January 1994 - 31 December 1998) Member States had to implement measures to achieve compliance with the EMU requirements to be able to enter EMU on 1 January 1999. Stage three of EMU began on 1 January 1999 with the introduction of the euro in financial markets.

[3] The current members of the eurozone introduced a transition period of three years between EMU accession and the introduction of euro cash. The new Member States have indicated their intention to follow a so-called "big bang" scenario in which the adoption of the euro will happen at the same time as the introduction of euro coins and bills (see European Commission 2004: 2-5).

[4] Given that the Maastricht criteria were not designed for transition economies, scholars argue that the convergence criteria and the SGP miss "the economic realities of countries that differ from the EU average as regards to their expected inflation and real GDP growth rates and their inherited stocks of environmental and public sector capital" (Buiter and Grafe 2004: 68). For a discussion on the effects of the 'EU fiscal accession shock' and alternative fiscal rules for the new EU Member States see Nuti (2006).

[5] This can be explained by what is called the Balassa-Samuelson effect. The Balassa-Samuelson effect describes the mechanism by which an increase (larger than in other countries) in productivity of tradable goods relative to non-tradable goods causes an appreciation of the exchange rate (Balassa 1964, Samuelson 1964). If productivity growth in one country is higher than in another, inflation will be higher in the former. Thus, as the transition countries catch up with higher GDP growth rates, their price level also catches up so that their inflation rates are also higher. For a discussion on the extent to which the exchange rate appreciation and inflation in CEEC is attributable to the Balassa-Samuelson effect see Egert et al. (2003); Mihaljek and Klau (2004).

[6] The debate about unilateral euroisation is not new but has been conducted since the late 1990s. At the forefront of the debate in the 1990s were Polish academics and policy makers. The most prominent examples of Polish academics favouring euroisation are Andrzej Bratkowski and Jacek Rostowski (2002); the most prominent politician is the former Finance Minister Kołodko. Andrzej Bratkowski (1991) and Jacek Rostowski (1989-1991) were both economic advisors to the Deputy Prime Minister and Finance Minister Leszek Balcerowicz. Andrzej Bratkowski was deputy President of the National Bank of Poland from 2001-2004. Since 2007, Jacek Rostowski is Finance Minister of Poland.

REFERENCES

Allam, Miriam S., and Achim Goerres. 2008. "Adopting the Euro in Post-Communist Countries." In MpIfG Discussion Paper 08/1. Koeln: Max-Planck-Institute for the Study of Societies.

Backé, Peter. 1999. "Integrating Central and Eastern Europe into the European Union: The monetary dimension." In Inclusion of Central European Countries in the European Monetary Union, ed. P. De Grauwe and V. Lavrac. Norwell Kluwer Academic.

Balassa, Bela. 1964. "The purchasing-power parity doctrine: A reappraisal." Journal of Political Economy 72:585-96.

Berger, Helge. 2004. "The economic challenges of EMU enlargement." In EU Monitor No. 12: Reports on European integration. Frankfurt: Deutsche Bank Research.

Bratkowski, Andrzej, and Jacek Rostowski. 2002. "The EU Attitude to Unilateral Euroization: Misunderstandings, Real Concerns and Sub-optimal Admission Criteria." Economics of Transition 10:445-68.

Bugge, Peter. 2000. " Home at last? Czech views of joining the European Union." In Margins in European integration, ed. N. Parker and B. Armstrong. Basingstoke: Macmillan.

Buiter, Willem, and Clemens Grafe. 2004. "Anchor, float, or abandon ship- exchange rate regime for accession countries." In Discussion Paper 3184, January. London: Centre for Economic Policy Research.

Corker, Robert, Craig Beaumont, Rachel van Elkan, and Dora Iakova. 2000. "Exchange rate regimes in selected advanced transition economies - Coping with transition, capital inflows, and EU accession." In IMF Policy Discussion Paper No.3. Washington, DC: International Monetary Fund.

