European Policies Initiative

Open Society Institute – Sofia

Country Report SLOVENIA

Economic and Political Challenges of Acceding to the Euro area in the post-Lehman Brothers' World

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Sofia, October 2009

The publication is a product of the Open Society Institute – Sofia within the European Policies Initiative (EuPI) and the project "Economic and Political Challenges of Acceding to the Euro area in the post-Lehman Brothers' World".

The publication comprised of nine Country Reports and a Summary Report is available on the website of the European Policies Initiative: www.eupi.eu

About EuPI

The European Policy Initiative (EuPI) aims at stimulating and assisting the New Member States from CEE to develop capacity for constructive co-authorship of common European policies at both government and civil society level. As a new priority area of the European Policies and Civic Participation Program of Open Society Institute – Sofia, EuPI will contribute to improving the capacity of New Member States to effectively impact common European policies through quality research, policy recommendations, networking and advocacy.

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EuPI aims at stimulating and assisting new Member States from CEE to develop capacity for constructive co-authorship of common European policies at both government and civil society levels (www.eupi.eu).

The project was implemented from September 2008 to September 2009. The main outcome of the project is a publication comprised of nine Country Reports and a Summary Report.

Following a uniform structure, and addressing a set of similar questions, the nine Country Reports (Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania and Slovenia) present stylized facts about the patterns of real and nominal convergence with the euro area in nine new EU members, outline the setting and the implementation of the accession policies in those countries and emphasize the incidence of the current crisis on the strategy to adopt the common currency.

Comments are relevant to policy developments until 20 May, 2009 – the cut-off date for the submission of the last revised version of the Country Reports.

The Summary Report reviews the results of the Country Reports and systematizes some of the dominant trends they reveal. The Summary Report checks the countries' experience in dealing with the complicated concentric monetary structure inside the EU (euro area; ERM II; non ERM II countries) and pays particular attention to the evidence gathered about the political economy of the procedures in the different countries.

Each Country Report and the Summary Report include an Appendix, containing Tables that summarize significant data provided in accordance with a standardized set of indicators.

The results of the Project are correctly intelligible only if all its pieces (ToR, Summary Report, Country Reports, Appendix) are considered together.

Advisory Board

The project was able to benefit from the insights of a distinguished Advisory Board. As the Boards' mandate was limited to advice and comments on the methodology and the Summary report, responsibility for the findings and statements rests solely with the authors of the Country and the Summary reports.

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EXECUTIVE SUMMARY

The process of convergence in Slovenia was smooth and timely. This provided for Slovenia's admission to the euro area at the beginning of 2007, making it the first and, at that time, the only country among the new EU member states (NMS) to boast that achievement. In terms of real convergence, Slovenia, throughout the period of transition, had the highest GDP per capita among this group of countries and was successfully catching up with the EU average level. (At present, Slovenia is at about 90% of the EU average.) In terms of nominal convergence, Slovenia encountered difficulties with fulfilling only one of the Maastricht convergence criteria—the inflation criterion—while the other four convergence criteria were met timely and handily. It should be noted that only a couple of years before joining the euro area, Slovenia did not appear to be a good candidate for early adoption of the euro. In the period from 2000 to 2003 its inflation rate was the highest among the acceding countries; Slovenia used a system of managed floating and led an active exchange rate policy that resulted in successive depreciation of the currency.

It the period from 2003 to 2005, Slovenia succeeded in lowering the inflation rate to below the Maastricht reference value. However, just half a year after its admission to the euro area (in mid 2007), the inflation rate rose sharply to reach the highest level among the euro area countries. After about a year, due to the impact of the global financial crisis, inflation in Slovenia returned to more normal levels. Fiscal deficit and public debt in Slovenia were kept at a comfortable level of around 1% and 25% of GDP, respectively. This is attributed to Slovenia's prudent fiscal policies, aimed at sustaining overall macroeconomic stability in the country. Only after the effects of the global crises started to be felt in Slovenia in the second half of 2008 and into 2009 did the fiscal deficit start to increase. Exchange rate stability was achieved fully as soon as Slovenia joined the ERM II mechanism in June 2004, just two months after its EU accession. Participation in the ERM II was without tensions; there were practically no deviations of the market exchange rate from the central rate (which later became the conversion rate for the euro).

A clearly defined national strategy that provided for euro adoption came about only in November 2003 when the Program for joining the ERM II and adoption of the euro was prepared. This was the first milestone on the road to Slovenia's inclusion in the euro area. The Program provided for early inclusion in the ERM II and early adoption of the euro at the beginning of 2007. After the adoption of the Program, the priority of all economic policies became the timely fulfillment of the Maastricht convergence criteria so that the fixed date for euro adoption could be respected. The second milestone was a surprisingly quick entry in the ERM II exchange rate mechanism, which was a precondition for the adoption of the euro in 2007. The third milestone was Slovenia's request for an individual early assessment of its compliance with the Maastricht criteria. The European Commission (EC) and the European Central Bank (ECB) responded positively to this initiative and prepared their Convergence reports on Slovenia in May 2006, in time to enable administrative and technical preparations for euro adoption at the beginning of 2007.

The reasons for Slovenia's successful implementation of its plan for early adoption of the euro are the following: an emphasis on macroeconomic stability throughout the period, a gradualist approach to economic reforms in the process of transition, overall (political parties, public opinion, social partners) national support to the project of euro adoption, clear priorities for economic policies, and firm target date for the euro adoption.

The global crisis increased the attractiveness of the membership in the euro area. Among other possible channels of protection, sharing the single currency is crucial in preventing speculative attacks on the national currency. After the outburst of the crisis, Slovenia can now perhaps for the first time recognize some of the tangible advantages of its early membership in the euro area. Slovenia used the window of opportunity and joined the euro area just in time before the crisis broke out.

Traditionally, the process of euro adoption is more or less seen as a technical matter in the hands of the national central bank and the ministry of finance. But, on the other hand, it is also a political process among different institutional players. A political economy approach to the process of euro adoption would also emphasize the distributional aspects, social implications, structure of interests involved and the balance of power supporting them, winners and losers of the process, etc. Within the framework of this approach, it is particularly interesting to see how the views of the EC and ECB as responsible European institutions on the enlargement of the euro area evolved over time. With a risk of oversimplification, it could be assessed that: first, until around 2000, their views were almost undefined, then quite reluctant. Finally, after 2003, the views of these institutions became rather neutral and they adopted an approach that judged each country's fitness for euro area entry on an individual basis (i.e. the tempo and results of each country in meeting the Maastricht criteria were taken into consideration). Following the onset of the crisis, their views on euro area enlargement are, at least for the moment, less clear, although there is definitely more emphasis placed on the sustainability of convergence.

