

**A Road with Multiple Lanes:
The Journeys of the Czech Republic, Poland and Slovenia towards Euro Adoption**

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INTRODUCTION

Following their accession to the European Union (EU) on May 1st, 2004, ten New Member States (NMS), and two more that joined in 2007, are expected to fulfill the Maastricht convergence criteria and join Economic and Monetary Union (EMU) in due course. However, nothing in the treaty specifies a time-frame for joining. Some countries, such as Slovenia, Cyprus, Malta, have already joined and are considered to be among the pacesetters.¹ Others, such as Lithuania and Estonia were keen to join sooner rather than later, but in 2006 the Commission let them know they were not ready to join. Their response was to delay their targeted entry date. As for other countries, such as Poland, the plan to join EMU changes from government to another. While the former government was not really keen to join EMU or even set a date, the current government headed by Prime Minister Donald Tusk announced Poland's plan to join EMU by 2012. The details for the plan have been further strengthened and laid down in the 2009 budget plan that was sent to the parliament. Other NMS, such as the Czech Republic and Hungary, it is not really clear when they will join—but not anytime soon. The question this paper seeks to answer is why have some NMS decided to join EMU as soon as possible, while others have been slower to prepare for euro adoption? What are the reasons for this difference?

In this paper we suggest explanations other than the typical economic cost-benefit analysis. We argue that a combination of two approaches—a domestic politics and a constructivist approach—are best able to clarify the timing of euro adoption and the overall stance towards EMU of the various NMS. We look at the institutional development and adoption of EU *acquis communautaire*, the political parties in government and their ideology, the relation between the governments and central banks, as well as the day-to-day politics. A domestic politics approach (inter alia Bulmer, 1998; Elster, Offe and Preuss, 1998; Huelshoff, 1994; Merkel, 1999), informs us why a government chooses one policy over another, and is best able to explain the specific timing of policies. Moreover, given the differences among the elites and institutions controlling the developments since the end of the Cold War, the diverse reform policies adopted by governments help us understand some of the reasons behind the differences among the NMS. A constructivist approach points to the role of identity and how symbols of European integration have a different meaning among different NMS (inter alia Christiansen, Jørgensen, and Wiener 2001; Johnston, 2001; Kaelberer, 2004; McLaren, 2006; Risse, 2003; Schimmelfennig, 2001; Schimmelfennig and Sedelmeier, 2005) and is helpful to understand the broad trends. In addition we look at the kind of epistemic communities (Haas 1992) that evolved and were involved in the process of deciding on the government policy towards euro adoption. We focus on the institutions, the role of culture, symbols, political discourse, and the influence of norms and rules.

¹ Slovenia joined in 2007; Cyprus and Malta in 2008; Slovakia in 2009.

We believe that governments seek to join fast when the domestic political environment is favorable towards EMU. This situation occurs when the party in government is generally in favor of European integration. Those who are more enthusiastic about European integration more generally typically try to join the euro area as soon as possible; those less enthusiastic are more likely to delay entry. Of course other factors determine whether countries are in the position to adopt the euro fast or slow. For example, countries are more prone to join EMU fast when they are already closer to meeting the convergence criteria and when other macroeconomic indicators are in line with those of the euro area. This situation is best assessed by offering an analysis of the current macroeconomic situation. However, a national government keen to join the euro area, typically follows macroeconomic policies so that the result is that the country meets all or many of the convergence criteria. A government less keen to join does not usually meet many or all convergence criteria – especially joining the exchange rate mechanism (ERM-2) is usually a step taken only by governments who envisage euro adoption in the next 2.5 – 3 years. Although there are some divergences (Sweden has met all convergence criteria but does not join ERM-2, and is currently not on a track of joining fast).

We examine three case studies: the Czech Republic, Poland and Slovenia. Slovenia was the first NMS to join EMU, which happened on January 1, 2007. Poland, under the Tusk government, has set 2012 as the official date for euro adoption—a date that is questionable by many experts, including former finance minister Dariusz Rosati. With presidential election planned for 2010 followed by parliamentary election in 2011, the timing of any euro adoption strategy is crucial. A change in president or government in midstream might affect the entire plan, especially if a euroskeptic government comes into power. As for the Czech Republic, it went from being a pacesetter in the mid 1990s regarding euro accession to joining the laggards' camp in 2005 and has now postponed euro adoption (the government has yet to announce its revised targeted time schedule). We analyze the three cases through the various theoretical approaches, and offer some conclusions based on these three cases. Towards the end we briefly speculate what lessons may be drawn from these cases for the other NMS. The empirical case studies in the paper are based on primary and secondary sources (including a first round of person-to-person interviews held by the authors with key informants in April 2009 for the case of Poland; the interviews with the other countries are due to take place in the period May-July 2009 and will be reported in an updated version of this paper that will be presented later this year at other venues).

Following this introduction, a brief analysis of the macroeconomic situation of the three cases is offered. The resulting overview enables us to reflect on how far or close are the NMS from meeting the convergence criteria (in the case of Slovenia, we check how it is doing post EMU accession). We then offer a brief review of the domestic politics approach and a constructivist approach. In this part we lay down the framework for the empirical analysis. In the empirical analysis, we discuss the selection of cases, and apply both the domestic politics approach and the constructivist approach on the three cases. The final section concludes.

MACROECONOMIC CONDITIONS

Before dealing with the theoretical framework, it is important to have a look at the situation of NMS in 2004 (when these countries joined the EU) and where they stand now regarding the convergence criteria. Since 1995, Slovenia witnessed a decrease in the inflation rate as a result of policy choices taken by consecutive governments. However, in 2004, the inflation (4.1 per cent) was still above the reference value (2.4 per cent) at that period. The other indicators such as the interest rate, public debt and deficit were within the reference value.² Slovenia, along with Lithuania, managed to be among the first NMS to join ERM-2 in June 2004. Slovenia was the first country to meet the convergence criteria and join EMU on January 1, 2007. In 2007, strong economic growth and strong Slovenian economy that is catching up to the EU average in terms of economic development has continued for the second consecutive year with an average GDP 5.8 per cent. The average growth for 2008 witnessed a slight decrease from an average of 4.3 per cent over the period from 1998-2007 to 4.2 per cent (European Commission, 2008: 263). Among the factors we believe to play role in the strong GDP rates (regardless of this slight decrease) is the increased trust in the markets which is attracting more investments to the country. However this could not continue due to the shock caused by the financial crisis which lowered the 2009 GDP growth expectations in 2009 from 3.8 per cent to 1.1 per cent (in case we are too optimist) (see Statistical Office of the Republic of Slovenia: 2008-2009; and Slovenian Ministry of Finance). As for the inflation, the story is different since when Slovenia adopted the euro, its inflation rate was already among the highest in the euro zone, and by the end of December its inflation rate stood as the highest rate in the euro zone reaching 5.7 per cent (above average). Slovenian Prime Minister Janez Jansa confirms this and mentions that Slovenia is suffering from an increase in inflation after one year of euro adoption. According to the Prime Minister and the government, the euro is to be blamed for this increase in the inflation rates—an argument that is strongly rejected by the EU Commission. Slovenia's average inflation rate for 2007 almost doubled since 2006 increasing from 3.0 per cent in 2006 to 5.7 per cent in 2007 (EUBusiness, 2008). While the Slovenian government argues that the euro adoption led to a 0.6 percentage point increase in inflation rates, the EU Commission believes that this is exaggerated and according to their calculations, the euro adoption increased inflation by only 0.3 percentage point (Ibid). In November 2007 the European Commissioner for Economic and Monetary Policy, Mr. Joaquín Almunia, had mentioned that Slovenia's inflation was “not clearly linked with membership in the euro zone”—as the Slovenian government arguing—and this has bad influence on the other EMU candidates' intentions to join soon (Ibid).

