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Analysis of the process of Introducing Euro in New Member States: Defining Lessons for Croatia case Study: Slovenia

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Summary: On 1 May 2004, EU made a historical enlargement by expanding from 15 to 25 members, and with another enlargement in 2007, EU is now a union of 27 member states. Following the new member states accession to the EU the next challenge for them is joining European Monetary Union and introducing the euro as a national legal currency.

This thesis concentrated on the analysis on how the new member states handle the process of joining the Euro-zone with the main objective to examine whether there are any possible lessons that Croatia can apply to its EMU integration path.

The thesis is mainly focused on analysing the Slovenian EMU integration process, as this member state has been identified by the Croatian Authorities and Croatian National Bank as the one whose experience Croatia should try to follow.

The central questions that are discussed are whether Croatia is economically and politically capable to follow the Slovenian example, and, on the other side, whether the Slovenian example is the best one to follow i.e. should Croatia introduce euro by using the quick EMU entry strategy as Slovenia did.

In order to answer those questions thesis focused on analysing and explaining different strategies for euro adoption chosen by the new member states with special emphasis on the strategy of quick EMU entry approach chosen by Slovenia. The thesis also concentrated on analysing the Slovenian political and economical path from Yugoslavia to the EU and especially on its economic performance and key economic indicators prior to introducing euro.

Finally, with the aim to compare the economic performance between Slovenia and Croatia and define similarities/differences in their transition and EU accession process, the thesis gave a detailed overview of the Croatian current economical and political situation.

After brief analysis of all pros and cons of an early euro adoption, the thesis concluded that following the experiences of small sized countries with opened economies and strong trade orientation towards the countries of the Euro-zone, such Slovenia is, would be a comprehensive and logical strategy for Croatia. Early euro adoption would provide more benefits than costs for Croatian economy and society in general.

The thesis also concluded that Croatia should face no major problems when it comes to fulfilling most of the Maastricht criterion on time, in order to be able to adopt the euro in the shortest possible period as Slovenia did.

However, the thesis also highlighted that in order to do so Croatia has to put a serious emphasis on improving certain aspects of its current macroeconomic situation, in particular the one concerning the percentage of state sector deficit in the GDP and the size of public debt.

Conclusion

Following the accession to the European Union, the next most important step on new member state path to full European integration is to become a member of the European Monetary Union. This involves abandoning the national currency and adopting the euro as domestic legal tender.

This thesis concentrated on analysis of how the new member states handle the process of joining the Euro zone with the main objective to examine whether there are any possible lessons that Croatia can apply on its EMU integration path. Although Croatia is not a member state but a candidate country, indicators show that it is possible that it will join the EU already in 2010/2011. This will be followed by the integration in the EMU as well, and in order to successfully do so, the preparations should start well in advance.

The thesis concentrated in particular on the analysis of Slovenian EMU integration path, following the argument of Croatian Authorities and Croatian National Bank that Croatia

should follow the Slovenian example and chose the “quick EMU entry strategy” i.e. adopt the euro as soon as possible after the accession.

The thesis focused on answering two following questions. First, whether Croatia is economically strong and stable enough to be able to follow the Slovenian example and secondly, is Slovenian EMU integration path the right and optimal one for Croatia.

In order to answer on those questions thesis focused on analysing and explaining different strategies for euro adoption chosen by the new member states with special emphasis on the strategy chosen by Slovenia. The thesis also concentrated on analysing the Slovenian political and economical path from Yugoslavia to the EU and especially on its economic performance and key economic indicators prior to introducing euro.

Finally, with the aim to compare the economic performance between Slovenia and Croatia and define similarities/differences in their transition and EU accession

process the thesis gave a brief overview of the Croatian current economical and political situation.

By analysing the current state of play when it comes to fulfilling of the Maastricht convergence criterion, the thesis concluded that Croatia should face no major problems when it comes to fulfilling the Maastricht criterion on time, in order to be able to enter the ERM II immediately after the accession and hence adopt the euro in the shortest possible time as Slovenia did. However, the thesis also points out that, in order to do so, Croatia has to put a serious emphasis on its macroeconomic policy in order to lower the budget deficit and the size of public debt.

As for the second question, after analysing all pros and cons of an early euro adoption, the thesis concluded that following the experiences of small sized countries with opened economies and strong trade orientation towards the countries of the Euro-zone, like Slovenia is, would be a comprehensive and logical strategy for Croatia. Early euro adoption would provide more benefits than costs for Croatian economy and society in general.

Finally, it should be highlighted that hard work will not be over once Croatia fulfils Maastricht criteria and introduces euro. Hard efforts to ensure competitiveness of the Croatian economy in the EU will then only begin.
