

REFEREED NOTE

Prospect of New EU Member States for the Euro Adoption

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Abstract

This paper aims to introduce a forthcoming book titled *The Eurozone Enlargement: Prospect of New EU Member States for the Euro Adoption*, which is to be published in 2016. The book has been written by 5 economists from Eastern Europe and 3 economists from Japan. It considers the problems of the prospect of the Eurozone enlargement by reviewing the experiences of New EU Member States (NMS) which have adopted the Euro and considering prospects of NMS which have not yet adopted the Euro. The book discusses the following important issues: 1) Experiences of NMS which have already adopted Euro; 2) Attitude toward the entry in the EMU; 3) Problems concerning convergence; 4) Macroeconomic Stability; 5) Industrial Policy; 6) Loss of monetary autonomy; 7) Austerity measures. Many contributors emphasize the importance of necessity for accomplishment not only of the Maastricht criteria of nominal convergence but also of criteria of substantial and institutional convergence. Finally, the book argues that in order for non-Euro NMS to adopt the Euro it is dispensable for the European Commission to formulate a new strategy for the economic development in the EU periphery including NMS. In this regard, wisdom which should replace austerity measures is urgently required. Although not discussed directly, the book has important implication for Candidates in the Western Balkans.

Keywords

Euro, New EU Member States (NMS), Optimal Currency Area (OCA), Economic Monetary Union (EMU), Convergence

1. Introduction

Recently I have edited a book titled *The Eurozone Enlargement: Prospect of New EU Member States for the Euro Adoption*, which will be published in 2016. This book¹ considers

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the problems of the prospect of the Eurozone enlargement by reviewing the experiences of New EU Member States (NMS) which have adopted the Euro and considering prospects of NMS which have not yet adopted the Euro. So far, problems in the EU, for example crises in the Eurozone, etc., have been usually discussed taking into consideration core member states (EU 15). Such problems have seldom been discussed from the viewpoint of New EU member states (NMS) from CEE, or Candidates from the Western Balkan countries.

In May 2004, 8 countries from CEE, i.e. Poland, the Czech Republic, Slovakia, Hungary, Slovenia, Estonia, Latvia and Lithuania were admitted to the EU. In January 2007 Romania and Bulgaria, and in July 2013 Croatia were admitted to the EU. Among 11 NMS from CEE, 5 countries adopted the Euro one after another, first Slovenia (2007) followed by Slovakia (2009), Estonia (2011), Latvia (2014) and Lithuania (2015). One of the important challenges facing NMS after EU accession is to join the Economic and Monetary Union (EMU), i.e. adopt the Euro, after having satisfied the Maastricht convergence criteria. At present 6 out of 11 NMS from CEE have not adopted the Euro yet. They are not allowed the right to opt out as the UK and Denmark have had, and they are requested to eventually adopt the Euro. These countries have their own problems. This book also tries to clarify concretely their methods for Euro adoption by solving those problems.

This paper presents the essence of the book. This paper is structured as follows: Section 2 explains how the editor of the book views the Eurozone crisis. Section 3 presents important issues which have been discussed in the book. Section 4 describes some conclusions.

2. How should we grasp the Eurozone Crisis?

The Greek crisis has been continuing since spring 2010. Almost nobody discusses the Eurozone enlargement when the Eurozone is in turmoil and Grexit (Greece's exit from the Eurozone) is openly discussed. It may sound ridiculous to discuss the Eurozone enlargement at such a time. An optimistic view is not held for the current situation in the Eurozone.

The root of the Eurozone crisis lies in the fact that the euro, a single common currency, was created with insufficient foundations to support it. In order to create a common currency and stabilize its value, convergence of the economies of prospective member states of the EMU has been considered necessary. The degree of convergence of these countries was measured mainly from the fiscal and monetary perspective. The Maastricht

Treaty of 1992 prescribes the explicit criteria to be satisfied by prospective member states of the EMU as follows: 1) price stability, 2) budget (budgetary deficit less than 3% of GDP), 3) public debt (accumulated national debt below 60% of GDP), 4) long-term interest rate, 5) fluctuation of exchange rate. In addition, these criteria have been reinforced by the Stabilization and Growth Pact (SGP) of 1997 which was concluded as a derivative of Germany's strong request. The SGP sets the limit of budget deficits to be less than 3% of the GDP even after the adoption of the Euro.