Poland—the largest NMS with over half the population of the new EU members in CEEC—has finally set a date to join EMU (the year 2012). With the EU accession, the 2004 Convergence report concluded that Poland did not fulfill any of the Convergence criteria. While the Polish Central Bank is interested in adopting the euro soon since it eliminates the risk of currency volatility and accelerates economic growth, the former Polish government was not that interested in joining soon. Former Polish Prime Minister

² Interest rate, deficit and public debt in Slovenia were 5.2 per cent, -2.3 per cent, and 30.8 per cent respectively, compared to the reference value which was 6.4 per cent, -3 per cent and 60 per cent respectively (ECB Convergence Report, May 2004: 22) .

Jaroslaw Kaczynski has continuously uttered suspicions about fast adoption of the euro. He argued that Poland has to join the euro “but there’s no fixed deadline, so we can do it when the levels of economic development in Poland and the euro zone are closer than they are now” (Deutsche Welle, 2007). The current government of PM Donald Tusk is more serious about joining EMU and approved a new strategy for adopting the euro despite the opposition’s stance and the necessity for a constitutional amendment which requires convincing some of the euroskeptic parties, such as Law and Justice Party (PiS), to be in favor. The announcement came a day after European Union finance ministers ordered Poland to do more to rein in a budget deficit that is expected to climb above the 3 per cent of GDP in 2008. Following the financial crisis, Tusk government reemphasized its intention to join the euro by 2012. The aim of the current government is to rein the deficit to 1 per cent of GDP by 2011 (The Economist, 2008). However, with an excessive deficit problem about 2.5 per cent in 2008 (ECB, May 2008: 30) and presidential and parliamentary elections coming before 2012, a fragile coalition government between the centre-right Civic Platform (PO) and the small Polish Peasants’ Party (PSL) that might not continue after the elections in 2011, in addition to the fact that regardless of the safe majority that the coalition has in the parliament, it is not enough to turn over any presidential veto without the support of the opposition parties or to amend the constitution, all these issues affect the possibility of the current government to take major economic and monetary policies’ changes, that is why we believe doubts still exist regarding the success of the government’s plan³. In addition, the political determination and stability of the government to restrict spending in order to lower the budget deficit is still questionable. Moreover, the 2008 average inflation was 4.2 per cent of GDP (European Commission, 2009)⁴. Having high inflation rate automatically causes the interest rate to increase too making it harder for Poland to meet the entire criteria anytime soon.

As for the Czech Republic, up until 2005, it was among the pacesetters regarding joining the EU and later the plan to join EMU. In 2004, the Czech Republic met the convergence criteria concerning inflation rate (1.8 per cent), interest rate (4.7 per cent) and public debt (37.9 per cent) while the reference index at that time was 2.4 per cent, 6.4 per cent and 60 per cent respectively. As for the deficit, it missed the reference index (-3 per cent) by 2 percent (deficit was 5 per cent) (ECB, May 2004: 22). But the Czech Republic could not last long as a pacesetter since it fell behind most of the NMS regarding meeting the convergence criteria and settled with the laggards. It has been running an excessive deficit up until 2008. In 2008, the inflation is 4.4 per cent while the reference value is 3.2 per cent with expectations that it will increase further. Its long term interest rate is 4.5 per cent while the reference value is 6.5 per cent. As for the public debt it is still under the 60 per cent value (28.1 per cent) (ECB, May 2008: 30).⁵ Several reasons, such as euroskeptic president and government and the appointment of opponents to EMU accession as members of the central bank, played role in the current situation.

³ This shows the importance of the domestic politics approach to understand the decisions’ taken to join the euro area fast/slow. This will be discussed in more details when we deal with the domestic approach and Poland.

⁴ http://ec.europa.eu/economy_finance/thematic_articles/article13727_en.htm

⁵ The data for 2008 is until April 18, 2008.

Furthermore, the Czech central banking law is not yet compatible with the legal requirements for joining the Eurosystem (Ibid: 38).

THEORETICAL FRAMEWORK

Social Constructivist Approach

The research dealing with identity, norms⁶ and symbols as important determinant of states' policies and decisions, has been underemphasized in the literature on euro adoption. Since the introduction of the euro and its expansion east, it has been influencing the attitudes of euro area citizens and the way they identify themselves in European or national terms (see Risse 2003; Walt 1998). Ideas and interests are not created in vacuum since they are influenced by the important role institutions play in their development (Rosamond, 2007: 130). Therefore, constructivism is based on "a social ontology" based on the argument that "human agents" are influenced and shaped by the environment they live in and "its collectively shared systems of meanings" (Risse, forthcoming).

The EU is considered a major player in influencing the preferences and choices of the member states and their citizens through social learning and policy transfer to those members (see Risse 1996, 2004; Christiansen, Jørgensen, and Wiener, 2001). This rapid development in CEEC's institutions is based on this social learning and policy transfer through the incentives and support provided by the EU and international institutions (Schimmelfennig and Sedelmeier, 2005, see also Johnson, 2002). Driven by their eagerness to join the EU and knowing the "high volume and intrusiveness of the rules attached to its membership", CEEC have given "the EU an unprecedented influence on the restructuring of domestic institutions and the entire range of public policies in these countries" (Schimmelfennig and Sedelmeier, 2004: 661).