There are several groups of countries in Europe on different levels of monetary integration:
the euro area countries, ERM II countries, other EU countries not participating in the ERM II and some non-members countries of the EU, and candidate countries or other countries with a more distant prospective for EU membership. In the circumstances of the ongoing crisis it is not completely clear which group of countries is in fact the most vulnerable, so that it should get the strongest support from the euro area (or wider EU) institutions or member countries. For the moment this seems to be is decided on a rather ad hoc basis.

In the context of the ongoing financial crisis it is extremely difficult for the euro candidates to prepare rational, safe and sound strategies for advancing the goal of adopting the euro, particularly with regards to determining the optimal timing of the ERM II and euro area inclusion. Owing to the crisis, fulfillment of the Maastricht convergence criteria is likely to become more difficult. Participation in the ERM II without a clear perspective (and sense of timing) for euro adoption might be particularly dangerous. At this moment, the euro candidate countries cannot do much to speed up their euro adoption, unless they are willing to breach the Maastricht rules. The EC and the ECB, on the other hand, do not seem to be willing to change any of the Maastricht rules (including the mandatory two years participation in the ERM II). At this moment, it is difficult to say whether the crisis will act to speed up or delay the euro enlargement process. Both options are possible, but the latter seems more realistic. Euro area candidates still have the option of speeding up their euro adoption by unilateral Euroization. This almost forgotten idea could become revived, although the EC and the ECB are for various reasons strongly opposed to it. However, the crisis is an additional argument in support of unilateral Euroization. The case can be made that Euroization is a viable emergency measure appropriately taken in these extraordinary times to avoid further destabilization of these countries. If euro candidate countries acted together, rather than emphasizing their differences, their claims would have a stronger politically backing.

I. Country's Economic Convergence

The process of convergence with the euro area can be approached either from the viewpoint of nominal convergence or from the viewpoint of real convergence. Ideally, both approaches would lead in the same direction, demonstrating how a country in the process of its economic development is becoming more and more similar to incumbent members of the euro area, both in terms of its structural characteristics and its macroeconomic policies.

Nominal convergence is embodied in the Maastricht convergence criteria, which are the explicit formal requirements to be fulfilled before a country is admitted to the euro area. Real convergence, usually understood as catching up with the EU in terms of GDP per capita, is an implicit, informal expectation before a new EU member country can adopt the euro. Both measures of convergence, nominal and real, can be used to assess the readiness of a country to join the euro area.

When preparing itself to join the European Monetary Union (EMU), Slovenia was in the first place closely monitoring developments in its nominal convergence in time, in order to assess its readiness for euro adoption. Regarding real convergence, Slovenia throughout the period had the highest per capita GDP among the group of transition countries and was slowly but consistently catching up with the EU average level. In parallel, in Slovenia due attention was also paid to the optimum currency area (OCA) criteria (those structural characteristics of the economy which show longer-term suitability of a country to join the EMU) in terms of its exposure to possible asymmetric shocks and of the flexibility of its adjustment mechanisms.

Data based on a standardized set of indicators (attached as an appendix) show the pace and degree of the convergence process. In the case of Slovenia, there are four distinct periods:

a) period of five years preceding the EU accession (1999-2004),
b) period from the EU accession (and the entry in the ERM II) to the entry in the euro area (2004-2007),
c) period from the euro adoption to the outburst of the global financial crisis (2007-September 2008) and
d) period since the outburst of the global financial crisis (September 2008-).

In the case of Slovenia, since it had joined the ERM II (in June 2004) almost immediately following accession to the EU in May 2004, it would not make sense to distinguish between the period from EU accession to Slovenia's entry in the ERM II and the period after the entry in the ERM II and before the euro adoption. The first of these periods was simply too short (less than two months) to be analytically meaningful.

The data on Slovenia's convergence show in detail the path and dynamics of its nominal and real convergence process. However, some comments on the process of nominal and real convergence should be presented to emphasize some characteristic developments in the above mentioned sub-periods in Slovenia. The paper starts with the nominal convergence, concretely with the fulfillment of the Maastricht convergence criteria.

Although there are five well known Maastricht convergence criteria, in practice, two of them (longer-term interest rate and public debt) are less important, since the EC interpreted them rather flexibly, so that in Slovenia (as well as in most other euro candidate countries) these two convergence criteria were met rather handily in the process of convergence. Therefore, the chapter concentrates on the remaining three Maastricht convergence criteria.

In the case of Slovenia, the inflation criterion was the decisive factor. It turned out later that the success of its plan for an early adoption of the euro in fact depended exclusively on the timely successful fulfillment of the inflation criterion. Following independence in 1991, Slovenia inherited the same hyperinflation that characterized Yugoslavia. The initial monthly rate reached over 20%. Since restoring macroeconomic stability was the priority for Slovenia at that time, inflation rates, supported by responsible monetary, exchange rate and fiscal policies, consistently fell over the next few years to nearly 5% in 1998. After that period, due to the introduction of the VAT and other measures, inflation started to increase again in 1999 and remained at relatively high single-digit levels until 2003. From that point forward, after the adoption of the Program for euro adoption in November 2003, inflation again started continuously falling to nearly the level of the reference value of the Maastricht inflation criterion in 2005.

In 2007, only half a year after Slovenia adopted the euro, inflation started to rise again. Until 2008, Slovenia recorded the highest inflation rate among all euro area countries and, accordingly, exceeded the Maastricht inflation criterion by a large margin. Only towards the end of 2008, inflation, as a consequence of the global financial crisis, subsided again and approached the average euro area figures.

The case of public finance deficit is less dramatic. Throughout the period of transition, public finance deficit was more or less modest, at least when compared to some other EU countries, and definitely remained within Maastricht or Stability and Growth Pact (SGP) limits of 3% of GDP. At the time of Slovenia's readiness assessment for the adoption of the euro, fiscal deficit was around 1%, readily meeting this Maastricht convergence criterion. After the adoption of the euro Slovenia even succeeded in bringing the fiscal deficit close to zero. Of course, as in other EU countries, the global financial crisis will strongly increase fiscal needs and will also in Slovenia in the near future require much higher fiscal deficits, close to or above the Maastricht threshold of 3% of GDP.

The third important Maastricht convergence criterion is the exchange rate stability. From the time of its independence, Slovenia relied on a system of a managed floating exchange rate and in this framework nominally depreciated the exchange rate of its currency (the tolar) slowly but continuously. Slovenia succeeded in joining the ERM II surprisingly quickly in June 2004, just two months after its accession to the EU. Participation in the ERM II for the requisite two years was very smooth. There was no change in the central rate (which later became the conversion rate for the euro) and the market rate deviated from the central rate for less than 0.1% (although formal margins of permissible fluctuations were +/- 15%). In short, Slovenia had no problem meeting the convergence criterion for exchange rate stability.

