ECONOMICS
& Sociology

Palankai, T. (2015), The Introduction of the Euro and Central Europe, *Economics and Sociology*, Vol. 8, No 2, pp. 51-69. **DOI: 10.14254/2071-789X.2015/8-2/5**

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THE INTRODUCTION OF THE EURO AND CENTRAL EUROPE

Received: May, 2015
1st Revision: June, 2015
Accepted: July, 2015

DOI: 10.14254/2071-789X.2015/8-2/5

ABSTRACT. Integration maturity means not just meeting the Maastricht convergence criteria, but we analyse integration maturity in broader terms, and we try to answer the question in the light of compliance with all of these requirements. The acceptance mean how far the participants of monetary integration are prepared to take over the required measures and fit into an institutional and policy structure, which is condition of successful operation of the system. This preparedness assume institutional and policy capacities as well, but also the political support of the project by all the actors, including the general public. The maturity and the acceptance are two sides of the coin, and both are necessary for the success of monetary integration.
This paper concentrates on the three countries (Czech Republic, Hungary and Poland), and we try to explain, why they made a total turn concerning the euro issue, what are the main interest, and positions behind these drastic changes. We examine two major issues: a) how far the three Central European countries comply with the monetary integration maturity criteria, and how far they are ready to accept all of the circumstances and consequences, which follow from their participation in monetary integration.

JEL Classification: E 42, F45, P2

Keywords: Maastricht criteria, convergence, Euro, Central and Eastern Europe, integration maturity, monetary integration.

Theoretical frameworks

Every integration body sets specific conditions or criteria for membership for those who wish to join it. This largely constitutes the issue of *integration maturity* of a given country or group of countries (the integration maturity was the focus of research conducted by a research group from the Department of World Economy at Corvinus University of Budapest in a program financed by the Hungarian National Research and Development Plan between 2002-2004 (see Palankai, 2004, 2005, and 2014). It can be shown that this maturity embeds a number of factors, as well as the level of integration and the type of the countries which wish to integrate.

The integration maturity question is posed in connection with the increasingly close forms of integration and the agenda of the Economic and Monetary Union (the so-called 'positive integration'). The outcomes have clearly demonstrated that integration maturity cannot be left out of consideration. Even though market liberalization ('negative integration') always have consequences, they remain largely unilateral and asymmetric (meaning that the less-developed and weaker partners could lose more than win) and the retroactive effects are not revealed in an obvious manner. As the history of European integration showed, the question of unequal division of advantages was addressed either by asymmetric trade liberalization or financial transfer in favor of weaker partners (asymmetric associations).

The situation changed with the Economic Union. The reciprocal effects became direct and more thorough. The economic problems of the less developed partners (e.g. budget deficit or regional inequalities) impact the economy of the more developed partner and can cause disturbances (e.g. by triggering inflation) in a more direct way. Thence, any decision to join an economic union brings about fundamental effects on the institutional and political structure of the country in question. With regard to this, *maturity or preparedness for integration* is an issue that has to be examined and is therefore a matter of common interest.

Yet another reason was the *aspiration for full EU membership of the Central and Eastern European countries.* In their case, considering the huge differences in development and the unprecedented number of CEE candidates wishing to join the EU at once, it became clear to the EU policy-makers that the EU Enlargement would have more far-reaching consequences that previously envisaged.

Due to the above, in the early 1990s the EU had to set *two types of accession criteria*, which assumed a certain level of integration maturity in the given context. In 1991, the *Maastricht criteria* formulated the basic stability conditions for joining EMU. In 1993, the *Copenhagen criteria* set the requirements for EU membership for CEE candidates. The Copenhagen Criteria attempted to formulate *a certain desirable minimum transformation* for these countries, while it already referred to the requirement of participation in the Single Market.

In our paper, we concentrate on economic aspects of integration maturity, although political, social, and particularly institutional and policy aspects cannot be left out. In the case of monetary integration, such institutional questions as independence of central bank or public acceptance of yielding national sovereignty are equally important. In relation to the monetary integration the following *basic economic criteria of integration maturity* should be mentioned:

- Achievement of a certain state of integration of real-economy (integratedness);
- Market economy ("functioning");
- Competitiveness (structural and development aspects);
- Macro-stability and stabilization (most of all meeting of Maastricht convergence criteria);
- Convergence (nominal or real);
- Integration (absorption) capacities of the Union.

Therefore, we argue that apart from the fulfilment of Maastricht convergence criteria, the candidate countries should meet several structural, institutional or political requirements of integration maturity. We would like to stress that *fulfilment of these maturity criteria is not only a precondition of integration but also the only way in which the advantages of integration outweigh its costs*. This is the way in which integration serves their interests, and it is an expression of integration maturity.

The Monetary Union was a logical follow-up of the program drawn for a single European market. Complete liberalization of the capital markets threatened the effectiveness of national monetary policies and the only plausible way of "escape forwards" was the introduction of a single currency. Quoting the lines of the documents: *"the economic advantages of 1992 are certainly not fully achievable without a single currency, especially in the field of financial market integration. In addition the EMS in its present stage of development may not be compatible with complete capital market liberalization as required by 1992"* (One Market, One Money, *European Economy*, 1990, pp. 17-18). According to Padoa-Schioppa (1989), the Single Market attempts to complete an impossible task trying to reconcile the four priorities of economic policy (free trade, completely free movement of capital, fixed exchange rates, and "national autonomy in following monetary policy"). *"These four elements form what I call an 'inconsistent quartet': economic theory and historical experience have repeatedly shown that these four elements cannot coexist and that at least one has to give way"* (Padoa-Schioppa, 1989, p. 373). Thence, for the normal functioning of the Single Market, monetary integration, or EU-level centralization of monetary policy, is inevitable. And this centralization can be achieved with EMU in which the monetary union is supported by the broad integration of national markets.

As far as the monetary integration is concerned, it was clear from the beginning that the different countries were not equally prepared for it. That meant a certain risk for the future stability and satisfactory operation of the integration project. One can note substantial differences in the interests among the countries. Therefore, it is not surprising that so far the euro has been introduced only in 19 countries, while the other countries delay it by formal opting out agreements and by different type of policy choices. The same applies to some of the reform packages, particularly those envisaged for improving the governance of the euro-zone. In this paper, we analyse only some of the aspects of monetary integration maturity in detail.

1. CEE on the way to monetary integration

The full EU membership of CEE countries pre-supposes their full EMU participation including the acceptance of Copenhagen accession criteria with no possibility of opting out.