The European Central Bank (ECB), which is the central bank for the Eurozone, has been located in Frankfurt am Main in Germany. It is a widespread belief that this decision was a compensation for Germany's renunciation of the Deutsch Mark. The character of the ECB has inherited that of Germany's Bundesbank and it is rather different from that of central banks in other countries. In the Anglo-French model, for example, the central bank pursues several objectives, i.e., price stability, fostering economic growth, maintenance of employment at a high level, financial stability, etc. Price stability is only one of its goals. This type of central banking is characterized by the subordination of the central bank to politics. In contrast, in the German model price stability is the primary objective of the central bank. 'Employment at a high level' is a secondary objective. Its political independence is of utmost importance (Paul de Grauwe, 2009). The economic thought underlying the German model is *Ordo* economics, which rejects discretionary economic operations based on Keynesian economics and places importance on discipline. This standpoint and the German government's attitude toward the Eurozone crisis are similar at a fundamental level.

Since intra-regional labor mobility has been insufficient and redistribution among member states through the budget has also been insufficient (although there has been transfer through the EU's structural funds and cohesion fund, the amount has been small), the Eurozone is not an optimal currency area (OCA). Unlike the USA, the Eurozone started as a monetary union without a fiscal union². The endogeneity hypothesis of OCA theory emphasizes the positive relationship between monetary integration and economic convergence. According to this somewhat optimistic view, once a country enters a common-currency area, even if it did not satisfy the criteria *ex ante*, eventually through economic integration such as improvements in intra-union trading relationships, the country can satisfy the criteria *ex post*. In contrast, however, the specialization hypothesis of OCA theory argues that trade integration will enhance the specialization of each country's production since countries will tend to export more of those goods where they possess a

comparative advantage (Baimbridge and Whyman, 2015, pp. 64-65). It will take more time to be able to judge which is correct, but for the time being the specialization hypothesis seems the more convincing.

The EMU started in January 1999 and the Euro, a common currency, was created. Circulation of banknotes and coins of the Euro began in January 2002. The Euro had contained at least two problems: Firstly, the interest rate for the Eurozone is to be decided at around the average of interest rates among the Eurozone member states. This meant that the interest rate would be too high or too low for peripheral countries. In a country where the inflation rate is higher, the Eurozone real interest rate tends to be lower and even negative, which tends to cause a bubble. Secondly, as for government debt, in the past governments of Southern Europe had to issue government bonds with a high yield, but since joining the Eurozone the risk premium has decreased, so that they became able to issue government bonds with low yields – only slightly higher than the German government bonds. In reality, however, it was an illusion, but it allowed the governments of Southern Europe including Greece to depend easily on the bond issue. The period from the inception of the Eurozone to the 2008 global financial crisis, which Shultz calls the “honeymoon” period (Wolf, 2014), was a happy time for the Eurozone member states.

The EU member states were hit hard by the 2008 global financial crisis. The Greek crisis which surfaced in 2010 and the subsequent crisis in GIIPS (Greece, Italy, Ireland, Portugal and Spain) revealed substantial flaws in design and operation of the Eurozone. In Greece, general elections were held in autumn 2009 resulting in a change of government. The new prime minister suddenly announced that the general government budget deficit as a percentage of the GDP in 2009 was not 3.7% as the previous government had said but in fact 12.7% (I would like to add that also in 2001 when Greece joined the EMU, as was later revealed, the Greek government had met the criterion of budget deficit of less than 3% of the GDP by utilizing statistical fraud). With this sudden announcement, concerns about Greek government’s ability to repay debts have increased in a moment. In Western Europe many banks possessed Greek government bonds and therefore a decrease in their value would expose these banks to serious damage. In spring 2010, when the time for redemption of government bonds came, the Greek crisis surfaced. In the same year, as a chain reaction, problems of budget deficit had become acute in Southern European countries such as Spain, Portugal and Italy as well as Ireland. Prior to the 2008 global financial crisis it was only Greece that had an excessive budget deficit. In the case of other Southern European countries and Ireland, the fiscal conditions were not so dire. Their

fiscal stance worsened only after the bubble burst due to the global financial crisis. The sudden announcement by the new Greek government triggered the Eurozone crisis, but its real cause lies in the North-South problem, i.e., the inequality in competitiveness which has accumulated for 10 years since the creation of the Euro.

Statistical fraud by the Greek government was a dire mistake. There are other problems such as the government's weak tax-collection ability, tax evasion by the high income group, an excessive number of public employees, an overly generous pension system, etc. These are surely problems to be overcome by drastic reforms. However, it is not only Greece that should shoulder all the blame. Since northern countries of the Eurozone including Germany actively lent money to Southern Europe out of superfluous money earned from their exports to Southern Europe, it would be natural for northern countries to be required to bear appropriate burdens in order to overcome the crisis in the Eurozone. It would be necessary for Greece to develop competitive manufacturing in the long run, but for the time being in order to avoid the collapse of the Eurozone, support for Greece by the North would be indispensable. The biggest hurdle is that the present Eurozone lacks any mechanism for the correction of disequilibria.