After reviewing nominal convergence developments, we can turn to the real convergence issue. In line with the fact that in the observed period the growth rate of the Slovenian economy was constantly greater than in the EU (or euro area), it is not surprising that Slovenia continuously progressed in real convergence (i.e. in the process of catching-up with the EU GDP per capita average). In 2007, GDP per capita in Slovenia was at a level of almost 90% of the EU average. As a result of the process of its real convergence, Slovenia has already caught-up with some of the southern EU states.

II. National Goals and Strategies for Euro Adoption

1. Before the Global Crisis

Initial reflections on the inclusion of Slovenia in the process of European monetary integration began while still in the framework of the former common federal state. Yugoslavia's ambitions for joining the EU indirectly opened the prospective for Slovenia's inclusion in the European monetary integration mechanisms, including the EMU.

In the period following independence, emphasis was naturally on the creation of the Slovenian monetary system. Begun in the midst of a difficult situation, Slovenia created a specific monetary system based on a managed floating of the exchange rate. It is important to note that Slovenia had to do the pioneering work because this was the first case in recent history when a new national currency was introduced. In this period and up to the middle of the nineties, Slovenia's inclusion in the European monetary integration process was, quite understandably, a secondary plan. Macroeconomic stabilization, in which Slovenia's monetary policy played the key role, was a precondition for any further steps in the direction toward inclusion in the European monetary integration mechanisms.

Interest in joining the European monetary integration was revived again in mid-nineties when Slovenia prepared its strategies for economic development and foreign economic relations. This included the chapter on Slovenia's inclusion in the EMU. On the basis of comparison between the expected costs and benefits of joining the EMU, Slovenia—to put it simply— decided to pursue inclusion in the EMU and, furthermore, identified Slovenia's early inclusion in the EMU as its strategic goal.

Inclusion in the EMU for the NMS later turned out to be mandatory, making the balance of expected costs and benefits of the EMU irrelevant at least from a decision-making standpoint, although it remains analytically interesting. It could be said that the focus of the cost-benefit analysis has shifted. A different question has now become important: What are the expected costs and benefits of an early inclusion in the EMU, compared to a delayed one, and what are the optimal dynamics of inclusion in the EMU?

Regarding the fulfillment of the Maastricht convergence criteria, in the second half of the nineties some of the comparable acceding countries caught up with Slovenia and showed better results, so they started to appear better prepared and, at first sight, perhaps closer to joining the EMU. Slovenia had been using the system of a floating exchange rate and had in the framework of a managed floating exchange rate regime conducted an active exchange rate policy with constant small depreciations of the nominal exchange rate of the tolar. This was in contrast with the requirements of inclusion in the European monetary integration which were based on the successive fixing of the exchange rate. Following the period of lower inflation rates, after 1999, when the value added tax was introduced and some corrections of the administrative prices carried out, Slovenia's inflation rate increased and got stuck in the high single-digit figures. Furthermore, in some of the following years, Slovenia even had the highest inflation rate among comparable transition countries. In comparison with this group of countries, Slovenia in the period between 2000 and 2003 certainly did not exactly look like a favorite in the competition for an early adoption of the euro, rather just the opposite.

After a preceding analysis of Slovenia's suitability for inclusion in the EMU on the basis of optimum currency areas criteria and a readiness assessment on the basis of expected dynamics of compliance with the Maastricht convergence criteria, the Bank of Slovenia, together with the Government of the Republic of Slovenia, adopted the Program for joining the ERM II and adoption of the euro in November 2003[1]. The Program envisaged early inclusion in the euro area and, accordingly, planned for entry in the ERM II in 2004 (soon after Slovenia's accession to the EU) and inclusion in the EMU and adoption of the euro at the beginning of 2007.

At that time, the preference for early euro adoption was not as self-evident as it may seem today in view of Slovenia's successful adoption of the single currency. There were also different camps which favored a slower and more cautious approach that would prolong Slovenia's monetary sovereignty. Advocates for early inclusion in the EMU prevailed in the discussion, resulting in the aforementioned official priority.

Milestones on Slovenia's road to euro adoption were those critical moments which had a decisive influence on the quick adoption of the single currency. In our view, the Program of 2003 was the first of three milestones. From that point on, fulfillment of the Maastricht convergence criteria became the top priority of economic policymakers in Slovenia. Monetary and fiscal policy started to operate more consistently and this improved coordination resulted in considerable lowering of the inflation rate which began approaching the Maastricht reference value almost immediately. A firm commitment to the target date for euro adoption undoubtedly had a favorable effect on the decline of inflationary expectations.

In the preparations for inclusion in the EMU, special attention was paid to the exchange rate mechanism ERM II. The EC presented this interim exchange rate mechanism to the acceding countries as a stable and safe arrangement, which would help their nominal and real convergence in the transitory period preceding states' adoption of the euro. On the other hand, acceding countries saw the ERM II as a necessary evil—not as a fitness club, but as an imposed mandatory waiting room before the adoption of the euro. The ERM II as a potentially unstable and dangerous intermediate regime of a fixed, but adjustable peg was received quite critically in academic circles[2]. Slovenia's ambitions for joining the EMU left no other choice but to enter the ERM II early, since this was a precondition for early adoption of the euro. The strategy was also to exit the ERM II immediately following the mandatory two years' participation by adopting the euro.

The second milestone presented itself in June 2004 when Slovenia (along with Estonia and Lithuania) gained surprisingly swift entry into the ERM II. This was less than two months after Slovenia's EU accession. This was in fact much earlier than at the end of 2004, as was beforehand expected in Slovenia. Such an early entry in the ERM II was important, since it enabled the adoption of the euro in the beginning of 2007. If entry into the ERM II was postponed and delayed towards the end of 2004, the euro, owing to administrative issues, could not be adopted before 2008. Although this is not a formal rule, in practice entry into the EMU and adoption of the euro (probably for fiscal and statistical reasons) occurs on 1 January. Quick inclusion of the three best prepared new EU member states in the ERM II could be interpreted as an indication that the EC and the ECB actually meant to allow early inclusion of the new member states in the EMU, if only they could demonstrate sufficient readiness in terms of meeting the Maastricht convergence criteria.

Slovenia's participation in the ERM II during the required two-year period was surprisingly smooth; the market exchange rate remained extremely close to the central rate and that the foreign exchange market was without tensions. At the time of assessment, Slovenia fulfilled the Maastricht exchange rate stability convergence criterion without issue. It could be argued that Slovenia's successful experience in the ERM II was the result of a combination of "wisdom and luck"—well-chosen macroeconomic policy measures and favorable domestic and external circumstances.

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[1] Banka Slovenije in Vlada Republike Slovenije (2003).
[2] For a critical assessment of the ERM II and the Maastricht exchange rate criterion see Lavrac (2008a), Ch.9.

This, of course, does not mean that in the future when other new member countries participate in the ERM II that the built-in instability of this exchange rate mechanism would not cause serious problems.