By 2015, from the 13 new EU members (11 from the East) 7 have introduced the Euro. For the other 6, the timing of euro zone joining is uncertain. There are some schedules (for Romania in 2019), but the late comers (Romania, Bulgaria, and Croatia) are still far away from fulfilling the accession requirements (see e.g. Strielkowski *et al.*, 2013).

The three Central European countries (the Czech Republic, Hungary, and Poland) take different positions from the others. It is remarkable how their commitment for early euro-zone joining has changed in the last decade, and how it turned to hesitation and in many respects even to rejection. The circumstances and the considerations in the three countries are different, but in their refusal to join and to adopt reform measures there are several common points nonetheless. They have problems with fulfilling of some of the Maastricht criteria, and none of them are in the ERM2 yet. They stay away of the reform measures of euro governance (ESM, Fiscal Pact or Banking Union) in different extent. There are several timetables wavered, but it seems that the three CEECs remained still for 4-6 years away of the euro-zone joining.

While the setting of Maastricht criteria with aim of achieving sustainable monetary and fiscal stability was important decision, about their relevance to new CEE members one can raise several questions. We abstain from discussing it in detail, particularly as their deficiencies can be applied not only for the new, but also for the old member countries. There is a large literature on that, and we raise only three questions, which affecting the meeting of Maastricht criteria and the EMU membership of the Central European countries, and is worth for discussion.

The major criterion of Maastricht in terms of monetary stability is in fact a *direct targeting of inflation.* The main aim of price stability, among others is primarily related to maintaining competitiveness of the member countries. There is an absolute target of the European Central Bank, which set a ceiling of price increases in 2%, and while it tolerates them up to 3% (reality of years before the financial crisis), it corresponds of the upper limits of "desirable inflation". In case of Maastricht this ceiling seems to be relative, setting the average of the three "best performing" countries as a benchmark. It is true that it lets a 1.5% upward deviation, but still in absolute terms, the target could be *deflationary.* And that could be particularly the case with the new Eastern member. A 2% price increase can be problematic, if the growth of productivity is less than 1%. But even 3% inflation could cause no problem if the productivity increase is around 4% (or even more), as it was the case with the most of new Eastern members following the mid 1990s, up to the financial crisis. This targeted price rigidity may contradict to the interest of emerging countries with long road to convergence.

The same applies to the limits sets on *budgetary deficits*. The Maastricht 3% deficit is a realistic target. But the frameworks set by the Fiscal Compound through assuming balanced budget, are more problematic. According to the historical experiences, the catching up countries usually requires *budget deficits for financing their modernisation*. As the accumulated debt finance the creation of competitive capacities, it does not cause any problem. It was, of course, a different case, when the credits were mostly used for financing consumption, as in the 1980s happened with Hungary or Poland. The Central European countries are in the process of their convergence, and this can last still for decades. The frameworks of the Fiscal Compound contradict to their interests.

The Maastricht criteria assume the candidates countries to be at least for two years *in ERM* as a condition of entry into the euro zone. As historical experiences suggest, the exchange rate bands can be tempting from points of view of speculation. The most dramatic example in 1992 was UK, when the wrongly set band provoked a highly "effective" attack on the pound, and in which case even the +/-6% proved to be to narrow. It was not by chance that the bands in ERM1 were broadened to +/-15% in 1993. Hungary had an ERM2 imitation from 2001 (+/-15%), but she should give it up in 2008, just due to the speculative threats of the financial crisis. Among others, the three Central European countries float the rate of their currencies just because for this reason. Therefore, many feel totally relevant and supportable the proposal of the Polish finance minister, which raises the possibility of abolishment of the ERM2 participation requirement in favour of *exchange rate stability without band limitations.* "Some policy-makers have even said they believe that in Poland's case the requirement that the zloty enter ERM-2 for two yours before entry, could be wavered." "Policy makers and economists have long said that entering the euro zone's pre-adoption currency corridor would be risky for Poland because it would encourage speculation in the highly liquid zloty, and could push up prices of consumer goods" (Reuters, June 4, 2014.)

2. Convergence or divergence

The integration theories state that convergence is an important feature of integration processes due to the fact that is closes up gaps in the levels of developments and gradually eliminates the differences. When the differences fail to level, this can be partly taken as a criterion or precondition, or even as a desirable consequence, for integration. The founding documents of many integration organisations call fixed convergence their general political objective or priority. In the EU Treaties, cohesion and solidarity became a basic political commitment. When the economic and financial crisis of 2009 impacted most of the EU new members seriously, the process of convergence was halted, which presented a warning with regard to the long-term expectations. Integration and convergence are far from being complete *in Central Europe,* and many patterns of periphery are still in existence.

In spite of closing the development gaps, the differences have remained significant. The *roughly one-third lagging behind the average is rather quantitative than qualitative*. But at the same time the per capita GDP of the neighbouring Austria is almost double of that of Hungary. The differences can be even higher in finer structures such as infrastructure (for example, the instrumental furnishing of the public health system or education, etc.)

Hungarian European modernisation was based largely on foreign direct investments, which increased *the dualistic character of economies.* Against the highly competitive foreign TNCs, there is a sector of local SMEs with low or a complete lack of competitiveness. The transnationalisation of the domestic company sector has only started. There are similar tendencies and patterns (with some divergences) that are characteristic for the other Central European countries. A *balanced integration of the region would assume the acceleration of the transnationalisation of the national company sector, particularly that of the SMEs, which* would need comprehensive and efficient strategies and policies.

The main deficit of structural integration is that the competitive export capacities are largely based on import inputs, while the domestic value added contains lower innovation and knowledge contents. These disproportions characterise the supply channels and the trade of components. The favourable global positions are based mostly on investments of foreign companies, which shifted their production to a large extent to the Central European region. The sustainability of competitiveness would assume strengthening the foundations of a knowledge-based economy and society (research and education strategies would be needed).

There are arguments that monetary integration assumes high level of convergence. Some claim that we can join the euro zone only by achieving a higher level of convergence, than now and the problems of Southern Europe (particularly that of Greece) support this thesis. In general, however, there is only a loose relation between levels of development and maturity for monetary integration. In such federations (monetary unions), like United States of America and Canada there are equally high regional and social differences than in the European Union and they are able to keep their dollars strong. Of course, the problem should not be neglected, and they would assume large compensation transfers (and automatic stabilisers). These are lacking in the euro zone.