Leaders of the Eurozone often met and discussed serious problems of public debt in Southern Europe including Greece, but its supportive measures were taken little by little too late, and as a consequence aggravated the crisis. The Lisbon Treaty includes a "No Bailout Clause", which forbids the rescue of a member state by any other member state (s) on the grounds that the rescue of a member state might pose a moral hazard. In practice, this clause prevented the member states from promptly responding to the crisis. In May 2010, when the Greek crisis surfaced the Eurozone member states agreed on the establishment of the European Financial Stability Facilities (EFSF), which was a framework for supporting Greece and other member states in case they fell into funding difficulties. This was a temporary body until June 2013 when it was replaced by the European Stabilization Mechanism (ESM), which is deemed a European version of the IMF.

Germany is the most influential member state in the Eurozone. Leaders of the Eurozone, German Chancellor Angela Merkel in particular, emphasized budgetary discipline and requested Greece to take rigorous austerity measures as a condition for support through the EFSF. Giving priority to a decrease in the budget deficit, Germany requested Greece to implement economic reforms including reduction in the number of public employees and reductions in the existing pension system, etc. These merciless

austerity measures have deprived the Greek economy of any remaining energy for activating the economy, causing a vicious circle of a decline in aggregate demand, a decline in the level of economic activity, an increase in the unemployment rate and again an expansion of the budget deficit. In Greece, the unemployment rate increased to 25% with it being 50% for young people, intensifying social unrest. An anti-austerity leftist party SYRIZA won the general election in January 2015. Alexis Tsipras, the new prime minister, negotiated with leaders of the Eurozone for the withdrawal of austerity measures, but their standpoint remained firm. A critical situation has emerged from the end of June through mid-July 2015 when the Greek government had not been able to repay borrowed money, which was due to the IMF at the end of June. In the course of negotiations a proposal of “Greek withdrawal from the Eurozone as a five-year temporary measure” was even posed by Germany. The Eurozone summit, which dragged on for 17 hours from July 12 through 13, finally reached a “settlement without a winner”. In this way, Grexit was narrowly avoided for the time being, but a possibility of Grexit in the future cannot be completely excluded. Even if Greece withdraws from the Eurozone, the problems inherent in the Eurozone would remain. There is also a possibility that another member state from Southern Europe facing a serious crisis might be obliged to withdraw. As the Eurozone has structural problems it is deemed urgent that fundamental reforms be implemented.

If the EU takes a step forward toward fiscal federalism, where the European Commission has a more solid fiscal foundation and distributes funds among member states, it would imply great progress, but this remains quite difficult under the present circumstances. There are various opinions about the future of the Eurozone. Many pessimistic views are expressed³. Among them, Brendan Brown points out that in addition to vital flaws in the design of the EMU the ECB made mistakes in its judgements of the situations and policy-makings for 10 years and proposes the establishment of a new monetary union (EMU-2) (Brown, 2012). Two British economists, Baimbridge and Whyman point out problems of the EMU and propose that monetary sovereignty is returned to each member state and that a European version of the international clearing union, which John Maynard Keynes proposed at the end of World War II, is established (Baimbridge and Whyman, 2015). Martin Wolf likens problems of the euro crisis to “unhappy marriage”. According to him, the possible outcomes are (1) divorce; (2) continuation of a bad marriage; or (3) creation of good marriage. Today the member states are dangling between the first two alternatives. The marriage is pretty bad, but divorce looks frighteningly painful. He proposes to turn this into a good marriage (Wolf, 2014, p. 292). At present, this proposal

seems to be the most practical.

3. Important Issues which have been discussed in the Book

This book⁴ has reviewed the experiences of NMS which have adopted the euro and discussed the challenges facing non-euro NMS in their future euro adoption. Important issues which have been discussed in the Book can be summarized as follows:

1) Experiences of NMS which have already adopted the Euro

According to a Slovenian economist Joze Mencinger, for Slovenia, the changeover from the Dinar to the Tolar and from the Tolar to the Euro was an “emergency exit” from difficult situations. In this way, he appears to take the changeover of the currency from one to another rather coolly, but it seems that most Slovenian people were immersed in “Euphoria”⁵ when the country joined the EU and the EMU. When the country was admitted to the EU in May 2004 it had already satisfied the Maastricht convergence criteria and adopted the euro in January 2007 earlier than any other NMS. In that sense this country was the best performer among NMS. In this country, however, the Euro adoption combined with a neoliberal course taken by the center-right coalition government caused a sudden increase in inflows of foreign capital, and a bubble economy. This small country with an open economy was hit hard by the reversal of international capital flow after the 2008 global financial crisis. Although the economy picked up somewhat in 2010-2011, it fell into serious depression again in 2012 under a “double-dip” recession in the Eurozone.