There has been an ongoing learning process not only vertically from the EU to member states but also horizontally among the various member states, mainly from Euro zone and ERM-2 members and the other CEEC. Ideas and beliefs have been transferring from one country to another affecting not only decision making but also the kind of think-tanks and epistemic communities⁷ emerging in the region. What kind of policy communities evolved in each CEEC and were involved in the transformation of post communist central banks and monetary and financial systems for example. This Network included central banks in advanced industrial democracies (involving old and current central bankers), and the departments responsible for working with central banks within the IMF (Johnson, 2002; Andrews, 2003; Dyson et al, 1995; Kaelberer, 2003; Marcussen, 2000; Verdun 1999, etc). This pushed EU members more in the direction of giving up their national currencies, which are considered among the "main components

⁶ Norms are defined as "collective expectations for the proper behaviour of actors with a given identity" (Katzenstein, 1996: 5).

⁷ Haas' (1992) concept "epistemic communities" was developed to show how "a network of professionals with recognized expertise and competence in a particular domain" plays a crucial role in policy making (3). Epistemic communities are "channels through which new ideas circulate from societies to governments as well as from country to country" (Ibid: 7).

of statebuilding that provide states with powerful tools for governance” (McNamara, 2004: 9).

The focus in this paper is on experts such as epistemic communities, ideas, paradigms, beliefs and knowledge and their role in the decision making process (see for example: McNamara, 1998; Marcussen, 2000; and Risse, 2000). This should not lead us to think that only these evolving epistemic communities can really tell us why some policies are selected rather than others. They can help but still other factors play crucial role in such choices, e.g. the beliefs of the ruling party and its ideology, and the “*domestic structure*” of the state such as “nature of its political institutions, state-society relations, and the values and norms embedded in its political culture” (Risse-Kappen, 1994: 187). Therefore, the effect of ideas, learning and the influential role of some epistemic communities depend on the internal structure of the system and the political leadership and how acceptable they are for such values and ideas which vary across countries (see Risse-Kappen, 1994: 208-212). This brings the importance of domestic politics for any international relation’s theory (constructivism for example) analysis of the decision making to join/not join the euro soon, which goes along with what Waltz’s mentioned: “any theory of international politics requires also a theory of domestic politics” (1986: 331).

Domestic Politics Approach

In order to understand states’ preferences, we cannot only rely on constructivist or even other International Relations (IR) theories. We need to borrow the domestic politics approach from Comparative politics and political economy (Huelshoff, 1994). Regime type does matter. Political parties’ ideologies do matter. Interest groups do matter. How developed are the institutions, also matters. National elections and the change of governments also matter. This can be shown by examining the behavior of post-communist countries in the international arena which reflects the domestic interests of different political players (see Vachudova, 2008: 22). Ruling elites, opposition parties, institutions, interest groups, public debates, media and epistemic communities determine both the countries’ foreign policies as well as domestic ones. We are not arguing here that international incidents and players do not influence countries’ policies, however, we are trying to highlight the fact that the final say is for the domestic institutions, domestic players and their calculations. There are domestic actors who are really influential and have the last say in the states’ decisions and preferences. So in our case, it is important to identify the actors involved in the decision to join the euro. These players “depend on the formal and informal institutions relevant to the policy field concerned” (Mastenbroek and Kaeding, 2006: 341).

The EU played a very important role in post-communist countries’ political domestic change by giving a lot of incentives regarding the accession to the EU. This created a domestic political motive to meet the Copenhagen criteria of democracy, human rights and the rule of law (see Vachudova, 2008: 32). So without this domestic motive, probably the Copenhagen Criteria would not be met easily or as fast as with the EU incentives. In consistence with the EU demands and in their trip towards the market economy, CEEC imitated the Western system regarding their economic policies, rules and institutions. This mimicking led to the creation of independent central banks in most

CEEC (Epstein, 2006: 1019-1023). The relationship between national governments and their central banks affect the developments in those countries (in most cases it has been a conflict such as in the Czech Republic, Hungary). In the early 2000s, we started witnessing increasing conflicts regarding governments' role in macroeconomic policies. Having independent central banks controlling the monetary policy has shown domestic political players the danger of such institutions on their future as politicians and the effect of that on their electorates (Ibid: 1031).

Ideas and beliefs by policy makers are crucial for understanding if a country takes the necessary steps to meet the convergence criteria and join EMU or not⁸. Some decisions regarding monetary policies cannot be understood in isolation from the decision makers' "shared normative and causal beliefs" (McNamara, 1999: 462). In addition to the political factors, there are also the administrative and technical factors that affect the policies in any country. Laws and regulations that legalize the work of governments and social life affect the decisions' taken. So we have to look at some of the domestic laws, the distribution of power in the parliaments and the governments to understand how a decision is taken and what governments can/cannot do. Sometimes major decisions, such as joining ERM-2 and later EMU, require a referendum, a qualified majority vote in the parliament, or a constitutional amendment. To be able to understand the possibility of such a decision, we have to know the distribution of power, the main beliefs and ideologies of the main players and these technical procedures. Add to this, the ruling party's will to take the necessary steps to join EMU, "the anticipated domestic resistance" that could be the result of several factors, such as identity, influential actors who are pro/anti euro (Haas, 1998: 19), and due to the negative effects witnessed by other countries that joined the Euro (increase in prices for example). A ruling party (or a coalition of parties) will not risk its position and power by taking unfavorable decisions that might cost it/them to lose elections.

The diversity among the elites and institutions controlling the post communist politics, laws and rules, the development process and the various reform tracks taken by governments can help us understand some of the reasons behind the diversity among the NMS regarding their decision to join EMU fast or slow. By looking at these issues, we will be able to study the functioning of the market economy (how well is the country adjusted to the convergence criteria in 2004 and onwards).⁹ So the intention in this part is not only to follow earlier research regarding domestic politics (see for example: Sandholtz, 1993; Dyson and Featherstone, 1996; and Hallerberg, 2004) summarize the main arguments and implement them on our cases. We try here to analyze our own understanding of domestic politics approach as it affects the CEEC's decision to join EMU fast/slow.

After this brief analysis of what do we mean by constructivist approach and a domestic politics approach, it is important to apply this theoretical framework to some cases from CEEC that either already joined EMU or are still in the process of preparing.

⁸ For more information on the leaders' beliefs and how crucial are they for understanding the decisions to meet the necessary criteria see: Hall, 1992, 1993; Goldstein, 1993; and McNamara, 1999.

⁹ It is worth to look at the ruling elites not only from 2004 onward but since the move away from communism in the late 1980s and during the 1990s (due to lack of space we will look only at the period post joining the EU in 2004). The post communist era ruling elites had different reform plans in CEEC leading to different outcomes and results. Therefore it is crucial to identify the main domestic actors in CEEC to understand decision making and the outcomes.

We will see if any/both of our approaches can really help understand the decision of a NMS government to join the euro zone fast/slow. The rest of the paper will deal with the cases of Poland, Slovenia and the Czech Republic and what lessons could be learned from such application of the theoretical framework on the three cases.

