IMPLICATIONS OF THE EURO ADOPTION IN THE EU COUNTRIES. CASE STUDY: SLOVAKIA vs SLOVENIA

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Abstract:
The European integration process continues to amaze both its supporters and critics, this recording a too fast rhythm for some states and too slow for others. This process of integration becomes very important for the 500 million people directly involved but also because Europe accounts for a quarter of the world economy, half of world trade and one third of global capital markets, the European integration influencing life of most of the non-Europeans.
The purpose of this paper is to provide an accessible presentation of the events afferent to this process to better understand the reasons that led to the introduction of the euro, the existing theories and controversies, my approach being based on economic principles, since the process started with the economic integration even since 1948, when the European Organization for Economic Cooperation was established. But the economy does not mean everything, so I will analyze also political, cultural and historical factors.

Keywords: Euro, EU countries, Slovakia, Slovenia.

JEL Classification: E00

INTRODUCTION

In June 1988, the European Council confirmed the objective of progressive realization of Economic and Monetary Union (EMU). It also assigned to a committee chaired by Jacques Delors, the then President of the European Commission, a mandate to study and make proposals on concrete steps to achieve this union. From this committee were part national central bank governors of the European Community, as Alexandre Lamfalussy, general manager at the time of the Bank for International Settlements (BIS), Niels Thygesen, professor of economics in Denmark and Miguel Boyer, the then President of Banco Exterior de España.

The European integration process continues to amaze both its supporters and critics, this recording a rhythm too fast for some states and too slow for others. This process of integration becomes very important for the 500 million people directly involved but also because Europe accounts for a quarter of the world economy, a half of world trade and one third of global capital markets, and how European integration influences life of most of the non-Europeans.

The purpose of this paper is to provide an accessible events for this process to better understand the reasons that led to the introduction of the euro, the existing theories and controversies, my approach being based on economic principles since the process started with the economic integration even since 1948, when the European Organization for Economic Cooperation was established. But the economy does not mean everything, so I will analyze also political, cultural and historical factors.

Why is it important to have a single currency? The answer to this question will be given throughout the paper, along with arguments, reasons, advantages and disadvantages of placing this currency in the old and new member states.

HISTORY OF THE EMU

To analyze the developments before and after the single currency, there should be taken into account the dynamics of various forms of national regulation and supervision of financial activities, the new challenges caused by the introduction of the euro, hoping to finally manage to meet another question that determined me to analyze and investigate this issue and that is: will the Euro be able to become a currency used in all the world like the U.S. dollar? Why is it so important and what has happened so far?

The signing of the European Constitutional Treaty by the 25 heads of state on October 29, 2004 in Rome caused to the public a new interest and enthusiasm for the creation of communities, despite the criticism and problems encountered during the preparation of the 2003 Convention activity. The positive outcome of the Spanish referendum in February 2005, the same correction to the Treaty and successive approvals by Spain, Greece, Hungary, Italy, Lithuania, Slovenia, Austria, Slovakia and Germany in the spring predicted extension of the integration process. At the end of May 2005, the victory of the “not” from the French referendum, followed by the refusal of the Dutch seem to have caused an irreversible process of integration crisis, the crisis confirmed by the Heads of States and Governments of the EU on 17 June in Brussels. During the summit there was actually made a decision for a period of reflection which relates the process of correcting the European Constitutional Treaty on the conclusions reached in 2007, while at the same time, state leaders failed to reach agreement on the “Financial Perspectives 2007-2013. "

Paradoxically, precisely ‘the crisis of Europe’ "brings to light (if needed), the timeliness and importance of my topic. The treatment of this argument is actually characterized by a European perspective, but each country's characteristics and problems arise from the complex game that explains the process of integration.

The thorough study of the history, instruments and problems encountered so far in this process, allows the assertion that the European crisis of 2005 is not ‘a political tsunami’, but rather offers suggestions for lucidly managing and overcoming it. Existing literature on the early history of European integration shows that the existence of a pause does not mean the end of the integration process.

In this paper, “L'economia del'Union Europea”, Baldwin and Wiyplos demonstrate in the historical and institutional part the wrong (most times) way in which this process’s objectives have been pursued,the authors focusing on clarifying the constant reference schemes considered to be the most appropriate, to assess and choose different alternatives, that states and citizens must confront each day in an evolving process of integration, that is not and should not be closed.