In the case of Slovakia, for a while, prior to the EU accession (1997-1999), the country was classified as the second wave due to a delay in reforms in the country. Finally the distinction between the first and the second waves was removed and Slovakia became able to join the EU in 2004 together with other countries from CEE. Due to its bitter experience in 1997-1999, Slovakia actively chose its early entry into the EMU in order to get rid of its uneasiness of non-EMU membership and joined the EMU in 2009 (Chapter 3 and Chapter 4). The automobile industry, in which foreign automobile producers invested during the period of the Dzurinda government, has been leading exports from this country, and therefore, the Slovak economy has been doing well, although its economic growth was interrupted for a while by the 2008 global financial crisis.

2) Attitude toward the entry in the EMU

As Gabriela Dragan points out, Sweden fulfils all Maastricht criteria except for the exchange rate criterion. It seems that Sweden has deliberately not fulfilled the convergence criteria by not joining the ERM II, thereby postponing its entry into the Eurozone. The economic support for Greece through the EFSF was a considerable burden for the Eurozone member states. Many people expressed dissatisfaction over contributions to the EFSF. In Slovakia, for example, there was a complaint, “In spite of lower income, Slovakia would have to allocate a lot of money in support of a larger country’s support”. Finally the proposal by the government was accepted by the parliament in exchange for the Prime Minister’s resignation⁶. The “threat of solidarity contributions for Greece”⁷ is affecting the issue of the EMU entry by non-euro NMS. Probably, these countries are hesitating to enter into the Eurozone and for the time being are adopting a ‘wait and see strategy’ following Sweden’s example (Chapter 9). Most of the non-euro NMS have not set their target dates for euro adoption. It is noteworthy that in such a situation Romania remains the only non-euro member state which has formally set a target date for euro-adoption, which is January 1, 2019. As Dragan says, it might be used in public discourse toward reforms for its likely catalytic effect (Chapter 9). Vaclav Klaus, the former President of the Czech Republic was famous for Euroscepticism. During his term of office (2003-2013) he continued to oppose the Euro adoption and appointed Eurosceptic persons to the central Bank Board, the governing body of the Czech National Bank. Milos Zeman, who was elected as the President of the Republic in early 2013, supports the adoption of the Euro. The present government and ruling parties are taking a positive attitude toward the Euro adoption. It is likely that this country will adopt the Euro sometime after around 2020 (Chapter 6). In such a situation, the standpoint of the present government of Hungary, which continues to take a negative attitude toward the Euro adoption, is conspicuous among NMS (Chapter 7). Turning our attention to countries outside NMS, the government of the UK intends to decrease its contribution to the EU budget and take part of the transferred power back from the EU. The possibility that in the future the EU will have two tracks cannot be excluded.

3) Problems concerning convergence

As Ryszard Rapacki, Gabriela Dragan and Hiroshi Tanaka point out, a nominal convergence is not enough for entry into the EMU. The Maastricht convergence criteria are called explicit criteria, and a convergence viewed from the angle of these criteria is called a

nominal convergence. Economic literature has made an important distinction between *nominal convergence*, assimilated with the fulfilment of the Maastricht criteria, and *real convergence*. Real convergence is usually understood as the convergence of real variables, such as GDP per capita, and in a broader sense, as the fulfilment of *optimum currency area criteria*, such as trade openness or labor productivity (Chapter 9). In addition, there is institutional convergence. Both real and institutional convergences are called implicit convergences. Rapacki, Dragan and Tanaka stress the necessity for real convergence and institutional convergence. Let me quote two important tables from Chapter 5. From Table 1 we can find that Poland as well as the Czech Republic, Bulgaria and Romania satisfy all nominal convergence criteria except for the exchange rate because these countries have not joined the ERM II yet (according to Rapacki, Poland came to satisfy the criterion of general government balance in 2015). From Table 2 we can find that non-Euro NMS except for the Czech Republic have not reached two thirds of the EMU average of GDP per capita in PPS as of 2014. It means that for them there is a big gap to be narrowed in terms of real convergence.