3. Integration (absorption) capacities of the Union

In Copenhagen, in terms of enlargement, the EU rightly raised that the Union has to have the ability to "absorb new members". Later, the formula in terms of external enlargements was modified to "integration capacities". How far it was met it in case of Eastern enlargement, would need a separate analysis. Clearly, the minimum level of meeting accession criteria was required, but many questions of joining (particularly the timing) were decided primarily on political grounds. Although the maturity considerations were followed, they played secondary role.

In fact, the same approach characterized the monetary integration. The euro was born from high integration and the single market, but in its shaping and timing, the political factors played an important role. Beyond strictly requiring the fulfillment of the Maastricht (monetary and fiscal) convergence criteria, the broader considerations of maturity were missing. How far these countries can be considered as "optimal currency area" formally was not examined. Certain deficiencies in integration maturity were neglected, and that particularly applied to the large differences among the new euro members. The institutional set up of the EMU was shaped on political grounds (minimizing the need for giving up sovereignty), and the necessary absorption capacities were poorly secured. The problems were demonstrated both in *conceptual and constructional deficiencies* of the monetary union project.

a. The economic and monetary union created *a new governance structure* (multi-level), where all the levels (union, national, local, or even companies, organizations, or banks) had to adjust and their consistent cooperation had to be secured in all dimensions. The euro construction, in this respect, was far not adequate, it had many deficiencies, and later during the crisis, they lead to disastrous consequences. The leading British journal rightly compares the euro zone to a boat, which "was fit only for fair-weather sailing, with an anarchic crew and no life boat" (The Economist, November 26th, 2011, p. 44).
b. The single currency called for common monetary policies, but the budgets remained in national competences. *The Stability and Growth Pact* set the frameworks and rules of national budgetary policies, but they were incomplete, indicatory and lacking strong enforcement mechanisms.
c. *The mechanisms of "automatic stabilizers"*, characteristic for the classical monetary unions based on federal political structures, were totally *lacking*. The EU budget is far from meeting of requirements of a federal budget. In facts parallel with the creation of monetary union, instead of increasing its role, its resources were rather cut back. The role of structural funds were increased, but they were far not enough to fulfill the correcting and compensation requirements related to social and regional disparities created by the monetary integration.
d. In order to enforce tough discipline on the members, the *no bail out* rule was an important message for responsible policy behaviors. Later, under the circumstances of the global financial crisis, it proved to be unattainable and threatened with even collapse of the whole monetary union.
e. The focus was on the monetary and fiscal policies, while the *financial markets (banking sector) were left out of attention.*
f. One of the main deficits were related to *adequate national policies (policy mixes)*, which failed to adjust to the new conditions and requirements (proper income or structural policies among others). Instead of adaptations, some governments rather used the possibilities of free riding (using new cheap monies for buying political popularity or votes), but the irresponsible behavior characterized the banks or individual investors (real estate bubble) as well.
g. *Misunderstanding and over estimating the regulatory role of the market*. The euro project was born in the atmosphere of ultra-liberalism of the 1990s, which expected a regulatory and disciplining role from the market. As it turned out later, the markets rather encouraged irresponsible behaviors and they instead of disciplining in advance, rather punished afterwards, in fact very strictly.

As result of all of these, the institutional and policy frameworks were unable to properly absorb the members and answer the later challenges.

After 2010, the reform measures of "European governance" made *substantial steps to correct this situation*. In this respect, the creation of new economic policy coordination mechanisms (European Semester); setting up new support facilities (European Stability Mechanisms); creation of comprehensive fiscal frameworks (Fiscal Compound); or decision on Banking Union, all were very important steps forward. They consolidated the functioning of the euro-zone, and averted of a crisis threatening with collapse of the whole system. For getting out of the crisis fully, however, they have been far not enough, and they need further consolidation and reform measures.

The euro crisis was born of the global financial crisis, and it had not take characteristics of classical currency crises (devaluation or acceleration of inflation). It was not simply spill over of the global crisis, it was aggravated by the deficiencies of the euro construction. The main component was the *emerging sovereign debt crisis*, which hit mostly some of its Southern members. The harsh austerity measures only partly addressed it, but they have not offered final solution. For some countries, the "growing out" of their debt could be only a long term perspective, while short term easing would be needed. Such proposals, and mutualization of debt on zone levels or issuing Eurobonds, so far have been rejected and have failed.

The austerity policies proved to be *highly restrictive and deflationary.* That is particularly true with regard to the policies supported by the "troika" (European Central Bank, Commission and IMF) and envisaged for the crisis countries, mainly because of their extremely strict insistence on price stability and balanced budget. The drastic cuts both in public and private consumption depleted the countries' growth possibilities and threw them into a vicious circle. The lack of growth causes new deficits and cannot reduce indebtedness calling for more new restrictions. In the countries plunged deep into the crisis, the unemployment reached socially intolerable levels and the scandalous youth unemployment became dangerous both in social and political terms. The countries like Greece got themselves into the hopeless situation.

There is a discussion that rigid austerity policies following *strict inflationary targeting should be mitigated.* When the euro was created, there was a broad consensus that the new currency should be strong and non-inflationary. That was a pre-condition set by Germans, but it corresponded to the interests of the others as well. Now, it has become clear that obsessed insistence on it is a major factor of deflation hitting the whole European economy. "To some, the need is simply for the Greeks and others to accept that they must reform their economies and repay their debts. To other, the German must concede the some of the debts will never be repaid and get over their obsession with balanced budgets" (The Economist, February 7th, 2015, p. 26). Many agree that the austerities were excessively deflationary, and on the long term they are unattainable. "If Mrs Merkel continues to oppose all efforts to kick-start growth and banish deflation in the euro zone, she will condemn Europe to a lost decade even more debilitating than Japan's in the 1990s. That would surely trigger a bigger populist backlash than Greece's, right across Europe. It is hard to see how the single currency could survive in such circumstances. And the biggest loser if it did not would be Germany itself" (The Economist, January 31st, 2015, p. 7).