CASE STUDIES

After this brief analysis of our theoretical framework, in this section we discuss why we chose our cases and what the bases for such a choice are. We also apply our theoretical framework to the three cases we selected (the Czech Republic, Poland and Slovenia). Then we try to see if our hypotheses and arguments mentioned earlier, regarding the usefulness of a constructivist and a domestic politics approaches, could help us understand the decision to join the euro fast/slow and towards the end we will reflect on whether these insights may be generalizable to other countries that have not joined the euro yet.

Selection of Cases

In deciding on the cases we deal with, we had to choose the countries either geographically: Central European countries (Poland, Hungary, Czech Republic and Slovakia), or the three Baltic countries (Estonia, Latvia and Lithuania), or maybe the small three (Slovenia, Malta and Cyprus); or selecting countries on the basis of size, and if so what would be the criterion for large and small, i.e. is it by population size, geographical size, size of the economy, or political influence (Maes and Verdun, 2005). Another way to choose the countries is either by taking the most similar cases or the most different cases. However, none of these selections shows the diversity among NMS. Unlike what is sometimes referred to in the literature, we do not believe CEEC are very similar; there are some similarities, but the differences are very clear too.

Another categorization is the concept of pacesetters and laggards (Dyson, 2006¹⁰). On June 28, 2004, Estonia, Lithuania, and Slovenia became part of ERM-2 followed by Latvia, Cyprus and Malta in April 2005, showing “their intention to adopt the euro early” (Rollo, 2006: 69)¹¹. As for Poland, Hungary, the Czech Republic, it is not very clear when they will be able logically to join the euro regardless of some countries plans—Poland for example to join by 2012, and recently Hungary announced its interest in speeding the process to join the euro zone since they consider it to be the best weapon to face the current financial crisis (EUobserver, February 24, 2009)¹². Based on this argument, the conclusion could be made that the smaller states among the NMS are working harder to join EMU and gain from accession, while the bigger states are “more worried about the loss of flexibility” (Ibid). Dyson (2006: 326) concludes that this distinction (pacesetters and laggards) regarding EMU accession “suggests that east central European world is losing its coherence”. The problem with this distinction is that

¹⁰ On pace-setters and laggards see also Boerzel (2003) and Maes and Verdun (2005).

¹¹ While Lithuania was rejected entry (since its inflation rate did not fulfill the criteria by 0.1 per cent), Slovenia joined the euro area in 2007 followed by Cyprus and Malta in 2008.

¹² <http://euobserver.com/9/27670/?rk=1>

it puts considerable weight on stability, trade, and other economic indicators (based on cost-benefit expectations), however, it fails to recognize the importance of other factors such as the role of culture, identity, institutions' development, public opinion, nationalism¹³, etc. Another problem with this conclusion is that it considers those countries to be losing their coherence, but as already mentioned we do not share the view that they had been so similar in the first place. One final issue with this argument is that it tries to draw a line differentiating between two groups of countries: pacesetters and laggards. We believe there are more categories than two, as some countries may fall in between the categories pacesetters and laggards. Furthermore, these categories can hardly be seen as static: we have seen countries such as Hungary and the Czech Republic, oscillate between pacesetters and laggards. The result is that this dichotomy is not fixed. Moreover, countries could be viewed as laggards with respect to EMU accession, however and at the same time, they can be pacesetters regarding the developments and policies they take for joining EMU such the cases of Hungary, Estonia and Poland, which are considered pacesetters in the field of financial sector developments (Mohácsi Nagy, 2006: 252-257).

Our choice is for three countries that represent the NMS and so that we can understand that the NMS are diverse and have a lot of differences and that is why we have countries already made it to EMU and some are still out. Therefore, we examine the cases of the Czech Republic, Poland and Slovenia to show the diversity among CEEC.

The Czech Republic

The June 13-14, 2003 referendum on EU accession represented a victory not only to the 77.33 per cent (55 per cent was the turnout) who voted for joining the EU (Hanley, 2004), but also to the efforts of the political elites, communities and successive governments to bring the Czech Republic back to Europe (see also Baun, Dürr, Marek and Šaradín, 2006). Most of the major political parties, as well as the Civic Democrats (a more euro skeptic political party), were in favor of EU accession. The only exception was the position of the Communists (Baun, et al., 2006: 250-251). This decision to join the EU (not only in the Czech Republic but all the NMS) was the result of a social learning process that was taking place over the years and had major impact on the domestic politics and formation of the institutions. Conditionality and Europeanization of Czech politics, for example, was one way to get the Czech Republic to take certain policies that served in joining the EU. Let us now turn to the developments in the Czech Republic, and look at them through the lenses of a constructivist and a domestic politics approach.

A Constructivist Understanding

Following the end of the Cold War the Europeanization process has picked up speed. It started to affect decisions and politics not only in the Czech Republic but also in all NMS. We believe a fast trend of institutional development has been going on not only due to the EU incentives but also due to a social learning process (for more information, see Schimmelfennig and Sedelmeier, 2004 and 2005; Checkel, 2001). The effect of social

¹³ According to Czergo (2008), nationalism “emerged as the most powerful ideology that most important and popular political elites and parties advanced and that publics in these countries found appealing” (88).

learning and incentives can change due to the issue under discussion, time, and other circumstances. It became more obvious to evaluate these things in a better way especially after May 1, 2004 when NMS joined the EU. Central Banks are among the institutions that had to go through a lot of changes and institutional developments and were affected by this trend. One of the main beliefs that were transferred to CEEC: “protecting price stability and central bank independence is the key to economic development in democratic states” (Johnson, 2006: 363).

The continuous Europeanization process and the Czech entry to the EU affected not only the parties’ ideology and party system but also the domestic politics (see Baun *et al.*, 2006). This also served in creating the suitable environment for an independent central bank. This was the result of the continuous effort of the EU and International Financial Institutions such as the Deutsche Bundesbank, Bank of England, International Monetary Fund (IMF), World Bank, Federal Reserves, Bank for International Settlements (BIS), etc. These Western institutions provided the necessary training to a large number of those who work in the central banks including the Czech National Bank (CNB) leading to a social learning process and transfer of “ideologies, practices and internal organizational frameworks” (Johnson, 2003: 3; see also Johnson 2006; 2008)¹⁴. Add to this the EU programmes—such as Phare—which aimed at providing the institutions in the Czech Republic, such as the Ministry of Finance (MoF) and Czech National Bank (CNB), not only with the technical assistance but also to move the Czech Republic to a new market economy similar to its fellow EU countries and to implement the EU *acquis*.