To understand, explain and analyze the phenomena that took place and almost characterized the history of the EU is very important to study the reference phases of the integration process, namely:

- the first period incurred during 1945-1959 when the EU is born, in order to end the more frequent and bloody wars of neighboring countries. In the '50s the European Coal and Steel Community begins to unite European countries economically and politically, to ensure a lasting peace. The six founding members were represented by: Belgium, France, Germany, Italy, Luxembourg and the Nordic countries. But the '50s were characterized by war between Western and Eastern Europe. Protests in Hungary against the Communist regime were resumed by the Soviet army in 1956. The following year (1957) the Soviet Union becomes a leader in the conquest of space, launching the first artificial satellite (Sputnik 1). Also in 1957, the Treaty of Rome established the European Economic Community (EEC) and the Common Market.

A comprehensive description and a thorough analysis of this and of other steps will be undertaken during the preparation of research paper:

- **the 1960-1970 period** represents a decade of economic growth. In the '60s we assist at the birth of a genuine own “youthful culture” by musical groups such as the Beatles, which draws out the teens on all lovers of music, helping to fuel a cultural revolution that will later lead the new generation . During this period the economy recorded significant growth, because EU countries do not apply customs duties in mutual trade. May 1968 is known for the world student movements in Paris, for the many changes occurring in social and the behavior of “the '68 generation”.

- **the 1970-1980 period** - a growing community - the first enlargement. With the endorsement of Denmark, Ireland and Great Britain on January 1st, 1973, the number of EU Member States increased to nine. The short but very bloody Israeli conflict of October 1973 triggered many problems in Europe. The fall of the Salazar regime in Portugal in 1974 and the death of General Franco in Spain in 1975, signaled the end of the last right-wing dictatorships in power in Europe. The regional community policy begins to allocate significant sums to fund new jobs and construction or improvement of infrastructure in poorer areas. The influence of the European Parliament on EU activities increases and in 1979 for the first time the universal suffrage was elected."

- **the period 1980-1989** - Europe changes its appearance (Fall of the Berlin Wall). Following the strikes on the Danzica naval yards in the summer of 1980 the Polish Solidarity union leader Lech Waleso become known in Europe and worldwide. In 1981 Greece became the 10th EU member state, with Portugal and Spain joining in 1986. Also in 1986 the Single European Act was signed, which set up a comprehensive program for six years, set in order to solve the problems that still stood in the way of smooth trade between EU Member States, thus creating the Single Market. A great political upheaval occurs on 9 November 1989 when the Berlin Wall is knocked down, after 28 years opening up the borders between East Germany and West Germany.

- **from 1990 to1999** - a Europe without borders. The fall of communism in Central and Eastern Europe led to a rapprochement of European citizens. In 1993, the Single Market is filled with those, "four freedoms": free movement of goods, services, labor and capital. The '90s are characterized by the signing of two important treaties, namely: the EU's Maastricht Treaty (1993) and the Treaty of Amsterdam (1999). Europeans are concerned about how it will protect the environment, and European countries will be able to cooperate on defense and security. In 1995, 3new countries join the EU: Austria, Finland and Sweden. A small village in Luxembourg gives its name to the agreement, Schengen "which allows citizens to travel freely between countries without a passport". Millions of young people begin to study abroad with financial support from the EU. The communication process is simplified, as more people begin to use the Internet and mobile phone.

- **From 2000-present** - a decade of expansion. The Euro becomes the new currency for many Europeans. September 11, 2001 is synonymous with the war against terrorism following the attacks suffered by Americans on the twin towers in New York and EU countries' undertaking of closer cooperation to combat crime. By the other 10 countries' joining the EU in 2004, the political boundary between Western and Eastern Europe is finally lifted, more and more citizens feel that it is time to give Europe a new constitution. However it is not easy to find a common agreement on the type of constitution, debates continue about the future of Europe today. On 1 January 2007 two other Eastern European countries, Romania and Bulgaria join the EU, bringing the number of Member States currently at 27. Remaining candidate countries are Croatia, Yugoslavia and Turkey.

THE OPTIMUM CURRENCY AREA

The theory of optimum currency areas wishes to identify more precisely the relationship between benefits and costs and right time to enter in a monetary union. The pioneer of this theory is **Robert Mundell** (1961): "The Theory of Optimum Currency Areas." What seemed a utopia in 1961 became reality in 1999. "European countries could agree on a simple act [...] could establish a monetary authority or central bank. This is a possible solution, and perhaps is even the ideal solution. But politically it is very difficult, almost utopian." R. Mundell (1973).