The getting out of the crisis assumes the solution of the *growth crisis* of the European Union. As we have seen, it is far not enough to treat it with financial incentives (low interest rates or pumping money into the economy), but it would need structural reforms and restructuring of economies. The question is complicated by the fact that Europe (in fact, in some sense the whole global economy) is in *a growth trap*. The crisis calls for sustainable growth (dynamic and balanced), while it hardly can correspond to the requirement of sustainable development (preservation of environment). The acceleration of growth can aggravate environmental pollution, which already realistically threatens with serious environmental degradation (global warming). The sustainability of development would require definite changes in technologies and in re-structuring (innovation, steps to applications of the newest results of information and communication technologies, development of new alternative energy resources, and green technologies). The investment should be directed toward improvement of competitiveness (infrastructures, education or R&D). The new investment proposal of the European Commission of €300 billion is promising, but it could not be more than "catalytic money". It is still an open question, how these resources can be channelled toward structural modernisation, and how the interests of the private business sectors can be attracted.

One of the deficits of the improved governance is the missing reforms of the common budget. The present budget is extremely limited both in its volume and its scope. It is far from addressing the problems of great variety of differences among the euro zone members, which similarly to the real federations, would call far broader role of "automatic stabilization". There are several proposals for a real federative budgets (taxes and creation tax authority on union level), but its chances are bleak. Most of the countries cope with keeping the balance of its national budget, and the interests and the will for any real steps to federal budget are practically missing.

The solution of the crisis and taking a sustainable growth path is not just a structural issue, which can be achieved through institutional and economic policy reforms. It would assume also the *political and social sustainability*. Many of austerity measures proved to be *anti-social or socially and politically controversial*. In Greece, with high probability the thirteenth or fourteenth months pensions or salaries were just for buying votes, and they lacked the financial basis behind them. But in many case, real and justifiable social transfers fell victim of austerity measures, and as alternative, for example, the possibilities of taxation of often excessive profits of some sectors were missed. The governments were more eager and active in cutting social expenditures, than clamping down on extreme tax evasions of certain business circles. On the long run, the adjustment measures can be sustainable only in case of getting the minimum of social and political acceptance of the public.

As result of all of these, a very simple question arises. *Is the euro-zone in its present frameworks, worth for joining?* These questions directly or indirectly have been raised in all the three Central European countries, and it would determine their decisions and policies in the future. Many feel that joining of euro zone would mean changing a working national system to something, which might be worse. As Meteusz Szczurek, the Polish finance minister stressed: "Our domestic banking sector, regulatory and guarantee systems are too good to risk changing them without making sure how the European mechanisms work in practice" (Reuters, May 17, 2014). It well represents the shaken confidence in the euro system, and without restoration of it hard to imagine gaining support from the public in the euro candidate countries.

4. Adjustment and acceptance of Euro – interests and policies

4.1. Costs and benefits of euro zone joining contradictory trends and judgements

One of the main factors of judging the euro is *the real and expected (or assumed) impacts (the costs and benefits)* of the single currency. In economic terms, they mean economic growth (and the related convergence), inflation, unemployment, welfare or in general many other things. Peoples are interested, how their every day life is affected, either in terms of their incomes, higher taxes or prices, what they have to pay for their every day products and services and how the value of their saving are preserved.

There is general agreement that *the advantages (benefits) of the euro are higher than the disadvantages (costs) in an overall approach.* It is another case, when we examine different countries, and concretely different aspects of those impacts (growth or prices). It often hard to answer, how these advantages or costs are distributed among the countries, social groups, sectors or regions. *The reservations* in these respects are *highly relevant and justifiable*, even if in case, they can be disputed.

In this respect, we can quote the summary of Czech National Bank, which tells: "On the occasion of the 10th anniversary of the euro area, numerous papers focused on accessing its real benefits (see, for example, Mackowiak *et al.* (eds., 2009). The undoubted benefits include the achievement of price stability. In other areas, however, the assessment is less clear-cut. European Commission (2008) arrived at a generally positive assessment, while admitting that the growth potential of the euro area remained low and significant differences persisted in inflation and unit labour costs across the individual countries" (CNB, 2011, p. 17). We agree with the deflationary affects of euro-zone economic policies. But the comparison of averages of euro and non-euro countries can be miss-leading, and the individual circumstances and policies play great role. The general difference between euro and non-euro members is not significant even if we can find some advantages concerning both the members and the non-members. In many case, the role of special circumstances could give enough explanations.

In fact, if we look at the growth performance of the EU, we can see that rather the long term growth patterns prevail, and the joining or not the euro zone, comparatively has not brought any significant changes. Ireland was among the mostly hit by the crisis, but she was able to return to growth and in 2014, she was again the best performing. Finland was also very strongly affected by the crisis, and still she is not yet able to get out of it. She has somewhat worse performance to other Northern non euro zone members (Denmark and Sweden), but it is not clear, how far is it due to the euro, or other structural problems. The Baltic countries were dramatically hit, but meanwhile they introduced the euro, and they were able to return to a normal growth path. In spite of harsh austerities, which would have been unavoidable otherwise, even the Southern crisis countries (Spain or Portugal) by 2014 were able to produce a positive growth rate.

In Central Europe, it seems that the possibility of devaluation gave somewhat flexibilities, but they were not significant. As it is referred in a comparison on the impacts of euro on the Czech and Slovak export performance "the currency depreciation did not prove to be a measurable advantage" (Polyák, 2013, p. 18). At the same time, the trade inducing impacts of the euro were also limited. "Our empirical evidence suggests that the positive trade effects brought about by introduction of the common European currency are rather moderate – around 5%. This result is in line with some of the earlier estimates showing that the euro changeover typically stimulates foreign trade between member states, but to a much lower extent than previously believed" (ibidem).

Table 1. Development of the GDP in the EU27 between 1990 and 2014

Country	1990-1994	1995-2000	2001-2003	2004-2008	2009	2010	2011	2012	2014
1	2	3	4	5	6	7	8	9	10
Old Members in Euro Zone									
Belgium	1.8	2.8	1.0	2.3	-2.8	2.4	1.8	-0.3	1.0
Netherlands	2.5	3.9	0.8	2.7	-3.7	1.6	1.0	-1.0	0.9
Germany	2.7	1.8	0.4	2.0	-5.1	4.2	3.0	0.7	1.6
Ireland	4.4	9.5	4.9	3.8	-5.5	-0.8	1.4	0.9	4.0
Austria	2.6	3.1	1.2	2.8	-3.8	2.1	2.7	0.8	0.3
Luxemburg	4.8	5.4	2.8	4.1	-4.1	2.9	1.7	0.3	2.7
Italy	1.1	2.1	0.8	1.1.	-5.5	1.7	0.4	-2.4	-0.4
France	1.3	2.6	1.2	1.8	-3.1	1.7	2.0	-	0.4
Finland	-1.2	4.7	2.0	3.4	-8.5	3.3	2.8	-0.2	-0.1
Old Members Outside Euro-Zone									
Denmark	2.1	2.9	0.5	1.8	-5.7	1.6	1.1	-0.5	1.0
U. K.	1.2	3.4	3.0	2.2	-4.0	1.8	1.0	0.3	-0.1
Sweden	0.1	3.6	2.0	2.9	-5.0	6.6	3.7	0.8	2.1
Southern EU									
Greece	0.8	3.2	4.5	3.1	-3.1	-4.9	-7.1	-6.4	0.8
Spain	1.7	3.9	3.2	3.1	-3.7	-0.3	0.4	-1.4	1.4