Experts from the EU members were also involved in the training process in order to “familiarize bureaucrats in the Czech republic [...] with EU policy compliance” which resulted in the extensive diffusion “of EU practices in the Czech financial and banking sector” (Vlignenthart and Horn, 2007: 148). This has created a financial epistemic community who was involved in the various financial institutions, such as the CNB, MoF, Czech Securities Commission, think-tanks, that adheres to the ideas and beliefs of the EU *acquis* and EMU and moves the Czech Republic and the NMS closer to the rest of the EU members. These steps are deemed necessary since they help the Czech Republic in its efforts to join the euro.

This transfer of ideas, technical assistance and socialization process led to the privatization process. However, this privatization process was not accompanied with the creation of “a regulatory framework to keep these development in check” (Vlignenthart and Horn, 2007: 142). This led to missing a very important institutional reform. Add to this the fact that corruption still existed within the banking system. Moreover, four years have passed since the Prague Stock Exchange started functioning and still no “independent regulator” (The Economist, May 31, 1997). All these falls led to the currency turmoil, economic recession and market failure in the 1997. This pushed the OECD to state that one of the building blocks of good governance and economic performance in the Czech Republic is the privatization of the state-owned banks (2000: 79). However, the Czech government step regarding banks privatization was really shy and was not taken seriously until it was hit by the 1999 financial crisis which led to the believe that fast action has to be taken (Vlignenthart and Horn, 2007: 143). This delay was

¹⁴ We have to keep in mind that the creation of such ideology among Central bankers does not mean that the economic outcomes will be the same domestically (see Johnson, 2003 for more information).

not costless since it affected the overall economic performance and the “market value” (OECD, 2000: 79).

Despite the importance of the social learning process that was taking place involving international players and creating some epistemic communities; it can go only for a certain extent since the domestic atmosphere has to be in favor of some changes that will accompany such development. This was not the case all the times since in several situations these ideas faced confrontation. This brings us now to an analysis of the domestic situation in the Czech Republic.

A Domestic Politics Approach

The establishment of this network of central bankers community led to the creation of an independent CNB that is far from the day-to-day calculations of the government, does not mean it is something that the politician favor. In its attempt to secure the price stability and stay politically independent from the government, central banks affect the “entire macroeconomic development, including GDP and wage growth” (Geršl, 2006: 18)¹⁵. This plays a crucial role in the failure or success of the political parties involved in the government leading to continuous problems between the government and the central bank. Since 1997 and at least until 2005, the CNB faced a lot of political pressure from the government, labor unions, and even the public (Ibid: 38)—with almost half the population 48 per cent expecting more negative effect of joining the euro compared to 42 per cent who consider the euro to have more positive effect (European Commission, 2008: 38)¹⁶. Moreover, 42 per cent of the population wants the euro accession to be as late as possible compared to only 18 per cent who want it to happen as soon as possible (Ibid: 44).

This continuous struggle between the CNB and the government led to an attempt to limit the independence of the CNB through passing an amendment to the CNB Act (No. 442/2000). These changes to the CNB Act were really criticized by many financial institutions such as the ECB, European Commission and the IMF. However, this amendment was canceled by the Constitutional Court of the Czech Republic which found it to be unconstitutional and the decision was effective from August 3, 2001 (CNB: 2003-2009).¹⁷ The reasons behind such an amendment to the CNB Act were the results of the monetary policy adopted which the politicians considered to be “too restrictive” (Geršl, 2006: 23).

The struggle between the CNB and the political leaders kept pushing the euro adoption date from 2007 to 2009-2010 and even to 2013-2014 if we were too optimist.¹⁸ CNB failed to influence the decision of the government to implement a more restrictive policy, cut the deficit and meet the Maastricht criteria so the Czech Republic can join the

¹⁵ On price stability and political independence of central banks, see Goodman, 1989; Cukierman, 1992; Helleiner, 1994; Evans, 1997; and Blinder, 1998.

¹⁶ http://ec.europa.eu/public_opinion/flash/fl_237_en.pdf

¹⁷ http://www.cnb.cz/en/faq/faq_mp/cb_independence.html

¹⁸ According to a special report published by ERSTE bank on May 8, 2008, they do not foresee a euro adoption in the Czech Republic before 2015 since major political elites are not in favor of a speedy entrance and the necessity to reform the pension system and healthcare, etc. For more information, check the report at:

http://www.slsp.sk/downloads/EN_Specialny_komentar/2008/20080508_special_report_euro_svk.pdf

euro fast. Moreover, Czech President Václav Klaus¹⁹ (since 2003, reelected 2008) changed three out of the seven-member boards who had their term expired in February 2005. The new appointed members are close to the president and to the Civic Democratic Party (ODS) (EIU, February 23, 2005). The three new members also share the euroskeptic vision of the president. The CNB lost a lot of its integrity in entering into a losing game and pushing for an early euro adoption (Johnson, 2008: 95; also Johnson, 2006). Add to this the appointment of Vladimír Tomšík and Mojmir Hampl as members of the CNB Bank Board on December 1, 2006 for a six year term and thus both are indebted to the president for their appointment and share similar views²⁰. This caused the CNB's independence to be indirectly undermined since the board lost its coherence, having a similar vision regarding EMU and members will listen more to the euroskeptic president²¹.

The questions that come to mind here: are these changes to the CNB board really bad for the Czech Republic? Or is it better to have the struggle between the CNB and politicians going on? We believe that this struggle have caused the euro adoption to be further delayed due to the lack of good cooperation between the CNB and the government. With the development in the CNB vision regarding when to adopt the euro and not pushing hard for an early adoption, this allowed for more cooperation between the Ministry of Finance and the CNB.²² One of the outcomes of such cooperation is the joint documents published by the CNB and the Ministry of Finance similar to the one approved by the Government of the Czech Republic on December 16, 2008 (CNB, 2008). The main idea in the report, which we consider to be an improvement in the stance of the CNB with respect to pushing for early euro adoption, is that the Czech Republic shall join the euro area once the economic conditions are suitable. This environment between the government and the CNB resulted in positive macroeconomic results and led the Czech Republic to be closer to meeting the convergence criteria²³.

Due to the current financial crisis and the expected slow down in the economy in 2009 in which the growth of 3.6 per cent will not be met according to the CNB. CNB governor Tuma announced on October 12, 2008 that the Czech Republic needs a break until the markets settle down and the financial crisis is sort of resolved (EUobserver,

¹⁹ Klaus was prime minister from 1992 to 1997 and parliamentary speaker from 1998 to 2002.