It should be noted that Slovenia was also exposed to some risks in its run-up to the euro adoption[3]. At the end of 2005 Slovenia was on the verge of meeting its only unfulfilled Maastricht convergence criterion on inflation. At that time the process of disinflation in Slovenia sped up, while the reference value of this convergence criterion—due principally to a rise in oil prices—increased somewhat, so that Slovenia met the inflation convergence criterion even earlier than expected in November 2005. (Slovenia's fulfillment of the inflation convergence criterion had been officially planned for the spring of 2006.) This led to a change in Slovenia's attitude toward the desired timing of their Maastricht criteria compliance assessment. It was initially in Slovenia's interest that the convergence reports would be prepared as late as possible (traditionally in October), so that Slovenia would have enough time to meet the convergence criterion on inflation. It later became evident that it was in Slovenia's interest that the convergence reports would be prepared as soon as possible, while it was still certain to meet the convergence criterion on inflation. With this in mind, the country asked for an early individual convergence report on its fulfillment of the Maastricht criteria. It was a lucky coincidence that the EU was also in favor of an earlier individual report for the country. Since Slovenia's compliance with all the Maastricht convergence criteria was almost certain, it was also in the interest of the EU to give Slovenia enough time to lay the groundwork for the demanding technical preparations that precede the introduction of the euro.

In our view, this was the third milestone, the last decisive moment on the Slovenia's path to an early euro adoption. As it was believed that Slovenia complied with all the Maastricht convergence criteria and that the assessment would be favorable, the EC and the ECB responded positively to Slovenia's initiative and prepared their Convergence reports in May 2006. Not surprisingly, both reports[4] for Slovenia were positive. The conclusion was that Slovenia fulfilled all Maastricht convergence criteria and was ready for the inclusion in the EMU. Based on this recommendation, in the next two months (June and July) political acceptance to the euro area was confirmed for Slovenia in relevant EU institutions. On 1 January, 2007 Slovenia became the thirteenth member of the EMU, the first and only NMS to adopt the euro until Slovakia assessed in 2009.

How did Slovenia succeed in adopting the euro early when others candidates failed? Or, to put it differently, how was Slovenia's successful path to euro adoption differ from other NMS from CEE?

- Throughout Slovenia's preparations for inclusion in the EMU, economic policies were focused on preserving macroeconomic stability including (relative) fiscal and balance-of-payments equilibrium.

- A gradualist approach to transition which implies a successive and long-term process of structural reforms (instead of the so-called "big bang" approach of quick and radical economic reforms) was the main characteristic of Slovenia's transition process. This approach is often criticized by international institutions but, in the specific case of Slovenia, obviously worked well.

- Project of the inclusion in the EMU and adoption of the euro in Slovenia had wide support among the most important political parties and from the public. According to public opinion surveys, the support to the adoption of the euro was in Slovenia constantly among the highest, if not the highest. The euro adoption project was

[3] Detailed analysis of economic policies in Slovenia before and after its inclusion in the ERM II can be found in Bole and Mramor (2006).
[4] European Commission (2008), European Central Bank (2006).

also supported by the social pact (i.e. the labor unions and income policies). The program of inclusion in the euro area, which was initiated by the preceding government, was taken over and continued by the new government that came into power in 2004. In short, euro adoption was an overall national project which united Slovenians rather than dividing them, as had been the case with some other major national economic programs.

- In 2003, following the adoption of the program for the inclusion in the ERM II and adoption of the euro, an early adoption of the euro became the key priority in the conduct and co-ordination of economic policies. All economic policy measures, including key longer-term structural reforms, were first judged from the point of view of the timely fulfillment of the Maastricht convergence criteria and of enabling the planned euro adoption at the start of 2007.

- Decision for an early inclusion in the EMU and, in particular, the existence of a firm target date for euro adoption (January 1, 2007) was accepted by the markets and, by economic agents more generally, as realistic and credible. This assessment positively influenced inflationary expectations and resulted in the lowering of the inflation rate. This led to the timely fulfillment of the Maastricht convergence criterion on inflation, which posed the only serious hurdle in Slovenia's run-up to euro adoption.

With the advantage of hindsight it can be concluded that the chosen way towards euro adoption in Slovenia was broadly speaking the right one for this country. It is hard to argue this point, when one considers that Slovenia succeeded in joining the euro area in what is, theoretically, the shortest possible time following its accession to the EU. Considering the fact that after the EU accession a country has to participate for at least two years in the ERM II, in addition to the fact that according to an unwritten rule the inclusion in the euro area always takes place at the beginning of the year, the first theoretically possible date for the adoption of the euro for Slovenia, as well as for the other NMS was 1 January, 2007.

The Slovenian project for inclusion in the EMU and adoption of the euro was well prepared and executed. This point is underscored by Slovenia's successful and rapid inclusion in the euro area. The introduction of the euro was technically very smooth and people quickly acclimated to its practical use, although the mental switchover to the euro is naturally going to be a longer-term process. In spite of expectations of the possible price increases as a result of euro adoption, these fears were not realized. Price increases due to euro adoption have not been significant[5]. The story is similar to that of the other euro-area countries. People felt price increases, while official statistics did not detect and record them. Price increases were concentrated only in certain groups of expenses, particularly those goods and services that are present in everyday life, leading people to be more sensitive to their price developments.

2. The Impact of the Global Crisis

The global financial crisis has shifted the cost-benefit ratio associated with EMU membership. It has undoubtedly increased the attractiveness of participation in the euro area which has prompted other NMS to speed up their plans for joining the euro area. However, the prospective for enlarging the euro area in the near future is currently uncertain. There are several issues to be discussed here: first, the readiness and ability of the euro candidate countries to meet the Maastricht convergence criteria in the light of the crisis; second, the willingness of the present euro area members to admit newcomers

[5] It is officially estimated that the adoption of the euro in Slovenia contributed around 0.3 % points to the inflation rate (Banka Slovenije, 2007; see also Urad RS za makroekonomske analize in razvoj (2007).

at a time of tension and uncertainty; and third, the willingness of the EU to adjust the Maastricht convergence criteria to suit the new circumstances and provide for expedient enlargement of the euro area. At the moment both scenarios seem equally possible; inclusion of NMS in the euro area could speed up or be postponed.

That the global financial crisis has changed prospective costs and benefits of the EMU membership is undisputed. It could be argued that it increased both costs and benefits, but overall the benefits have increased more and enhanced the attractiveness of participation in the euro area at times of crisis. Although it is clear that the single currency cannot protect countries from the inevitable consequences of the crisis (credit crunch, recession and unemployment), it can protect states from additional problems related to the existence of their own national currencies. The main advantage of being in the euro area is a shared single currency, or, to put it differently, in giving up the national currency. Euro area countries do no longer have their national currencies and exchange rates that the speculative capital could attack. The main channels[6] through which the euro as the single currency protects euro area countries from the negative consequences of the crisis are the following:

- prevention from speculative attacks against national currencies,
- prevention from having to change interest rates in the wrong direction,
- prevention from major shifts in the currency structures of portfolios,
- the use of the euro as the second most important world currency,
- easier access to financing on the international financial markets,
- easier access to financial support from the EU and EMU.