Table 1. Fulfilment of the nominal convergence criteria in the prospective EMU members from Central and Eastern Europe (data as of 2014)

Country	Inflation	General government balance	Public debt	Interest rates ^a	Exchange rate
Reference value	0.4%^c 1.6%^d	-3.0	60.0	7.4%^c 6.1%^d	+/- 15%
Poland	0.1	-3.2	50.1	3.5	5.2
Bulgaria	-1.6	-2.8	27.6	3.4	..
Croatia	0.2	-5.7	85.0	4.0	..
Czech Republic	0.4	-2.0	42.6	1.6	10.8 ^b
Hungary	0.0	-2.6	76.9	4.8	8.3 ^b
Lithuania*	1.2	-2.6	39.0	3.8	0.0 ^b
Romania	1.4	-1.5	39.8	4.5	..

a - bond yields (annual data), b - 2005; c - including deflation countries; d - excluding deflation countries.

* - joined the EMU on 1 January 2015.

Source: Rapacki (2016), Chapter 5 of Koyama (ed.) (2016).

Original Source: Eurostat: <http://ec.europa.eu/eurostat>; Rapacki R., Matkowski Z., Próchniak M., *Transition Countries: Economic Situation and the Progress of Market Reforms*, "World Economy Research Institute Working Papers", No. 324, Warsaw School of Economics, Warsaw 2015; own calculations.

Table 2. Real convergence in CEE11 countries vis-à-vis the EMU average, 1989-2014
(GDP per capita in PPS, EMU^a = 100)

Country	1989 ^b	2004	2012	2013	2014
Non-EMU members					
Poland	38	45	61	63	64
Bulgaria	47	31	41	42	42
Croatia	51	52	56	57	55
Czech Republic	75	72	76	77	79
Hungary	56	57	60	62	63
Lithuania	55	46	64	68	69
Romania	34	31	49	50	50
Average ^c	51	48	58	60	60
EMU members					
Estonia	54	50	66	68	68
Latvia	52	44	56	60	60
Slovakia	59	52	69	70	71
Slovenia	74	79	76	77	78
Average ^c	60	56	67	69	69

a - EMU18 excluding Lithuania who joined the EMU on 1 January 20015.

b - the benchmark = EU15 average.

c - non-weighted arithmetic average.

Source: Rapacki (2016), Chapter 5 of Koyama (ed.) (2016).

Original Source: IMF, *World Economic Outlook Database*, September 2005 (for 1989); Eurostat (ec.europa.eu/eurostat) (for 2004-2014); own calculations.

Dragan argues that the Maastricht convergence criteria are necessary conditions but not sufficient conditions for entry into the EMU, which requires real convergence. According to her, there were expectations that if a country entered, then a convergence and catching-up would emerge, but they are not automatic results of the EU accession. She argues that the long-term sustainability of the Eurozone will strongly depend not only on the respect of new fiscal rules or stronger coordination of economic policies, but particularly on the EU's capacity to reduce its internal economic divergence (Chapter 9). When Rapacki considers a successful participation in a common currency area by a newcomer country, the main parts of the reference framework are firstly, the optimal currency area theory and secondly, new institutional economics and political economy with special emphasis on the "diversity of capitalism" (DoC) approach and "variety of capitalism" (VoC) concept. The approach which puts emphasis on institutional aspects is deemed useful when we consider the problems of the Eurozone enlargement. According to Rapacki, Poland meets all of 5 criteria for nominal convergence but does not meet ex ante all implicit criteria of the EMU

membership, as spelled out by the OCA theory, even though the country has made remarkable progress in real and institutional convergence. Therefore, it will take some time for this country to join the EMU. He says the decision on the Euro adoption in Poland remains strictly political (Chapter 5). This point also applies to other non-Euro NMS.