²⁰ For more information on the appointment and the appointees, check Czech National Bank, November 26, 2003, available at:

http://www.cnb.cz/en/public/media_service/press_releases_cnb/2006/061128_jmenovani_clenu_br.html

²¹ This should not be understood in a way that makes the CNB as the victim. The Czech central bankers, who belong to this community of central bankers that evolved in CEEC, had really weak domestic support regarding their policies and preferred plans which pushed them to target early dates for accession that are earlier than the preference of their government, the ECB and the European Commission (see Johnson, 2006 and 2008).

²² Even though the vision is that of a euroskeptic politicians, but at least there is more coherence and cooperation regarding macroeconomic policies and mainly regarding what is better for the Czech Economy. Those politicians were elected by the Czech citizens based on this view and they reflect their opinions. So in case the public are not ready yet with 42 per cent of the population wants the euro accession to be as late as possible in comparison to only 18 per cent want it to happen as soon as possible (EU Commission, 2008: 44), then it will not be possible to join before the public are really ready, since any referendum might have negative results regarding euro accession.

²³ We are not arguing here that only the relation between the government and the CNB resulted in positive macroeconomic conditions and led the Czech one step closer to meeting the convergence criteria. Openness of the economy, strong GDP growth and other economic indicators also played important role.

October 13, 2008). The real GDP growth for 2009 is expected to be in the negative (-3 per cent) after being 3.2 per cent in 2008. However, the growth for 2010 is expected to increase to 1.2 per cent in 2010 (EIU, 2009: 9). All this did not stop Prime Minister Topolánek to announce with the beginning of 2009 that November 1st will be the date when the government will announce a euro adoption date (Prague Daily Monitor, January 2, 2009). This was welcomed by other opposition parties and by the shadow finance minister Běšuhav Sobotka from the Social Democrats (CSSD) in addition that a STEM poll for the Czech TV demonstrated that 64 per cent of the Czechs are in favor of setting a date for euro accession during this year while 36 per cent were against (Ibid). Add to this that domestic firms are in favor of joining the euro soon because of the strong Koruna regarding other currencies (mainly the euro) (Ibid).

The continuous unstable political situation in the Czech Republic makes it even doubtful if the announcement of the euro accession target day on November 1 will be fulfilled. After four attempts to bring down the Topolánek government, the parliament succeeded in that on March 23, 2009 (Financial Times, March 25, 2009). In case Topolánek will be renamed as a PM or if Klaus calls for early parliamentary elections, all these possibilities affect the Czech stability not only politically but also economically and further delay the euro adoption expected date.

Poland

With the hope of joining the EU by 2004 and benefitting from that not only economically (FDI flows in their countries and facilitation of their exports to the EU members), but also politically, institutionally, etc., CEEC economic performance was inspired by these benefits (see Clarke, 2005). Accession to the EU opened the way for Poland to be closer to joining EMU. Yet, Poland moved from being among the pacesetters regarding early euro accession to a “semi-permanent outsider” (Zubek, 2008: 292). Five years have passed on joining the EU, and Poland is still not part of the euro area due to many reasons such as not meeting all the convergence criteria, political situation and stability and the readiness of people. Although the current government has argued that joining the euro is in the interest of Poland; not all political parties and not all political players (such as President Lech Kaczyński and PiS) share this believe or think that the target date (beginning of 2012) is possible²⁴. Moreover, not all members of the Polish Monetary Policy Council at NBP, such as Marian Noga, believe that delaying euro accession will have negative effects on the country or that it will suffer due to delaying the process (Rueters, January 15, 2009)²⁵.

Following the financial crisis, the Pro-Euro Polish government announced its intention to join EMU by 2012. According to the Ministry of Finance policy outline to join the euro, Poland should be able to meet the convergence criteria by 2011 and join the euro as of January 1, 2012 (see Ministry of Finance (Poland), October 2008). However,

²⁴ Former left-wing finance minister and former member of the Monetary Policy Council Dariusz Rosati thinks that this plan to join the euro by the end of 2011 is not realistic and that “the earliest realistic date is the beginning of 2012-on condition that the government gets down to work right away”. For more information check *Warsaw Voice* (September 24, 2008), ‘Poland Sets 2011 Euro Entry Target’. Available at: <http://www.warsawvoice.pl/view/18705/>

²⁵ <http://www.fxstreet.com/news/forex-news/article.aspx?StoryId=844e9865-187c-4759-a9ea-5545486f0e42>

can Poland really join EMU by 2012? The following two subsections—the constructivist approach and the domestic politics approach—will help us answer that question.

A Constructivist Understanding

With the end of the Communist era and the launch of the reform project (the move towards democratization, liberalization, etc.) in different CEEC, a broad Europeanization process was taking place affecting the various institutions. EU accession and then the euro were present in the Polish decision makers' plans since the reform revolution was launched in 1989. The coming back to Europe through EU membership represented an important driving force for democracy building and economic liberalization. This served in uniting a good portion of the Polish elites and Poles who shared the same ideas and are pro these reforms. Gradually, policies were directed in the direction of the *acquis communautaire* and getting closer to joining the EU.

These developments and reforms in Poland (institutional reforms and creation, amending and passing laws, etc.) and socialization process were based on this cooperation between the international institutions, EU elites, member states and the different EU institutions. This was also emphasized by former Polish Foreign Minister, Meller who argued that “It is via the EU we are going to realize our political and economic aims. We should build the European identity and work on the strategic vision of Europe” (Meller 2005 cited in Kaminska, 2007: 4). Those elites were going through training not only at their home institutions by foreign experts, but also they attended conferences and training sessions abroad (see Johnson, 2002, 2008). Poland moved on with creating new institutions or reforming the old institutions—such as banking supervision, central bank accounting, monetary operations, bank restructuring, etc (for more info see Johnson, 2002)—in ways that adhere to the EU laws. This development has not been possible in case the Political Elites were not supportive to the EU and shared similar views and ideas like the EU member states and the elites of those states. Despite the importance of joining the EU, we have to keep in mind that the development of institutions and policies were not only to meet the EU requirements but were also necessary to the liberalization of the Polish economy and the movement away from the Communist centralized economy. This pushed policymakers to adopt a lot of the EU *acquis*' elements in the legal and institutional system (not only financial institutions) which were clearly visible in the 1990s laws, acts and amendments (Polański, 2004a: 16; also 2004b).