1	2	3	4	5	6	7	8	9	10
Cyprus	4.8	4.2	2.7	4.2	-1.9	1.3	0.5	-2.4	-2.3
Malta	5.5	5.3	0.7	2.8	-2.6	2.9	1.7	0.8	3.5
Portugal	1.7	4.3	0.6	1.2	-2.9	1.9	-1.6	-3.2	0.9
Baltic countries									
Estonia	-14.0 (92)*	6.8	6.9	5.7	-14.1	3.3	8.3	3.2	1.6
Latvia	-33.0 (92*	4.6	7.4	7.3	-17.7	-0.9	5.5	5.6	2.4
Lithuania	-39.0 (92)*	4.3	8.0	7.1	-14.8	1.5	5.9	3.7	2.9
New Eastern Members Outside Euro-Zone									
Hungary	-11.9 (91)*	2.7	4.0	2.7	-6.8	1.3	1.6	-1.7	3.6
Czech Rep.	-16.0 (91)*	2.6	3.0	5.5	-4.5	2.5	1.9	-1.3	2.0
Poland	-11.6 (90)	5.7	2.2	5.4	1.6	3.9	4.5	1.9	3.3
Bulgaria	-23.0 (91)	0.8	4.8	6.4	5.5	0.4	1.8	0.8	2.9
Romania	-15.4	0.2	5.3	6.8	-6.6	-1.1	2.2	0.7	1.49
New Eastern Members in Euro Zone									
Slovakia	-16.0 (91)	3.8	4.3	7.3	-4.9	4.4	3.2	2.0	2.4
Slovenia	-8.1	4.2	3.2	4.9	-7.8	1.2	0.6	-2.3	2.6
EU27	-	3.8	3.0	3.9	-5.6	1.7	1.9	-0.0	1.3
Euro 18	-	-0	-	2.4	-4.5	2.0	1.6	-0.8	0.9

Sources: Europe in Figures. Eurostat Yearbook 2014. Eurostat. Eurostat databases.

The comparison of Hungarian and Slovenian performance could not give any firm evidence about advantages or disadvantages of euro-zone membership, either. Good growth performance could be helped by exchange rate flexibilities, but other special policy factors played also a role. In Hungary, the year of 2014 was good, but it is hard to separate, what role the previous decade long stagnation, the large scale investments based on use of EU structural transfers in an election years or the exchange flexibilities and independent economic policy efforts contributed to these achievements. The coming years could show how the favourable trends can be sustainable.

As far as growth impacts are concerned, one fact is sure. The *excessive deflationary policies pursued* by the euro zone members had their impacts on general dynamics of their economies, and the relatively (however not significantly) better performance of non euro members, among others can be explained by that factor.

One of the main questions about the growth pattern affected by euro is whether it brings unbalanced development, how it influences cycle harmonisation and possibilities of asymmetric shocks. “The traditional optimum currency area criteria therefore also include similar economic structure and economic shocks, output and consumption diversification, a similar inflation rate, stable terms of trade, mobility of labour and other production factors, price and wage flexibility, and fiscal and political integration” (CNB, 2011, p. 16). In the dispute on the “endogeneity hypothesis”, which assumes that through more intensive cooperation the possibility of asymmetric shocks decreases (De Grauwe, 2005) and “specialisation hypothesis” (Krugman, 1993), which tells the opposite, namely that integration leads to more specialisation and that leads to structural diversification and increases the probability of asymmetric shock, the evidence suggest supporting the endogeneity hypotheses. “The cyclical alignment of economic activity in the Czech Republic and the euro area has recently increased significantly according to all analytical method used” (CNB, 2011, p. 9). Similar conclusions can be drawn for other countries of the region. In the framework of transnational networks, the constraints to specialisation tend to be rather intra-sectoral than inter-sectoral and that contradict to Krugman assumptions. With high dominance of foreign TNCs in the Central European region, the intra-sectoral cooperation can rather prevail.

In all three countries in question, the rejections of joining the euro zone in a rapid manner were based on *arguments in favour of preserving monetary policy autonomy, particularly possibility of devaluation*. The anxieties are largely justifiable but one should pay attention to the fact that *monetary policy autonomies have become largely illusory* at a high intensity of integration and in a fully open financial and capital market.

There is an on-going agreement that the *loss of national exchange rate mechanisms* is one of the *major costs of the monetary integration*. Surely, the exchange rate is an important adjustment mechanism, but contrary to the general believes, in a real sense, the devaluation does not *increase competitiveness*. Higher competitiveness would assume either reduction in costs or improvement of quality of products and the devaluation is not this case. The devaluation transitorily increases the prices of the export products in domestic currency as well as the profit. It improves saleability of products and can keep producers on the market. However, the import prices also increase. It induces inflation with a high probability, which sooner or later leads to the increasing costs. Thence, the short-term "competitiveness" gains are lost and are not balanced with direct austerity measures. If nothing changes, further devaluations could not be avoided. In internationally highly integrated economies, the impacts on improving competitiveness by devaluation are largely missing. The increases of price of import inputs in national currency immediately reduce or write down the possibilities of export price gains. The exchange rate devaluations, hand in hand with inflation, represent *welfare losses.* By other definition, they are also called *market induced austerities.*

Therefore, the devaluation itself is not a medicine but a pain relief. It really can help adjustment, giving a certain sort of breathing time for making steps for real improvement of competitiveness but these steps cannot be saved.

The fixing the exchange rates in monetary integration has the advantage that it creates direct constraints for cuts in costs and real increase of competitiveness. Many feel that the elimination of exchange risks, particularly their volatility, is good from points of view of improving trade conditions. As Tomas Zidek (Czech deputy finance minister) acknowledged, Czech companies complain because of huge transaction cost and "our export are hit by the lack of exchange rate stability" (International Herald Tribune, March 1, 2013).