The **optimality** of currency areas is defined in terms of certain properties (criteria), including economic integration of member countries, mobility of production factors, and similarity of production structure. According to another definition, it is optimal for a country to adopt the monetary union if the benefits outweigh the costs associated with this decision.

There is a very extensive literature on the optimum currency areas, but all articles and books in the field focus on how a country can ensure stability in domestic policies that have remained available after the loss of monetary autonomy and exchange rate policy. This literature relates to how to ensure macroeconomic balance (internal and external balance) after an asymmetric shock, i.e. a shock affecting one country but not others. Internal balance refers to bringing in the natural rate of unemployment and economic growth. External balance refers to balance of payments insurance.

THE ECONOMIC EFFECTS OF INTRODUCING THE EURO IN SLOVENIA vs SLOVAKIA

Since the case study of my work will focus on introducing the euro in Slovenia and Slovakia I believe that I needed to focus on these two countries.

Slovenia, one of the oldest republics that formerly constituted Yugoslavia, regained independence in 1991 following the dissolution of the Yugoslav state. Slovenia joined the EU in 2004, was organized politically in the form of a republic. The main data characterizing this state are: it has an area of 20,273 km^3, a population of two million inhabitants, the reference currency is the euro, and its capital is Ljubljana.

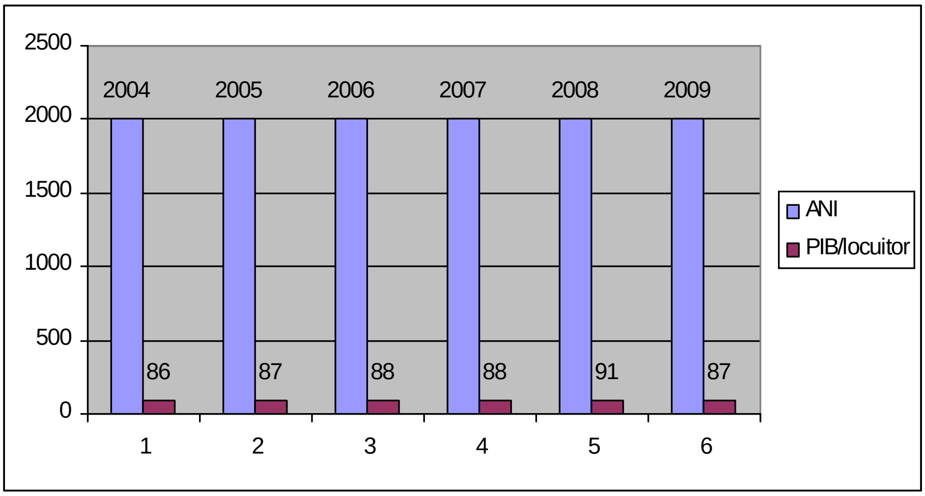

Figure no. 1. GDP/person share reported in Slovenia for the year of joining the euro in 2007

Slovenia's transition to the EU: In the last months of 2002 and negotiations and final preparations were carried out for the expansion, at least at the institutional level, of the EU to accept a further 10 countries including Slovenia.

According to the “Profers Report 2002” of the European Committee, Slovenia has fulfilled all the conditions known as the Copenhagen Criteria for EU membership (political criteria, guaranteeing democracy, law and human rights, economic criteria of the functioning market economy to be able to influence the laws of the market). Among the candidate countries in 2004, Slovenia is ranked 2 in terms of prosperity. In 2001 GDP per capita in terms of purchasing power reached 69% of EU average, which put Slovenia on the same level with Greece and over Portugal.

The unemployment rate in Slovenia was one of the lowest (5.7% in 2001) and the budget deficit almost insignificant. Agriculture accounted for 4% of GDP, which could be compared with other European countries. Most critical problems that characterized Europe at that time were focused on relatively high inflation and low labor market flexibility. On the other hand, Slovenia has made significant progress on harmonization and improvement of EU law, especially on the administrative capacity. From an economic perspective, in 2001 Slovenia's exports increased from 6.6 billion euros, while imports from EU countries to 8.6 billion euros.