On the other hand, possible drawbacks of euro area participation at times of crisis could be that a country is more susceptible to import problems from other euro area countries. Deeper integration in the euro area financial markets leads to a loss of flexible adjustment mechanisms[7] (loss of the interest rate and exchange rate instruments) to deal with the impact of the crisis. This is an argument relevant to large EU countries but not states with small open economies, such as the NMS.

The global financial crisis will have an impact on the dynamics of inclusion in the euro area of those NMS that have not yet adopted the euro. Although their individual positions are different, generally speaking, NMS will not be in a position to adopt the euro in the next couple of years simply because they will not be able to meet the Maastricht convergence criteria. Some states have problems with inflation, others with their fiscal positions (which will undoubtedly worsen during the crisis) and some are afflicted with both. Some have problems with sustaining their currency boards, while others will have problems with their future participation in the ERM II. This inherently unstable exchange rate mechanism might prove to be particularly dangerous at times of crisis-induced volatility. It seems that the strategy is to delay the ERM II entry to »T-2«, just two years before their planned inclusion in the EMU. Since the target date for euro adoption in most of these countries is unknown, it is equally hard to define the optimal timing of their entry in the ERM II.

As a consequence of the crisis, most of these countries want to speed up their accession to the EMU and adoption of the euro. The EC and the ECB would, on the one hand, look to speed up euro area enlargement in order to better protect these countries from the consequences of the crisis. The EU will be forced to help them even if they remained outside the euro area. On the other hand, at times of crisis the euro area countries would probably be reluctant to accept new—supposingly more problematic—members and to assume additional responsibilities, burdens and risks, as they already have enough problems with themselves. Which of these views will prevail is hard to predict and is

[6] These channels are analysed in more detail in Lavrac (2008b).
[7] Systematic analysis of alternative adjustment mechanisms available to the EMU member countries is given in European Commission (2006).

contingent upon the depth and duration of the present crisis. However, the pessimistic scenario seems more likely.

Even if the EU wanted to help the euro candidates by softening the Maastricht convergence criteria, this would be against the principle of equal treatment of the old and new EMU members. Also, even assuming the existence of political will, convergence criteria are part of the EU Treaty and can be changed only through complicated and lengthy procedures. By the time such changes were operational, the crisis would hopefully already have ended. However, the EU has, so far, explicitly rejected the idea of softening the Maastricht convergence requirements (which so far has concentrated only on one aspect—shortening of the requisite period of ERM II participation).

What is left for the new EU countries that have not yet adopted the euro? One possibility is unilateral Euroization, which is a shortcut to the adoption of the euro and avoids the need to meet the Maastricht convergence criteria. It can be expected that in the current crisis the push for unilateral Euroization will intensify in these countries, although the EC is strongly against this solution for a variety of economic, legal and political reasons. On the other hand, the crisis is exactly the kind of argument upon which these countries can build their case for unilateral Euroization. The crisis calls for quick solutions, which the regular path via Maastricht criteria does not provide for. An additional argument is that some of the unstable or potentially crisis-prone areas (Kosovo, Montenegro) were allowed this solution and were even actively supported by the EU in their euro adoption.

III. Institutional and Policy Environment regarding the Euro Adoption

1. Before the Global Crisis

The switch from a national currency to the euro is an important issue for individual citizens, households, banks, firms and other institutions, or—from another perspective—for consumers, savers, taxpayers, investors, governments and their agencies, etc., touching upon their practical economic, legal and political interests. Euro adoption is therefore not only a technical matter of fulfilling the Maastricht criteria, but also a political process involving different institutional players. The political economy view of the process of euro adoption focuses on interactions between various institutional players, which, starting from their interests, and the balance of power to support them, determines who ultimately gains or loses most from the euro adoption[8]. As the introduction of the single currency leads to even stronger integration in the single market, particularly in the euro area financial market, and due to the enhanced transparency of costs and prices, the euro leads to more competition and therefore favours the winners of market competition. These are to be found within the younger, more active, dynamic and competitive parts of the population. Some other segments of the population (unemployed, older, fixed income earners) are expected to be among the losers, at least relatively speaking, of the euro adoption process. To summarize, under the surface of preoccupation with technicalities of the euro adoption, there is an implicit political game of negotiations between relevant political actors in a given society. This has an impact on the crucial formal decisions on the path to the euro adoption and on their dynamics.

- The mode in which counterparts express implicit or explicit doubts about the readiness of the candidate countries to join ERM II or the euro area

Before the introduction of the EMU, the EC's views on the dynamics of including candidate countries in the mechanisms for European monetary integration have not been elaborated. It was simply too early for them to have a strong opinion on the subject or even to seriously consider the issue. Only after the creation of the EMU and introduction of the euro in 1999 did the EC formulate its strategy regarding the dynamics of including candidate countries in the EMU. For the next couple of years it was characteristic that the EC was not in favor of early inclusion of candidate countries in the EMU. In fact, it was even not in favor of providing for their early entry in the ERM II soon after gaining membership in the EU. Various pessimistic messages and negative signals were sent to these countries concerning the expected speed of their entry in the ERM II and in the EMU. The EC warned them of their transition-specific differences, claiming they should concentrate on meeting the Copenhagen criteria for accession to the EU, rather than focus on complying with the Maastricht criteria for joining the EMU. In addition to nominal convergence as embodied in the Maastricht convergence criteria, they were also reminded to monitor the so-called real convergence or "catching-up" in terms of economic development with the EU states. This gave rise to an interesting academic debate: Is the similarity in the level of economic development a necessary precondition for successful participation in a monetary union? If this holds true, the candidate countries would have to wait for decades on the EMU's doorstep, and the EC would have a strong argument for delaying their ambitions for early entry in the EMU (even if they succeeded in fulfilling the Maastricht convergence criteria relatively soon following accession to the EU).

In the proximate period of 2003-2005, there was a discernable shift in the EC's views on the dynamics of including candidate countries in the EMU. Instead of a reluctant attitude, the EC adopted a more neutral stance concerning early entry of the candidate countries in the euro area. It could be concluded that the EC actually would not block efforts to

[8] For the social impact of the euro adoption see Galgoczi (2005) and Lavrac (2007).

expedite inclusion of NMS in the euro area if they succeeded in fulfilling the Maastricht convergence criteria on a healthy and sustainable basis. It was also to be understood that the new countries would actually join the EMU according to their individual readiness and not jointly as a group. Those candidate countries which are best prepared should go first without having to wait for the other, less prepared candidates.

This approach was actually adopted and Slovenia was the first euro candidate country to be treated individually when assessed for its readiness to adopt the euro. This individual approach was the basis for Slovenia's request for an individual early assessment of its fulfillment of the Maastricht convergence criteria.