The case is somewhat different with *the interest rate policy.* The problem of "one size fit all" is real one and can be balanced only with national structural policies. The coherence and harmonization of common and national policies, in this respect, would be particularly important.

There are fears that euro zone membership could mean *extra financial burdens,* which can be significant and politically unacceptable. In case of membership of Czech Republic, the country should be a co-financer of European Stability Mechanism. "According to current estimates, it would have to provide capital of about CZK 32 billion in the first five years after ESM entry, and in subsequent years its final commitment would reach CZK 350 billion (i. e. 9.4% of GDP). Upon its establishment, the ESM, in which the Czech Republic will be a shareholder, will probably assume (at least) the undisbursed and unfunded loans of EFSF. In reality, this represents a significant change and an expansion of Commitments to adopt the euro in future" (CNB, 2011, p. 10).

These problems sometimes are emotionally presented, which indicates that the issue largely concerns the public opinion as well. "The debate is heavily swayed by business attempting into the euro club versus skeptics, who feel uneasy at the thought of Czech Republic joining the seemingly currency system that would require them to potentially surrender monetary policy independence and perhaps require their tax money on bailing out other euro zone countries. " As Mojmir Hampl vice governor of the Czech National Bank stated: "Thanks God we don't have to pay for these profligate Greeks" (Prague Post, 16 August, 2014). There are fears about a risk in Poland to become one of the net financial creditors to other euro zone countries in financial difficulties (Sobczyk, 2012).

The stereotypes of lazy Southerners enjoying excessive social benefits and the diligent Northerners should carefully taken. In the EU, in terms of working hours, the Greeks work the most. The annual vacation days in Greece are less than in France or Germany. The social expenditures in GDP, in Greece are bellow level of most of the member countries. The corruption is extremely high, but we know the cases when just the companies of Northern countries got in corruption cases. The Greek minimum wage was €684 in 2014. This was above the Portugal level (€589), but bellow of Slovenian one (€791), of countries with similar level of development. It was far above the Czech (€335) and Hungarian (€344) levels, which contradicts to higher productivity performance of the two later countries. But while the per capita GDP in France or Germany is one and half more than in Greece, the level of minimal wages are more than twice higher (in France €1458 and in Germany €1473) (Eurostat).

Of course, the question could be judged only in light of balance of total costs and benefits of the euro zone membership. But even in the countries, which are probably the biggest beneficiaries, the tax payers have serious resentment and resistance against financial transfers to countries in trouble. The financial crisis particularly demonstrated that the feeling of solidarity among the members was weakened, and often the partner countries were considered as scapegoats for the difficulties. It is clear, therefore, that as result of euro-zone membership, excepting higher financial contributions, the tax payers should be convinced that it is worth to take those burdens.

4.2. Acceptance of the Euro –political interests and considerations

The euro-zone joining can be motivated and influenced by several *political, legal, social or even emotional factors* and the decisions on euro-zone joining and its timing will be influenced by all of them.

They seem to be important and even decisive as the analysis of new Eastern members case is indicating. "We argue that for a complete understanding of euro adoption strategy in NMS one need to look at the domestic political situation. A cost benefit analysis indicating positive economic effects of euro adoption and the existence of shared political values and beliefs among central bankers were insufficient to bring about speedy euro adoption. Government policies, elections, electoral cycles as well as constitutional rules, to name just a few, turned out to be crucial in explaining the lagging behind euro adoption process in these countries" (Dandashly and Verdun, 2009, p. 2).

We analyse the political and social aspects through changes of *opinion of the general public, the interest and position of professional, business and political elite, and the role of the media. The legal problems* also can arise. When a country decides about euro zone participation *geopolitical, security or sovereignty consideration* can have an impact.

According to public opinion polls, in 2001, 69% of Hungarians and 61% of the Czechs supported the transition to the euro, and from them 19% and 17% were in favour of early introduction. Only 5% and 7% were those, who rejected the notion of loosing their national currency. Poles were more sceptical, only 35% was in favour, from them 13% supported the early entry, and 16% was against (GfK Hungaria Piackutató Intézet, Népszava, December 29, 2001).

By now, the picture has totally changed. In Czech Republic and in Poland the majority of population is against the euro zone entry and in case of Hungary the number of rejecters increased substantially. As it is noted by a survey: "In 2012, support for the single currency has steeply declined over the five year period between 2007-2012 where it once represented a majority". By 2012, only 50% of Hungarians supported the euro, while 42% were against. In other 2 countries the opinions were more negative, in Poland only 36% supported and 56% were against, and in Czech Republic 22% supported and 74% was against. In Romania, however, 56% were for and 28% against. The three countries with highest fall of support were Czech Republic (38 points) Denmark (24 points) and Poland (18 points) (Notre Europe, 2012, p. 22).

The surveys clearly indicate that the main explanation falls on the financial crisis. In the whole EU, the support of the euro has gone down (between 2007 and 2012 from 63% to 53%), but it is interesting to note that in the euro-zone the share of supporters remained high (between 70-80%). This applies to the new CEE members as well. In 2012, in Slovenia 83% of responders were for the euro and only 15% against, in Slovakia 72% were for, and 24% against, and in Estonia 69% for and 27% against (Notre Europe).

In the all three analysed countries, most of the *parties* are not against the euro adoption, although, they attach to it different importance. Seemingly, the parties and politicians are concerned rather with their short term political interests, and if the euro preparation would mean unpopular stabilisation measures, they rather refrained from the issue. That was particularly the case with Hungary after 2002, when the chances of euro adoption by the projected time (end of the decade) was missed. As, in fact, it is rightly noted on Hungary: "Politicians who were mainly seeking domestic political gains (in terms of attracting voters through pledges to enhance voter income) were not at all focused on taking the necessary steps that will lead eventually to euro adoption" (Dandashly and Verdun, 2009, p. 12). That remained characteristic to all parties and for all election campaign. And we can state it was so in the two other countries.

The transformation process after 1990 was accompanied with political and social conflicts, which have grown particularly during the crisis. "This unstable political scene and division continued even after joining the EU and is reflected in the disagreement among the Polish elites and parties regarding the euro adoption until now" (Dandashly and Verdun, 2009, p. 15).