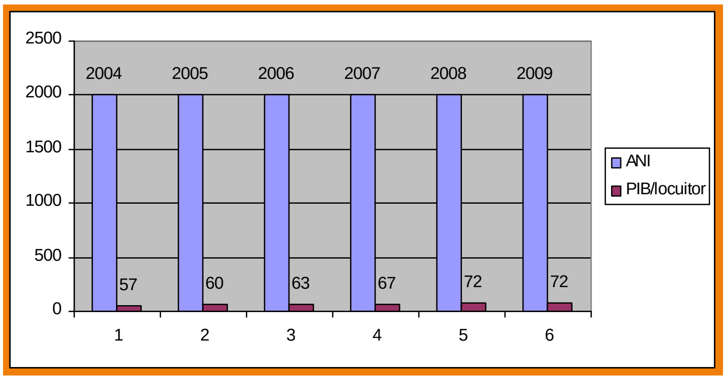

Figure no. 2. GDP/person share reported in Slovakia for the year of joining the euro in 2009

In the same year the EU recorded 62% of the Slovenian exports and 68% of total imports also from Slovenia. The euro is introduced in Slovenia in 2007, replacing the old national currency, Slovenian Taller (ST), the exchange being 1 euro = 239.640 ST. Slovenia became the 13th EU Member State adopting the single currency and was the first to join the Economic and Monetary Union in Europe. Following the adoption of euro by Slovenia, the Bank of Slovenia becomes a full member of the euro-system with the same rights and obligations as the 12 national central banks of EU Member States that have adopted the euro.

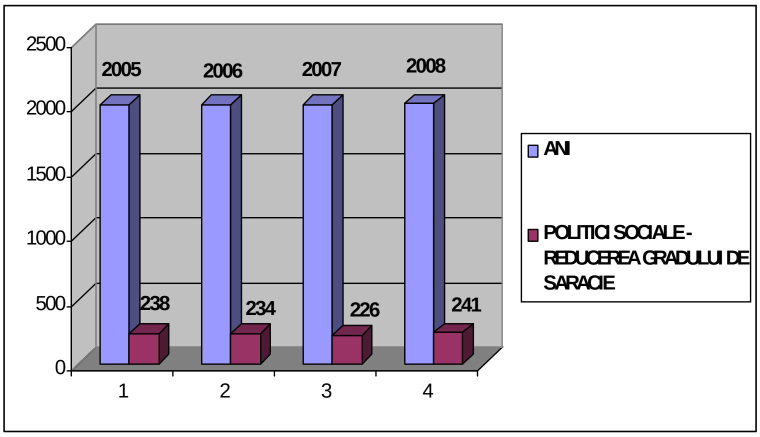

Figure no. 3. Reporting degree of poverty reduction during the years 2005-2008 in Slovenia

Slovakia joins the EU along with Slovenia on 11 January 2004. Constituted as a republic, it is situated in Central Europe, its capital is Bratislava. Republic of Slovenia and the Czech Republic came into being on 1 January 1993 by the division of Czechoslovakia, which since 1993 had assumed the name Czech and Slovak Federal Republic. After joining the EU in 2004, Slovakia adopted the euro on January 1, 2009.

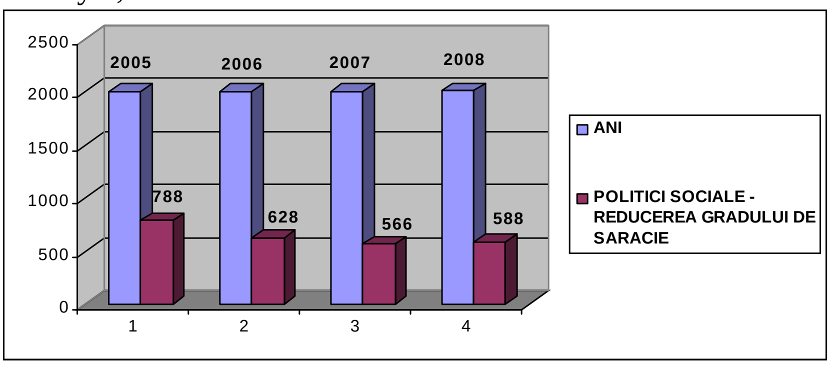

Figure no. 4. Reporting degree of poverty reduction during the years 2005-2008 in Slovakia

CONCLUSIONS

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