Later on, it could be noticed that the emphasis shifted particularly on the issue of the sustainability of compliance with the nominal convergence criteria, while the issue of real convergence became less pronounced.

Presently, in the context of the global financial crisis, the views of the EC and the ECB can be interpreted as saying that the residual euro candidate countries are not yet ready to join the EMU, and furthermore, will not be ready to join during the next few years. Concerning the timing of their ERM II entry, these European institutions are at the moment less explicit, but is seems that they are not exactly putting pressure on the euro candidate countries to join the ERM II as soon as possible. It is quite understandable that—at least for the countries with floating exchange rates, at times of turbulences in foreign exchange markets—joining the ERM II might be a rather risky option.

- The importance of concerns regarding the general economic stance/perspective of the country and/or regarding indicators other than the Maastricht criteria

The general economic stance and perspectives of the euro candidate countries are supposed to be captured by the concept of nominal convergence (i.e. by the Maastricht convergence criteria). There are also some other lesser known indicators[9] of readiness defined in the Maastricht Treaty, such as the position of the current account balance of payments, developments in unit labour costs and other price indices, etc. Real convergence, although not a formal prerequisite, is still an additional consideration. And finally, optimum currency area (OCA) criteria point to the longer-term, structural suitability of a country to join the process of monetary integration in general. In Slovenia, in its process of joining the EMU, the problem was only to meet the Maastricht convergence criteria (in fact just to fulfill the inflation criterion), while other indicators, including real convergence and OCA criteria, pointed to a high degree of readiness and suitability of the country to join the EMU.

- The handling of the trade-off between quantitative and qualitative criteria; the role of more or less fuzzy judgments and of interpretations (e.g. of the »sustainability« criterion)

Even qualitative indicators and value judgments of readiness for euro adoption are more or less based on some objective quantitative indicators. In Slovenia, one such specific issue was the problem of how to define a sound ERM II entry strategy (optimal timing), because at that time (before 2004) it was not clear how the rules of the ERM II and their application in the Maastricht exchange rate stability criterion in particular were to be interpreted and applied in practice. Later on, these issues were clarified, so it was easier for the next euro candidates to have better informed strategies on the optimal timing of their ERM II entry.

[9] These less known indicators are defined in Article 121 (1) of the EU treaty. The Treaty mentions »other factors« that should be taken into account when assessing the degree of convergence, such as »the results of the integration of the markets, the situation and development of the balance of payments on current account and an examination of the developments of unit labour costs and other price indices«.

A rather ambiguous issue was also the concept of »sustainable« nominal convergence. The underlying idea was rightly to expect that the candidates would not just concentrate on meeting the Maastricht convergence criteria at the time of their assessment, but also demonstrate a capacity to sustain them in the future. There are a couple of problems here. The first concerns defining and measuring sustainability and, particularly, how to reinforce the sustainability of nominal convergence? Second, even euro area countries, once in the EMU, do not always comply with the individual Maastricht criteria and in many cases breach them without being seriously sanctioned.

In the case of Slovenia, the EC and the ECB assessed its nominal convergence as sustainable. The assessment of the Convergence reports in May 2006 was positive and Slovenia was admitted shortly thereafter to the euro area. Just half a year after the introduction of the euro, the inflation rate in Slovenia increased to become the highest in the euro area, Slovenia was criticized for its performance in the EMU. However, the EC and the ECB forgot to shoulder their share of responsibility, since they also mistakenly assessed Slovenia's future inflation rate as sustainable.

- The interplay between the different »constituencies« in the EU (ECB, EC): are their divergences complicating the negotiations?

Looking from the point of view of the euro candidate countries, the views of both relevant EU institutions were more or less synchronized. Major differences in their approaches were not discernable and their divergences (evident in the treatment of the ERM II mechanism as a benchmark for the Maastricht exchange rate stability criterion) were minor and not crucial for the prospectives of these countries for joining the euro area. The impression was that the EC actually led the process, while the ECB was focusing more on detailed technicalities. It is interesting to note that in the proximate period of 2003-2005, even the IMF, which is notoriously strict and conservative in its views, seemed to be more understanding and supported the case of the candidate countries for earlier adoption of the euro[10].

- Is the euro strategy treated as a strictly economic matter, or it is considered an area where politics and diplomacy are of prime importance?

The euro strategy in Slovenia was firstly, but not strictly, an economic matter. All the main decisions and technicalities surrounding them were actually in the hands of economic experts in two responsible institutions, the Slovenian central bank (Bank of Slovenia) and the Ministry of Finance. However, other political players, such as the President of the Republic, the Prime Minister, parliamentary parties and other officials occasionally expressed their views and value judgments on the strategy and concrete steps towards the inclusion in the EMU. Social partners, in particular the labour unions, also took their share of interest and responsibility in the issue. Diplomacy played an additional part in lobbying for Slovenia's interests where and when it was deemed necessary.

- Synergies/conflicts between domestic actors (essentially the Ministry of Finance and the national banks) and incidence of the shaping of effective negotiation policies

In Slovenia, the period before 2003 was punctuated by conflicts between the two institutions crucial to euro adoption in the country. They expended a considerable

[10] See for example Schader (2005). This attitude has been recently confirmed again as the IMF in April 2009 expressed its support for the unilateral euroization of the new EU member countries in the circumstances of ongoing global crisis.

amount of energy blaming each other and ignoring their own responsibility for the high inflation (high single digit figures in the period 2000-2003). After the Programme of 2003 was consensually adopted, they started working hand in hand, constructively divided tasks and responsibilities among themselves, and defined clear priorities for macroeconomic polities in their charge. As a result, these synergies contributed almost immediately to the reversal of the trend. Inflation started to approach the required Maastricht reference value and caught up with it in two years' time.

2. The Impact of the Global Crisis

The ongoing financial crisis has seriously shaken the fundamentals of the global financial system. It is more than clear that global financial structures will have to be rearranged or even wholly reconstructed[11]. This involves redefining the roles of the main international players, such as the International Monetary Fund (IMF), the World Bank, the Bank for International Settlements and many other international institutions in addition to the key national players in the financial markets (central banks, ministries of finance, banks, other financial institutions, etc.). In terms of substance, the financial sector will change in both quantitative and qualitative dimensions. Among the main issues to be redefined are national and international regulation and supervision, financial instruments (such as derivatives), moral hazard issues in the financial sector and many others. At this moment it is still hard to say in which directions these changes will finally go.