Although still weak with respect to the fiscal institutions, the NBP witnessed a deep institutional reform under the effect of Europeanization, *acquis*' conditionality, role of epistemic community of central bankers and social learning (for more information see Sobczynski, 2002; Schimmelfennig and Sedelmeier, 2004; Johnson, 2006; Epstein, 2006; Epstein and Sedelmeier, 2008 and Zubek, 2008). This led to the establishment of an independent central bank in Poland that adheres to the EU requirements and was given the “right to formulate and implement monetary policies” (Zubek, 2008: 298). The NBP's laws were also “modeled after the German law on the Bundesbank” (Johnson, 2002: 20). The NBP has enjoyed its independency as set down in the constitution and mainly in *The*

Act on the National Bank of Poland of the year 1997²⁶. According to this act, the NBP's mandate was almost a replication of the European System of Central Banks (ESCB) basis and provisions (Polański, 2004b: 281). The main task for the NBP as mentioned in the August 1997 Act is the maintenance of price stability as in most Western central banks²⁷. Moreover, after 1997, the Sejm²⁸ selects the president of the NBP upon a presidential request for a six-year term. As for monetary policy, the ten members of the Monetary Policy Council (MPC) are responsible for that. They also cannot be accused of any charges related to their decisions related to the monetary policy (Polański, 2004a: 8). However, the NBP was not fully independent and fulfilling the EU legislation until the NBP act was amended in 2003 and the auditing of the NBP has to be conducted by an independent external auditor and not a commission assigned by the government (Ibid: 9).²⁹

As we have seen, this socialization process and creation of the epistemic communities have led to remarkable developments in Poland; however, some of the developments were driven back because of some political elites that were euroskeptic. This causes the socialization process to be blocked sometimes which has affected the progress of the country especially towards the euro adoption. This brings us to an important point which is the domestic environment and how ready has it been to accept all the development that was taking place.

A Domestic Politics Approach

As mentioned earlier, Poland is considered among the early CEEC to move toward market economy. By the end of 1989, the *Balcerowicz Plan*, which was supported by the IMF, the World Bank and other international and European institutions, was adopted. This plan gained from the policy transfer from the western countries and international institutions in the form of ideas, financial and technical support. The main aim of the plan was to move the economy from state centered to a market-based economy through macroeconomic stabilization, liberalization of prices and eliminating price control, restructuring of the institutions (mainly financial and monetary) and privatization. These reforms were hard to be realized and controversial which brought political attacks on Balcerowicz. The bankruptcies of main state-owned enterprises served in the increase in unemployment rate to about 20 per cent, increase in public deficit and decrease in GDP growth and real wages. The failure of the plan to attain its goals showed that the economic reform that Poland took in the early years was a failure (Bratkowski, 1993). Some political parties, such as Self-Defense (Samoobrona) and its leader Andrzej Lepper, were very critical of Balcerowicz and asked him to leave.

The consequences from the reforms should not be viewed from an economic angle only since the domestic political environment played an important role in such an

²⁶ The Act on the National Bank of Poland of August 29, 1997 as published in *Dziennik Ustaw* (the Journal of Laws) of 1997 no 140, item 938.

²⁷ Article 3, § 1 of the *Act on the National Bank of Poland of August 29, 1997* states "The Basic objective NBP activity shall be to maintain price stability, and it shall at the same time act in support of Government economic policies, insofar as this does not constrain pursuit of the basic objective of the NBP".

²⁸ The lower chamber of the Polish Parliament.

²⁹ This does not mean that some incompatibilities do not exist (Zubek, 2008: 298; see also ECB Convergence Reports for 2004 and 2006).

outcome. Parliamentary elections during that period showed dissatisfaction with the economic reform in which the parties affiliated with the Balcerowicz plan lost a lot of their supporters. In September 1993 elections, the parties that were born from the Polish Communist party won the parliamentary elections showing the discontent of the Poles with the market economic reform. The political scene affected the reform plan and the speed of such reforms. The path that Poland took towards the EU and later EMU is not only governed by economic conditions, but also by international events, decision makers and political leaders' preferences and ideologies, in addition to the institutional situation (mainly the weak fiscal institutions and the role of the Minister of Finance)³⁰.

This unstable political scene and division continued even after joining the EU. The disagreement among the Polish elites and parties regarding euro accession and the policies leading to that is still prevailing. According to Zubek (2008: 294), three main factions represent the three main attitudes towards euro adoption: "euro-enthusiasts, euro-pragmatists, and euro-rejecters". However, we tend to believe that the last category does not really count since Poland committed to joining the euro when it joined the EU in 2004, and no official opt-out exist. Therefore we tend to divide the influential groups among the elites into two main camps: euro enthusiasts and euro skeptical. The euro enthusiast group comes from the former NBP governor Leszek Balcerowicz (2000-2006), some financial institutions, current coalition government. The euro enthusiast group believes in the fast euro accession track and that it is more beneficial to Poland. As for the euro skeptic group—represented mainly by the current NBP governor Slawomir Skrzypek (2007-present), Law and Justice Party (PiS) and the Democratic Left Alliance (SLD)—they prefer the slow track and the emphasis on the growth and the development of the Polish economy as their priority. As for joining the euro, it is to be done when it is considered to be in the best interest of Poland.

While the main conflict in the Czech Republic was between the CNB and the government (mainly President Klaus), the division in the Polish society created two kinds of conflicts: the first between the central bank and the government (while Balcerowicz was still the NBP governor) and the second between the government and the opposition. Following the mid 1990s conflicts between the government and the NBP arose. There was a bid for fast euro accession during the mid 2002. The finance minister (Grzegorz Kolodko) in the coalition government convinced Prime Minister Leszek Miller of the political gains of fast euro track since it will deal with the NBP restrictive monetary policy. Therefore, the SLD-UP-PSL formed a very ambitious plan for euro accession in which the euro adoption date will be 2007 (Zubek, 2008: 299). This plan was not successful since it failed in mid-2003 and did not gain support from labor unions and other business organizations—especially that it came during a time of relatively low economic growth. In addition to that, the ECB and the European Commission were not supportive of the fast track euro adoption. The road to EMU was delayed due to this conflict since the NBP was blamed for causing an economic slowdown due to its

³⁰ One of the important reasons for the failure of the fast euro track is the problems with the budget preparations. Add to this the limited authority of the finance minister who sets the agenda and inform the ministers of the targeted deficit. However, the ministers respond with their budget bids which usually exceed the targeted deficit and therefore lead to a change in the budget balance. Then the entire government votes on the budget which usually causes the deficit to be higher than planned by the minister of finance. For more information see Hallerberg and Von Hagen, 2006; also Zubek, 2008; and Eishengreen and Steiner, 2008)

monetary policy. The SLD-Labor Union (UP)-Polish people's party (PSL) entered into conflict with the NBP convicting it of adopting bad policies leading to slow growth and shy economic regains (Ibid: 298). The Miller government put all the blame on the NBP and mainly its governor Balcerowicz (see Zubek, 2006, 2008). The NBP was publicly called by the government to assist in its attempts to increase growth. Following the failure of the Kolodko plan for fast euro entry, Jerzy Hausner (Economic and Labor Minister at that time) proposed an alternative plan in which the viable date for euro entry was postponed to 2009. Although the plan helped the government absorb the EU pressures, however, the domestic implementation of the plan was not that successful. The main reasons behind the domestic problems were the problems within the SLD ruling party resulting from Prime Minister Miller's support for Hausner. Political calculations were more important for SLD than the overall benefits. One of the SLD leaders stated at that time that the "Hausner plan is good for Poland but disastrous for the SLD" (Zubek, 2008: 301).