4) Macroeconomic Stability

Dragan argues that macroeconomic stability should be considered a prerequisite rather than a final goal in the convergence process (Chapter 9). The EU had already advocated free mobility of capital before the emergence of a single market in the EU in the early 1990s. In response to the birth of the single currency that is the Euro, competition among major West European banks had intensified, and these banks advanced to post-socialist countries of Central and Eastern Europe (CEE). Thus cross-border bank ownership in CEE emerged from the end of the 1990s to the early 21st century, resulting in a decrease in interest rates. Subsidiaries and branches of West European major banks actively gave loans to firms and households in CEE, competing against other banking groups for market shares. Such excessive lending resulted in bubbles in these countries, making their economies very vulnerable to external shocks. The direction of cross-border capital flow has been reversed since the 2008 global financial crisis, severely damaging these countries⁸. Generally speaking, the European Commission, the ECB and central banks in EU member states were not alert to the bubbles at that time. The banking supervision system was not well-developed. There was a principle, according to which home countries' monetary authorities were responsible for their own countries' banks, but they could not sufficiently regulate activities of branches and subsidiaries of foreign banks in host countries. Later, from 2011 through 2013 the EU established the Excessive Deficit Procedure, the Excessive Macroeconomic Imbalance Procedure and the European Semester (Chapter 9). Hence, policies taken at present for avoiding a recurrence of the crisis are reinforced by fiscal discipline and monitoring and cooperation in terms of macroeconomic policies, which involve the imposition of penalties for any violations. This is a reform toward what Tanaka calls "Union of Numerical Targets and Sanctions" (Chapter 4). It is yet to be seen whether it will succeed, or not.

5) Industrial Policy

Koyama argues, for Croatia, which has had an industrial structure quite similar to that of Greece, the active use of industrial policy is desirable in order to upgrade its

industrial structure (Chapter 8). In addition to the EU's own funds (Structural Funds and Cohesion Fund), it is necessary for the EU to take the necessary measures to induce private funds to be invested into this country. This point also applies to NMS in less developed South Eastern Europe, i.e. Romania and Bulgaria. According to Dragan, in order to ensure the real conversion with the Eurozone, Romania is required to make more efforts in the fields of employment, education and research, and at the same time, improvement in infrastructure, and the enhancement of administrative ability, etc., will be needed. Support from the Structural Funds and the Cohesion Fund of the EU is crucial for less developed EU member states. At present the absorption rate of EU funds is low in Romania, therefore it is necessary to increase this rate (Chapter 9). Michal Mejstrik considers that a characteristic feature of quickly transforming post-Communist economies in their transition to a market economy is what Schumpeter called "creative destruction". According to Mejstrik, the existing export success of the Czech Republic was benefiting particularly from two key factors – from the maximum utilization of a favorable geographical position of the country (located in Central Europe and adjacent to Germany) and from the relatively cheap, but qualified labor force. However, he is not optimistic about the future of the country. The wages are increasing and real unit costs of the labor force in the country are rising, which results in the decreasing of the price competitiveness of the country and its comparative advantage in the European market. He singles out non-price competitiveness and stresses the importance of the international competitiveness strategy drawn up by the government (Chapter 6).

6) Loss of monetary autonomy

By joining the EMU, i.e. the Eurozone, NMS lose adequate space for their own monetary policies. More exactly speaking, EU member states lose monetary autonomy when they join the ERM II. Mentioning this point, Mencinger argues: "By entering the EU in May 2004 and the ERM II in June 2004, Slovenia also formally lost its monetary autonomy. The Bank of Slovenia ceased to independently implement monetary policy on December 31st, 2006 [the day before the adoption of the Euro] and began implementing the single monetary policy of the Euro-system. In a decade and a half, a newly born national economy turned again to a regional economy". However, "the loss of monetary autonomy" is taken in various ways depending on the people and countries. According to Vanya Ivanova, for example, Bulgaria has already lost its monetary autonomy since 1997 when the country adopted the currency board regime, and the only instrument of state

influence on the economy since that time has been the state budget. Even if the country joined the EMU, such a situation would remain unchanged. Rather, by joining the EMU the Bulgarian central bank (BNB) will be able to carry out open market operations and to extend loans to the commercial banks (without the formal restrictions imposed by the currency board) and will get full access to the EU financial assistance mechanisms, such as the ESB and emergency liquidity assistance for financial institutions. In addition, she claims that once the BNB participates in the determining of the monetary policy within the Eurozone, it will actually have a greater influence on the Bulgarian monetary environment than that at present. Bulgaria's position is similar to that of the Baltic States which had been incorporated into the Soviet Union for about a half century, and regained their independence only in September 1991. In addition, Lithuania also had the currency board regime until its entry into the EMU. It seems that these countries willingly entered the economic area of the EU by placing more emphasis on a complete withdrawal from the economic area of Russia rather than the loss of monetary autonomy by their entry into the EMU.