The crisis itself is not responsible for the concentric monetary structure of Europe; however, the impact of the crisis effectuates additional concerns in this respect. Currently, there are several »levels« of monetary integration in Europe. First, the euro area countries, which seem to be best protected from the crisis thanks to the single currency, have easier access to finance on the financial markets and enjoy both support and solidarity among themselves and from the ECB. Second level is the euro candidate countries which participate in the ERM II. On the one hand, they are perhaps in the most vulnerable position, since they are exposed to inherent instability of this exchange rate mechanism, which is particularly dangerous at times of increased financial volatility and uncertainty in the financial and exchange rate markets. However, as most of them apply the system of a fixed exchange rate by way of a currency board, they seem almost protected from the exchange rate instability in the short-term. Here, the question is whether they can sustain the unchanged parity of the currency board in the context of economic and financial instability, which will test their willingness and ability to sustain the parity of the currency board. There is also the question whether the ERM II countries will have better treatment in terms of solidarity and support than the other euro candidate countries outside the ERM II, which are presently due to their flexible exchange rate systems obviously even more exposed and vulnerable. These countries form the third circle of the EU countries. Although they are less than the first two groups of countries in the purview of the ECB, they are at the moment the least stable ones. Their instability has a feedback impact on the stability of the overall euro area and the EU, so the ECB and the EC (or the national states behind it) have to support them financially, whether they like it or not. There is a certain division of tasks here between the European institutions and the IMF. While the ECB is directly in charge of the euro area countries, and the EC of all the EU countries, the IMF focuses on supporting those among the EU members that are not yet part of the euro area (both participants and non-participants in the ERM II). The fourth circle are the non-EU countries, EU candidate countries and other potential future EU member countries which the EU also has to support in order to prevent contagion of other EU countries owing to their vulnerabilities and possible collapse. At the moment, the approach and organization of various levels of

[11] This will also include some changes in the governance structure of the EMU (see European Commission, 2008).

engagement and support to these different levels of monetarily integrated EU countries seems rather ad hoc and not based on a clear strategy or firmly established rules.

There is a certain paradox evident in the current discussion surrounding the enlargement of the euro area. On the one hand, the crisis calls for rapid inclusion of the euro candidate countries in the euro area. On the other hand, in the context of ongoing crisis, this seems rather risky, both from the point of view of the euro candidates themselves and from the point of view of the incumbent members of the euro area. The latter are preoccupied with their own problems and are unwilling to take additional risks and responsibilities. The former are in a situation where it has actually become difficult to prepare a rational strategy regarding the timing of their euro adoption. It is not just the fact that preparing a strategy for joining the euro area diverts political and administrative attention from what are currently more pressing issues of »survival« in the crisis. It is also the other, more demanding issue of how their national strategies for inclusion in the euro area should be adjusted to the realities of our new circumstances.

It is not difficult to come to the conclusion that the attractiveness of the euro area has increased due to the global financial crisis, which, taken by itself, speaks strongly in favor of earlier or even immediate adoption of the euro. But for the euro candidate countries, there are also considerable risks involved in their attempts to speed up the process.

Attempting to meet the Maastricht convergence criteria hastily or immediately, may be self-defeating in this time of crisis. The fiscal needs will increase significantly due to the crisis, so trying to keep them within the limits of Maastricht (and/or SGP) benchmark would not only be demanding, but also very costly in terms of preserving the flexibility of counter-crisis measures and social stability in the country. Fiscal expansion which the crisis measures will require will also result in their worsened public debt figures. Inflation rates, although now generally low because of the crisis, might increase in the near future or after the crisis, as current monetary measures worldwide contain the seeds of future price increases. However, according to the Maastricht rules, their relative performance regarding inflation will be crucial.

The ERM II entry is a kind of »Catch 22« issue, at least for those euro candidates with the floating exchange rate systems. Theoretically, the optimal strategy would be to enter the ERM II just two years before the planned inclusion in the euro area, (i.e. when a country can assume that all other Maastricht convergence criteria would be met). The other side of the same strategy is of course to exit this exchange rate mechanism as soon as possible (after participating for two years) by adopting the euro. But in practice, in the current circumstances it is very difficult for these countries to have a firm plan for joining the euro area (i.e. a fixed date of the euro adoption). If they take a "wait and see" approach and stay out of the ERM II, they are actually prolonging the time of their euro adoption. If they jump in the water and enter the ERM II, they will get exposed to its volatilities and remain particularly vulnerable in the interim period prior to adopting the euro. Provided that the timing of their euro adoption is not guaranteed, they can for an indefinite time remain caught in the ERM II without being able to adopt the euro, which might be the worst of all possible outcomes. The conclusion is that, at this time, it is extremely difficult to prepare a rational, sound and safe strategy regarding the timing of entry in the ERM II and the euro area. There are simply too many uncertainties, both externally and internally, at the moment.

Probably, in the last instance there is not much that the euro candidates can do independently to speed up their euro adoption if they want to adhere to the Maastricht rules. They will have to be supported also (or mostly) from the outside, by the relevant European political players and institutions, including by incumbent countries.

Conclusion: Progress, Perspectives, Recommendations

Even before the onset of the crisis, national EMU goals of the euro candidate countries turned out to be rather unsustainable. This is evinced by the fact that, in some of these countries, the plans for their euro adoption have been postponed, even in some cases several times, and from the fact that some of them do not dare to come up with a clear strategy on the dynamics of their inclusion in the euro area, which would include also setting a target date for euro adoption. The main problems are their inadequacies in view of meeting the Maastricht convergence criteria. Some of them had prevailing problems with inflation, others with fiscal deficits (or both) and some have not yet joined the ERM II.

Changing realities after the onset of the crisis made matters much worse. If anything, the Maastricht criteria will be harder to achieve, making early membership in the euro area a more distant objective. As discussed above, in the context of the crisis it is extremely difficult even to prepare a rational strategy on the timing of euro adoption. At this moment it is also difficult to say which of the currently adopted regimes (currency boards, floating exchange rates with inflation targeting etc.) is better suited to bring individual countries closer to euro adoption.

There are just two main probable paths for speeding up inclusion of the euro candidate countries in the euro area. The first is in the hands of the EC and the ECB. They should first agree that it is in the overall interest of the EU to speed up the dynamics of euro area enlargement. Instability of the euro candidate countries is not in anybody's interest, and these countries will have to be financially supported anyway. In this light, Maastricht criteria or their interpretation should be softened in order to adjust to new circumstances. Throughout the world, many rules have been changed, abandoned or made more flexible. Maastricht inflation criterion should be reviewed in its »three best performing« benchmark, the fiscal deficit criterion should be changed from the present absolute benchmark to an average (or something like »three best performing ones«) and there are many technical details which could be changed in the Maastricht exchange rate stability criterion (rules and interpretations of the ERM II and their application in the exchange rate stability assessment).

At the moment, most of the ideas concentrated on the ERM II rules, concretely that the required time spent in this interim exchange rate mechanisms before the euro adoption should be shortened from two years to a year or even less. However, for the moment the EC and the ECB show no inclination to change the rules and increase flexibility for the duration of the mandatory participation in the ERM II. The argument is that in our present unstable times, any changes to the rules would simply lead to more instability, which would ultimately hurt the euro candidate countries themselves. To conclude, the prospective for softening the Maastricht criteria seem very weak at present.