Darvas, Zsolt, and Gyorgy Szapary. 2008. Euro area enlargement and euro adoption strategies. Brussels: Economic Papers 304; February 2008; European Commission.

Dyson, Kenneth H. F., ed. 2006. Enlarging the Euro Area: External Empowerment and Domestic Transformation in East Central Europe. Oxford: Oxford University Press.

Egert, Balazs, Imed Drine, Kirsten Lommatzsch, and Christophe Rault. 2003. "The Balassa-Samuelson effect in central and eastern Europe: Myth or reality." Journal of Comparative Economics 31 (3):552-72.

European Commission. 2000a. "Seminar on currency boards in the context of EU accession." In Directorate General for Economic and Financial Affairs, ECFIN enlargement papers No.1. Brussels: European Commission.

2000b. "Recent fiscal developments in the candidate countries." In ECFIN Enlargement Papers No. 2, Directorate General for Economic and Financial Affairs. Brussels: European Commission.

2004. "Communication from the Commission to the Council, the European Parliament, the Economic and Social Committee, the Committee of the Regions and the European Central Bank: First Report on the practical preparations for the future enlargement of the euro area." In Staff Working Paper. Brussels: European Commission.

Hallerberg, Mark, Lucio Vinhas de Souza, and William Roberts Clark. 2002. "Political business cycles in EU accession countries." In Norms and Nannies: The impact of international organsitions on the Central and East European States, ed. R. H. Linden. Lanham: Roman and Littlefield.

Jarai, Zsigmond. Speech at the EURO 2000 conference, 13/09/2001 at Budapest 2001 [cited. Available from http://ec.europaeu/economy_finance/events/2001/events_budapest_0901/jarspeechen.pdf.

Jones, Erik. 2002. The politics of economic and monetary union: Integration and Idiosyncrasy. Lanham: Rowman & Littlefield.

2006. "Economic Adjustment and the Euro in New Member States: The Structural Dimension of Fit." In Enlarging the Euro Area: External Empowerment and Domestic Transformation in East Central Europe, ed. K. H. F. Dyson. Oxford: Oxford University Press.

Lavrac, Vladimir. 1999. "Inclusion of Central European Countries in the European monetary process." In Inclusion of Central European Countries in the European Monetary Union, ed. P. De Grauwe and V. Lavrac. Norwell: Kluwer Academic.

Meade, Ellen E., Nikolas Müller-Plantenberg, and Massimiliano Pisani. 2002. "Exchange Rate Arrangements in EU Accession Countries: What Are the Options? ." In Occasional paper No. 17. London: Centre for Economic Performance.

Mihaljek, Dubravko, and Marc Klau. 2004. "The Balassa Samuelson effect in Central Europe: A disaggregated analysis." Comparative Economic Studies 46 (1):63-94.

National Bank of Hungary. Hungarian strategy for adoption the euro 2003 [cited. Available from http:// english. mnb.hu/engine.aspx?page=mnben_pressreleases_2003&ContentID=6148.

Nuti, Mario D. 2006. "Alternative Fiscal Rules for the New EU Member States." In TIGER Working Paper Series, No. 84. Warsaw: TIGER.

Risse, Thomas. 2003. "The euro between national and European identity." Journal of European Public Policy 10 (4):487-503.

Rollo, Jim. 2006. "EMU and the New Member States: Strategic Choices in the Context of Global Norms." In Enlarging the Euro Area: External Empowerment and Domestic Transformation in East Central Europe, ed. K. H. F. Dyson. Oxford: Oxford University Press.

Samuelson, Paul A. 1964. "Theoretical notes on trade problems." Review of Economics and Statistics 46:145-54.

Smith, Karen E. 2004. The making of EU foreign policy: the case of Eastern Europe. 2nd ed. Basingstoke: Palgrave.

Szapary, Gyorgy. 2009. "Euro Area Enlargement in the Wake of the Financial Crisis: Prospects and Challenges." In The Financial Crisis and its Impact on Euro Adoption. Brussels: European Parliament.