7) Austerity measures

This issue is not treated directly in this book, but is continuously referred to throughout the entire book. Facing a sovereign debt crisis, the EU, Germany in particular, have been promoting austerity measures which have brought deflation to the periphery of the EU. The danger of austerity measures is well explained by Mark Blyth (2013): "the current mess is not a sovereign debt crisis generated by excessive spending for anyone except Greeks. ... What actually happened in Europe was that over the decade of the introduction of the Euro, very large core-country European banks bought lots of peripheral sovereign debt and levered up far more than their American cousins" (Blyth, 2013, pp. 5-6). As many banks fell into difficulties due to the global financial crisis, governments were obliged to bail out, recapitalize, and add liquidity to the banking system, resulting in the sovereign debt crisis. What happened first was a banking crisis. According to Walter Paternesi Meloni (2015), the European Commission recommended deficit countries to implement structural reforms on the grounds that current account differentials were almost exclusively referred to their weak price competitiveness. He explains the logic underlying austerity measures which have been imposed on peripheral countries: Firstly, in order to restore government debt sustainability - the reducing of the debt-to-GDP ratio, mitigating market losses of trust and lowering of risk premiums (*expansionary austerity*);

secondly, in order to restore external competitiveness through internal devaluation - real wage reduction and structural reforms (*competitive austerity*). This is the neoliberal view placing an emphasis on the supply side. As a matter of fact, an improvement in current account occurred not through these channels, but through a channel of a decrease in aggregate demand, leading to a decrease in total output, and a decrease in consumption and a decrease in imports. In this way, this policy has brought debt deflation. Paternesi Meloni disproves the austerity – competitiveness linkage and, based on Keynesian economics, argues the necessity for putting an emphasis on the demand side. In this regard Paul de Grauwe (2013) argues that debtor countries in the periphery almost exclusively bear the burden of adjustment in the imbalances in the Eurozone and that since both the debtor and the creditor nations were responsible for the crisis, they could share the cost of adjustment. When the Greek crisis recurred from June through July 2015, the German government responded rigidly, rejecting a request for the writing-off of Greece's debt. In the East Asian Financial Crisis in 1997-1998 the IMF responded arrogantly to countries which fell into crisis. It is ironical that the IMF proposes debt reduction for Greece, showing a more flexible attitude than the European Commission and the German government⁹. A drastic policy change in this respect will be one of the keys for the EU's development.

4. Conclusion

As Mejestrik's expression the "threat of solidarity contributions for Greece" explains the current situation well, the Eurozone crisis starting from the Greek crisis has been seriously affecting the Eurozone enlargement. Dragan says, "The Greek crisis has demonstrated that the admittance of an unprepared country would not be the correct solution either for the acceding country or for the admitting club", and she emphasizes the importance of necessity for accomplishment of real convergence criteria. Also many other authors emphasize the importance of necessity for accomplishment not only of Maastricht criteria of nominal convergence but also of criteria of substantial and institutional convergence. The Czech Republic is in a position very close to the EMU membership in terms of nominal and real convergence. However, Vaclav Klaus, the former President of the Republic, was famous for Euroscepticism, and the Czech government continued to take a negative attitude toward the Euro. It is noteworthy that with the appearance of a pro-Euro new President of the Republic in 2013 the government and monetary authorities are

taking a positive attitude toward the Euro. However, if this country adopts the Euro it is most likely that the Euro will be adopted after around 2020. I think that in order for non-Euro NMS to adopt the Euro it is dispensable for the European Commission to formulate a new strategy for the economic development in the EU periphery including NMS. In this regard, wisdom which should replace austerity measures is urgently required. Without this, the Euro adoption by non-euro NMS will not make substantial progress.

Although Western Balkan countries are not discussed directly, this book has important implications for them. Facing the Greek crisis, for the present the EU is not enthusiastic about enlargement. The European Council in Brussels in March 2003 states, “The future of the Western Balkans is within the EU” (European Commission, 2003a). Also the European Commission states that the unification of Europe will not be completed until these countries join the European Union (European Commission, 2003b). The Western Balkans is as it were “a backyard” for the EU, and if the region is left in a state of being poor, it would remain a hotbed of organized crime and a route for drug smuggling and human trafficking, threatening the stability of the EU itself. Therefore, for mainly political reasons the EU will be obliged to deal with the Western Balkans’ European integration. Candidates in the Western Balkans such as Serbia, Macedonia, Bosnia and Herzegovina, Montenegro, and Albania will join the EU sequentially most probably from around 2020 to around 2025 (Perhaps, the EU enlargement will end with this). If these countries are admitted to the EU successfully, then the next challenges for them would be the adoption of the Euro after having fulfilled the Maastricht nominal convergence criteria and substantial convergence criteria. These countries will eventually face similar challenges to those NMS, which have not yet adopted but are expected to adopt the Euro, are facing now.