The second possible course of action is in the hands of the euro candidate countries themselves. They could revive the idea of unilateral Euroization as a way to speed up euro adoption. In this case, they would simply bypass the EU rules and altogether avoid the need for meeting the Maastricht convergence criteria. Technically, this step is not exceedingly difficult and can be achieved in a relatively short timeframe. The EC and the ECB are strongly against the idea of unilateral Euroization, but if some euro candidate countries pursued this measure, there is very little these institutions could do about it. However, such countries would risk some possible retaliation from the EU institutions somewhere along the way. The argument for unilateral Euroization can be that the crisis is a state of emergency that calls for urgent, quick and decisive steps. If in the pre-crisis time Euroization was allowed for in some problematic regions (Kosovo, Montenegro) just to prevent their further instability, the same argument could now be applied to the present euro candidate countries.

There is also a sensitive political issue involved in this discussion. If all the euro candidate countries joined their forces and acted in concert, it would be easier for them to defend their arguments. However, some are more and some less vulnerable to the impact of the global crises, so not all of them are willing to be seen as being in the same boat. As this seems to be the case, the consensual approach is not very likely, which makes individual countries' arguments for unilateral Euroization much weaker.

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Appendix

	1999	2000	2001	2002	2003	2004	2005	2006	2007
HICP (EU harmonized inflation index)	6.1	8.9	8.6	7.5	5.7	3.7	2.5	2.5	3.8
Budget deficit/surplus - % of GDP (general government budget balance)	-0.6	-1.2	-1.3	-2.8	-1.3	-1.3	-1.0	-0.8	0.3
General government gross debt, % of GDP	22.2	22.9	24.8	25.6	24.5	24.7	24.3	23.7	21.5
Long-term interest rates (10-year government bonds) – end of year	-	-	-	-	6.4	4.7	3.8	3.9	4.5
Exchange rate - % change against the Euro	-4.6	-5.6	-5.6	-4.0	-3.2	-2.2	-0.3	0.0	0.0
Price level compared to the EU average (Eurostat)	74.1	72.8	73.9	74.4	76.2	75.5	76.0	76.8	77.8
GDP per capita at PPS as % of EU average (Eurostat)	80.6	79.8	79.7	82.3	83.4	86.4	87.4	87.6	89.2
GDP growth	5.4	4.4	2.8	4.0	2.8	4.3	4.3	5.9	6.8
Employment rate (15-64)	62.2	62.8	63.8	63.4	62.6	65.3	66.0	66.6	67.8
Export growth	-0.3	18.2	9.0	5.9	2.9	13.3	12.6	16.4	15.8
Current account - % of GDP	-4.0	-3.2	0.2	1.1	-0.8	-2.7	-1.7	-2.5	-4.2
FDI - % of GDP	0.6	0.8	2.0	7.4	1.1	2.5	1.6	1.7	3.0
FDI from EU countries - % of FDI	-	-	87.1	81.7	70.1	73.9	75.6	77.8	83.2
Gros external debt (private + public) - % of GDP	47.7	51.4	50.3	49.8	52.7	56.7	71.4	77.6	100.8
Net external debt (private + public) - % of GDP	1.9	4.3	-6.9	-11.0	-6.8	-3.3	3.2	10.9	18.0
Trade with EU countries, % of total (exports)	66.1	63.9	62.2	59.3	67.0	66.0	67.9	70.2	70.6
Trade with EU countries, % of total (imports)	68.9	67.8	67.6	68.0	75.6	79.5	80.9	81.2	78.9
Bank credit growth (% change)	19.2	16.9	17.6	14.3	13.9	19.7	20.8	21.4	25.2
M1 (% change)	17.9	9.3	29.0	6.4	11.3	10.5	22.8	9.0	4.0
M3 (% change)	10.2	17.2	29.4	10.6	6.5	7.6	-12.0	8.1	-7.7

Interbank interest rates, monthly averages for the corrersponding year	8.6	10.9	10.9	8.7	6.9	4.7	4.0	3.6	4.3
Share of deposits and credits denominated in Euro	-	-	-	-	-	-	-	-	-
EU banks ownership of local banks, % of total assets	-	-	-	34.7	36.0	36.2	38.7	40.1	41.6
Stock market index - % change	5.9	0.1	19.0	55.2	17.7	24.7	-5.6	37.9	78.1

Monthly (starting from June 2008) and quarterly (starting from IQ 2008) data

5-years CDS for Government debt (monthly since January 2007)	16.0	20.0	21.0	22.0	100.0	100.0	100.0
	1 Q/2008		**2 Q/2008**		**3 Q/2008**		**4 Q/2008**
GDP growth, % change from the same quarter of the previous year	*5.7*		*5.5*		*3.9*		*-0.8*
	6/2008	**7/2008**	**8/2008**	**9/2008**	**10/2008**	**11/2008**	**12/2008**
Industrial production, % change from the same period of the previous year	2.4	-2.0	-6.9	5.5	-2.8	-13.9	-14.3
Unemployment rate	6.4	6.5	6.5	6.3	6.6	6.7	7.0
HICP (EU harmonized inflation index), % change from the same month of the previous year	6.8	6.9	6.0	5.6	4.8	2.9	1.8
Exchange rate - % change against the Euro, monthly (exchange rate = Euro)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	1 Q/2008		**2 Q/2008**		**3 Q/2008**		**4 Q/2008**
Government debt - % of GDP	*20.9*		*19.4*		*19.3*		-
	6/2008	**7/2008**	**8/2008**	**9/2008**	**10/2008**	**11/2008**	**12/2008**

Long-term interest rates (10-year government bonds)	4.9	5.0	4.7	4.7	4.7	4.6	4.6
Export growth – monthly data compared to the same period of the previous year	4.2	4.9	-8.4	11.7	-0.5	-14.1	-15.3
Current account - change (in mio Euros)	-127.0	-194.0	-145.0	-117.0	-234.0	-151.0	-346.0
FDI - % change compared to the same month of the previous year	-39.9	-52.0	13.8	-94.1	-38.4	84.9	44.5
External debt (government + private) - % of GDP	105.4	106.5	107.8	107.5	108.1	106.5	105.0
Bank credit growth, % change from the same period of the previous year	24.0	22.4	21.0	20.6	19.8	16.7	16.2
M1 - % change from the same period of the previous year	0.7	-4.6	-3.5	-0.9	-2.1	0.2	-3.9
M3 - % change from the same period of the previous year	3.2	1.5	0.7	2.8	0.9	9.6	8.3
Interbank interest rates	4.9	5.0	5.0	5.0	5.1	4.2	3.3
Stock market index (in thousands)	7.9	7.8	7.4	6.2	5.0	4.3	3.7
Indicator of country risk premium (monthly since January 2007)	-	-	-	-	-	-	-