The opponents are in the three countries rather extreme right or left wing parties. In Hungary, the Jobbik, in Czech Republic the Communists, and in Poland the Law and Justice Party (PIS), which have strong reservations, particularly against rapid joining. In most cases, the opponents are not organised along party lines, and although, they are not in majority, in case, they could be strong enough to influence the attitudes of the governments.

Persons can play important role. In Czech Republic, while Václav Havel was in favour, Václav Klaus took euro-sceptic point. They both were influential towards political parties and opinion of public. The new president (Milos Zeman) stated that the Czech Republic can manage to adopt euro by 2017. "It is not, however, enough to have euro adoption in the policy statement. It is necessary to do something. This means to prepare a plan for the euro adoption, set its date and to choose a strategy of transition from the crown to the euro" (Prague Post, 11 June, 2014). Same applies leading persons of changing governments or boards of central bank. As an interview related to phd dissertation of Assem Dandashly quotes: "According to one key informant, who is involved in the EU project, euroskepticism among CNB board is mainly political and less about the costs and benefits of euro adoption" (Dandashly, 2012, p. 139). The other country's experience proves that it matters which party is in government, who is the president of the central bank and who sit in its board.

The ambivalent position to euro zone joining in the three countries can be explained by the *interests and policies of certain leading business circles*. These *interests* are fairly unanimous, but they are not without contradictions. For foreign TNCs, the introduction of the Euro is not at all urgent as large part of their transactions is already conducted in Euro. "The Skoda Auto, the Czech car company that is owned by Volkswagen Group, deals mainly in euros" (Prague Post, 16 August, 2014). The existence of national exchange rate gives them better opportunity for manipulation with transfer prices and tax evasion. They are better positioned in speculation on financial markets, which can far compensate for losses in transaction costs. The domestic export firms are the most ferment proponents, while some others, often influential, are counter-interested. These are those, who face direct competition of the foreign investors and rivals, and dependent on import and EU transfers. There are fears that in case of giving up the national currency, the dominance of foreign TNCs could further increase. As many of them have a low level of transnationalisation, the possible savings in transaction costs is not very relevant. Devaluation may offer *transitory improvements in their short-term competitive positions* and through it in their trade and financial (speculative) affairs they *may realise even extra-profits in the short run.* However, the devaluation and the revenues from abroad (from off-shore businesses or EU structural transfers) could be upgraded. The aspects of tax evasions also apply in these spheres. The interest and views of trade unions can also be contradictory.

One can note that as far as the Hungarian experts of the euro issue are concerned, they are overwhelmingly in favour of joining the euro-zone, while in Poland and Czech Republic the expert elites are more divided.

The *role of the media* in the process is highly controversial. In Poland, "the media is also not very interested in the euro accession process. Attention on this issue picks up when something happens with exchange rate of the zloty or the euro. Otherwise the euro accession policy is not attracting very much attention" (Verdun, 2010, p. 35). The same applies to Czech Republic and Hungary. The media follows the euro exchange rate fluctuation, but otherwise is not interested about the question. In one sense, we can state, that *there is no media for euro* in the three countries, promoting a real and professional discussion about the pros and cons. As politicians are afraid of loosing votes, they refrain, particularly during the election campaign, even to mention of the issue (for example reference of Verdun to Czech elections in October 2009). In reality, reporting only about the crisis problems means practically a continuous negative campaign, which means that the public gets only negative information. In the countries, where the euro has been already introduced and the public has direct experiences, the opinions are, in fact, overwhelmingly positive. In Czech Republic 50% of the population declared that they are well informed about the euro, but 48% acknowledged that they are not. In Poland, only 33% of public believed that they have enough information about the euro, and 66% told that is not well informed (European Commission, 2008). The rejection of the euro often meant no more that "citizens have not felt the euro adaptation issue to be all that important" (Dandashly and Verdun, 2009, p. 10).

Emotional factors can be also important. They can be attached to anxiety about national independence identity or sovereignty or to devotion to symbols, like the strong national currency. "To some extent symbolic factors play a role. Euro is a strong symbol of European integration; a national currency is a strong symbol of national identification" (Verdun, 2010, pp. 27-28). In Poland and Czech Republic the arguments against the euro often referred to the strong zloty and koruna as a symbol of country success and strength. "Poland's reform, economic growth, its stable economy (compared to other EU countries such as Hungary) even after the crisis were not enough to get closer to euro adoption" (Dandashly, 2012, p. 234). We can add, as far as the public opinion is concerned, probably rather distanced the country from it.

For the sake of euro adoption *several legal problems should be solved*. As far as the disputes over compliance with the requirements of Central bank independence are concerned, they have been solved, or in case, remaining problems can be easily solved. The *need for changing constitution* is more formidable problem, and as among others both the Polish and the Hungarian constitution pledges to present national currency, this can not be avoided. It assumes in both country two third majority decision of parliament, and this is hardly possible without the consensus of the major political parties. “Since the start of the financial crisis the whole issue of how easy the government might be able to adopt the euro has become subject to debate given the problems arising from the need to change constitution, which requires a wider political support” (Verdun, 2010, p. 36). At present parliamentary structures, the prospects for that are bleak.

The joining of euro zone may raise several *sovereignty and security questions*, and such related considerations can play important role. It has different aspect in different countries, and can influence the politics or the public opinion both concerning the mere question of joining or its timing. In case of Poland, it is seemingly important both from point of view of its EU positions and security of the country. The security considerations particularly strengthened by the recent confrontation between the West and Russia. “The new appetite for potential accession to the 18-members euro zone appeared to be a reaction to Russia’s annexation in March of territories in Poland’s neighbour Ukraine” (Reuter, June 4, 2014). “Entering the euro-zone would be, in a strategic take, another anchor that would maintain Poland in the group of the most important Western nations and increase our security” “Poland will join the euro in the future because adoption of Europe’s common currency would raise its status among the Western nations” (Donald Tusk Polish Prime Minister to (Reuters, Warsaw, April 9, 2014). As he added, the euro joining “is also a geopolitical project”.

Similar considerations motivated the Baltic countries. In light of a growing Russian threat, they strived to connect themselves to the West more closely. For Slovakia, the extension of its sovereignty played a role, particularly in terms of getting direct participation in decisions. In Hungary, the “dictates” coming from Brussels or Frankfurt were considered as what should be avoided.