Notes

- 1 I would like to explain how this book came to be published. The 9th World Congress of ICCEES (International Council for Central and East European Studies) was held at Makuhari (Japan) in early August 2015. Prior to that, I had an idea to organize a session titled “Eurozone Enlargement: Prospect of New EU Member States for Euro Adoption” for this Congress. After obtaining approval from Professor Ryszard Rapacki (Poland), Professor Michal Mejstrik (the Czech Republic) and Professor Hiroshi Tanaka (Japan), I proposed this session in June 2014 and it was adopted by the Program Committee of the Congress. Later, in January 2015 unexpectedly I received an offer to publish a book from US publisher Nova Science. I then developed my idea into the publication of a book in which -

in addition to the above-mentioned members - four other contributors from Romania, Bulgaria, Slovenia and Japan would be included. In that sense, this book is a product of international academic cooperation between Europe and Asia.

- 2 In the case of the USA, after the formation of the fiscal union, the monetary union was formed. Rosefielde (2015) says that if a fiscal union is formed in the EU in the future, it will follow an order opposite to the US case. De Grauwe (2011) says that the Eurozone is a fragile system because a political union is not imbedded.
- 3 As far as I have read, the most critical toward the Euro is Emanuel Todd (2015), who is unsympathetic to it, saying that the Euro is a lame duck in the free trade regime.
- 4 The contents of the book is as follows: Preface (Yoji Koyama); Chapter 1 Current Financial Situations and the EMU Evolution (Yusuke Matsuzawa); Chapter 2 From Dinar to Tolar and from Tolar to Euro: the Slovenian Experience (Joze Mencinger); Chapter 3 Slovakia: Its Adoption of the Euro and After (Yusuke Matsuzawa); Chapter 4 Some Lessons from the Successful Euro Adoption by the two CEE states (Hiroshi Tanaka); Chapter 5 The Institutional Underpinning of the Prospective Euro Adoption in Poland (Ryszard Rapacki); Chapter 6 The Czech Republic – The Present Situation of Prospective Eurozone Member: Current Challenges during the Time of Creative Destruction (Michal Mejstrik); Chapter 7 Hungary’s Divergent Way to adopt the Euro (Hiroshi Tanaka); Chapter 8 Croatia’s Challenges regarding the Euro Adoption (Yoji Koyama); Chapter 9 Euro Adoption in Romania: Moving Faster or Moving Slower? (Gabriela Dragan); Chapter 10 Euro Adoption in Bulgaria: Opportunities and Challenges (Vanya Ivanova); Chapter 11 Conclusion (Yoji Koyama).
- 5 This expression is taken from the title of Rahman (2008).
- 6 *Asahi Shimbun*, October 12 and 13, 2011.
- 7 Professor Mejstrik’s power point presented at the 9th World Congress of ICCEES, held in Makuhari on August 6, 2015. This is a summarized expression of the following description written by himself in Conclusion of Chapter 6 in Yoji Koyama (ed.) (2016): “The discussion on euro adoption has been affected by the recent discussion on how to implement EU loan programs for Greece, including the use of the silent EFSM guaranteed by all EU members. This has reopened the issue of exposure and the collateral requirements for refinancing credit, as the smaller eurozone countries might be significantly exposed although their living standard (including that of Slovakia) is lower than the standard being subsidized in Greece”. Professor Mejstrik’s reply by an e-mail to my inquiry (January 17, 2016).
- 8 After having finished writing our book (Koyama, ed. 2016), I read Radosevic and Cvijanovic

(2015). This book analyzes the financial crisis in South-Eastern European countries with “financialisation” as a keyword. In their book “financialisation” denotes “the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies”, based on the definition by Epstein (2005) (Radosevic and Cvijanovic, 2015, p. 9). The editors of the book explain “financialisation” in a shortened way as follows: “the predominance of finance over real sector of an economy” (Ibid, p. 13). Financialisation started around 1980, and the fundamental cause of the 2007/8 global financial crisis and the subsequent Eurozone crisis should be viewed in the context of financialisation. The editors stress that the South-Eastern European economies need rebalancing of their growth model in the post-crisis situations, as well as some sort of definancialisation strategies (Ibid, p. 14).

- 9 On July 2, 2015 IMF published its Debt Sustainability Analysis (IMF, 2015), saying that in order to make Greece’s debt sustainable a substantial reduction of the debt and an extension of its repayment period would be necessary. Takemori (2015) explains the difference in the approach to the Greek debt problem among the Troika (the European Commission, the European Central Bank and IMF) (pp. 40-43). In his long postscript of the Japanese edition, which was written in August 2014, Blyth explains IMF’s conflicting relation with the European Commission and the ECB in recent years (pp. 362-363).

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