Conclusions and discussions

The creation of the EMU and the introduction of the euro were based on high level of integratedness of the union, which was supported by broad set of economic, business or political interests and considerations. Integratedness meant high intensity of relations, interconnectedness and interdependence; implementation of comprehensive program of single market; diverging but high level of competitiveness; and convergence. The creation of a single currency offered possibilities of substantial savings in transaction costs, and was important factor of improving competitiveness of the Union. The position of the Western and Northern European core of the Union was fairly similar, and these countries *were mature for monetary integration*.

There are, however, three countries (Denmark, Sweden and the UK) from the core, which so fare stayed out of monetary integration. In their case, *the acceptance of participation in monetary integration is missing*, and their future participation remains uncertain. Two countries (Demark and the UK) opt out of the monetary integration project, while Sweden is formally pledged to the project, but due to lack of the public acceptance so far has been forced out of the euro zone.

Staying out of the euro-zone for the three countries in question can be explained by their differing interests and considerations. One can clearly define the reasons for the British, Danish and Swedish attitudes: all of these countries give priority to their national sovereignty and the general public is unanimously against joining the euro-zone. In case of Denmark and Sweden, the euro was rejected in the national-wide referenda. It should be noted that if the question were to be put on referendum, the project would have failed in many other EU countries. All the three countries are highly developed, but their political, social and economic positions and interests are different. In the last decades, the British pound lost its exclusive key currency role, but London remains a leading global financial centre. This role is not necessarily threatened by euro membership, but its special status might crumble. The two Northern countries have highly developed welfare systems, and the majority of the general public is anxious about losing these benefits.

The case of Southern periphery of the Union is different and more complicated. Among these countries, Greece is a special case, but there several common problems in the others. The level of integration maturity is always relative, and that particularly applies to the case of Greece. Greece (ands in some respects Cyprus) is characterised relatively low level (in fact, the lowest) of intensity of relations and interconnectedness. Greece is among the last in competitiveness ranking, and its convergence was fairly contradictory. In fact, due to crisis, the per capita GDP of Greece in the last years fell down from 90% of EU average to 72% in 2012. The monetary integration maturity of Greece, however, can be questioned not in absolute terms, but rather relatively in terms of given construction of EU monetary integration. Neglecting larger differences among its members, the euro construction is in fact, unable to absorb such countries like Greece, and it has serious consequences. Furthermore, as Greece with its national policies failed to adjust to the requirements of EU monetary integration, this discrepancy proved to be fatal. The irresponsible national policies meant nothing else than free riding, starting with regular manipulation of data related to budget up to using cheap resources instead of improving competitiveness for financially unjustified welfare measures (buying votes through thirteen months pensions or Christmas bonuses). For solving the Greek crisis, both Greece and the euro construction should have been reformed.

The *very high intensity of integration and connectedness* of the Central Europe to the European Centre, in itself, would suggest a smooth and early joining. This high intensity of relations assumes high transaction costs, and their saving can be substantial. We saw that the euro is in use by the TNCs, and through that the possibilities of savings in transaction costs are broadly exploited. There are no exact calculations about the extent of this use of the euro, but we can assume that it is large enough to speak about a certain sort of euroisation of these economies.

Euroisation similarly to dollarisation means *special dual (or parallel) currency system*, where besides the national currency the euro is in broad use in the monetary circulation of the given countries. As the exchanges through the transnational networks affect a large part of GDP of these countries, these transactions means a certain sort of creeping euroisation of these countries. Due to free movements of capital, it is legal, and already cover substantial amount of exchanges. In addition, we should mention those payments in hotels, supermarkets or other places, which are conducted in euro in all the three countries. Role of this creeping euroisation has dual role. It can bring full introduction of the euro closer, but it can delay it as well as saves transaction costs.

Analyses of costs and benefits of euro use brought contradictory results, they do not give any clear cut and overwhelming arguments either pro or contra in discussion about the introduction of the single currency. Definitely, these arguments are not strong enough to influence the attitudes of politicians or the public into either direction. This does not mean that it is not important to create a real and objective media presentation of the issue, because the present negative campaigns can make great damages from points of view to deal with the issue according to its merits.

There are two major problems, which must be addressed and solved, in order to have any genuine change in attitudes and policies in each of the three countries in question.

1. The Euro crisis was born from the global financial crisis. And none can prove that the euro in itself could be responsible for the occurrences of the crisis. The weaknesses of the euro construction, however, aggravated their consequences, and they were strong enough

even to question the mere existence of the system. The euro was neither a shelter or panacea nor a disaster. There were good and bad performer both in the euro-zone countries and outside it. On a large extent, the individual countries were responsible for the consequences. And it is not convincing that we were worse or better with the Euro or without it. The citizens of both euro (Greece) and non euro countries (Hungary) fell victims of cheap euro (or Swiss frank) and suffered substantial losses. The performances in adjustment are also greatly different (Greece or Baltic countries), and seemingly depend on several individual factors.

One thing is, however, clear, except extraordinary circumstances, with great probability, *none would join the euro zone until the crisis is over*. In fact, the story of Greece is not yet finished, and falling out of Greece from the euro-zone (Grexit) could not be excluded. There is a wait and see policy and there are no new developments on the horizon, which can easily change this picture.

2. What is needed, it is just more than over-coming the present crisis. As the defects of euro have become apparent, it is hard to expect the candidates take it, before these defects are repaired. If the Union has a perspective and a desire to include and absorb all of its members into the monetary integration projects, these questions should be addressed and solved. These reforms should mean the extensions of integration capacities of the euro-zone, which correspond with interests of also the Central European candidates and meet their expectations, necessary to gain the public support for the euro in these countries.

As a result, staying out of monetary integration might increase the possibility of disintegration of these countries. While the UK and Sweden can afford to stay out of the euro-zone, the Czech Republic, Hungary or Poland do not have these prerogatives. In particular, if Poland introduces euro currency and the two other countries remain outside the euro-zone, they could easily get into a difficult situation. Their vulnerability and exposition to speculation on international financial markets could increase substantially which in turn could lead to catastrophic consequences. The main aim of the three countries' integration, catching up with the rest of Europe, could be endangered. The last twenty-five years have undoubtedly proved that EU integration and membership have largely contributed to the convergence of the countries of the Eastern periphery, offering a historical perspective of a real return to Europe for the whole region. The road to that is long and the success will depend on several factors.

Acknowledgements

This study was supported partly in the framework of TÁMOP4.2.4.A/2-11-1-2012-0001. „National Excellence Program – Elaborating and operating an inland student and researcher personal support system" key project. The project was subsidized by the European Union and by The European Social Fund, and partly by BRIDGE project supported by Jean Monnet Program.

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