The struggle between the government and the NBP increased following the 2005 parliamentary elections. The new PiS, Samoobrona and the League of Polish Families (LPR) coalition appointed a committee in the Sejm to inspect the actions of the NBP regarding the financial institutions' privatization process that started in 1989, in addition to the actions of the Banking Supervision Commission (KNB). This act by the new government was clearly considered an attack on the NBP governor at that time—Leszek Balcerowicz (Warsaw Voice, March 22, 2006; see also Zubek, 2006; 2008). The new government coalition (mainly PiS) is known of its euro skepticism and there priorities were not toward the euro adoption or fast road towards EMU.

Nowadays, most official statements from NBP and current government agree on the fact that the long term benefits of joining the euro area outweigh the costs (which are decreasing over the years); however, Poland is still outside the euro area. Although the current Tusk government announced the year 2012 to be the official targeted year to join the euro, but due to many issues—such as the domestic political scene, financial crisis, elections in 2010 and 2011, etc.—this will be delayed. In addition to that, the financial crisis supported the position of those who are in favor of a long euro track since the argument is now to address the problems from the financial crisis and then think of euro accession. No political consensus exists so far regarding joining the euro in 2012. This consensus is necessary for the constitutional amendment needed for joining the euro. The right to print money and distribute it and the management of monetary policy has to be transferred to the ECB. Opposition parties (mainly PiS), euro skeptic president Lech Kaczyński and NBP Governor Sławomir Skrzypek (who was appointed by the former PiS coalition government) will block the attempt by the current government to join the euro as suggested. The opposition will not let the constitutional amendment pass in the parliament. PiS made it clear that the only possible way to accept the constitutional amendment is if the current government calls for a referendum which requires at least 50 per cent turnout to be accepted. The opposition knows that it is really hard to get more than 50 per cent to participate in the referendum, add to this the problem of the question to be asked in the referendum.³¹ The positions of those parties might change following

³¹ When Poland joined the EU, it committed to joining EMU, so the question will be an issue since you cannot ask "Are you with joining the euro or not?" another problem is if you set a date for joining the euro

the European Parliamentary elections on June 7, 2009, especially if the results were in favor of the current coalition.

Slovenia

On June 28, 2004, Slovenia—a small country with a population of around 2 million—joined the Exchange Rate Mechanism ERM-2³² and then on January 1, 2007 was the first country from CEEC to join EMU. Since then, Slovenia's monetary policy has been directed towards a stable exchange rate with respect to euro which led to the “gradual depreciation of the tolar vis-à-vis the euro” (ECB, 2004: 19). This early ERM-2 entry was based on the promise that Slovenia will continue taking all the necessary steps that will help in inflation reduction (Ibid). The year Slovenia joined the EU, it had 4.1 per cent inflation rate, 5.2 per cent interest rate, 2.3 per cent deficit (as percentage of GDP) and 29.5 per cent public debt (as percentage of GDP) (ECB, 2006: 22). The government expected that joining the euro area will increase the FDIs and tourism and facilitate the trade with other euro area members further.

Since independence in 1991, Slovenia moved progressively with its economic restructure and conversion towards a market economy with the aim of joining the EU and later adopting the euro in 2007. Due to its trade ties to the EU countries and the international community, the Slovenian economy was characterized since the 1990s by being an open economy (see Bekő, 2003 and Festić and Bekő, 2006). So starting the transition from a fairly good economic situation and a suitable political environment facilitated the road for Slovenia regarding liberalization and facing the difficulties that might be caused by a market economy. Therefore, it was expected for Slovenia to adopt a gradual approach to a market reform (for more information see Šušteršič, 2004).

In 1996, Slovenia signed an Association agreement with the EU, and then in 2001 the euro adoption was considered to be a policy objective by the government. In November 2003, a joint report (between the government and the Bank of Slovenia (BoS)) was published. This declaration included the programme for joining ERM-2 and euro adoption thereafter (Banka Slovenije, 2003). Slovenia has relied less on FDI and has been more export oriented especially towards the EU countries (Lindstorm and Piroška, 2007: 120). Keeping in mind that Slovenia, unlike a lot of other CEEC, had to build a state and new institutions that never existed before, so how and why Slovenia took the fast track towards euro adoption and succeeded in that, while other similar countries failed or took the long track as we have seen earlier? In this part we analyze the constructivist understanding of the developments taken on the road to EMU and the domestic environment which unlike the Czech Republic and Poland was relatively stable—especially regarding the relation between the BoS and the government.

and asked “Do you want to join the euro in 2012?” and Due to certain incidents or missing the criteria the decision by the Commission was a no, then what will happen, what will be binding.

³² Slovenia's convergence criteria during 2004 was: inflation rate was 4.1 per cent (reference value 2.4 per cent); deficit was 2 per cent (reference value 3 per cent); public debt was 29.4 per cent (reference value 60 per cent); interest rate was 5.2 per cent (reference value was 6.4 per cent) (European Commission, 2004: 3).

A Constructivist Understanding

Unlike most CEEC (except for Hungary), the break with socialist past in Slovenia was not exogenous. Political and economic transitions were mainly directed from the inside by “forces within the old system” (Šušteršič, 2004: 401) and did not follow the West and international institutions blindly. For example, Jeffrey Sachs plan for privatization and his alternative IMF plan were not endorsed in Slovenia. Major political and economic elites such as Deputy Prime Minister Jože Mencinger opposed Sachs and the IMF plans. After some political bargaining and debates, the government submitted a privatization plan that deviated from the IMF suggestions. This slow progress in privatization was not only because of the elites but also the public were not in favor of shifting the ownership of the main Banks and enterprises towards foreign ownership (see Lindstrom and Piroška, 2007: 119-125). However, as we will see later, with more pressures from the European Commission (with the negotiations on the EU accession going on), Slovenia had to proceed further with privatization and other reforms to meet the criteria and be part of the EU which the public were moving more and more in favor.

Taking an internally originated reform track does not mean that reforms in Slovenia were totally homemade and were not affected by the outside (as we have seen in the previous paragraph). Elites in Slovenia were influenced by the market economy even before independence and the road they took to join the EU.³³ During the early stages of transition, international and European financial institutions, the US and EU member states were involved in shaping the transition strategy in Slovenia. This played a role in the direction the country was taking especially regarding institutional constructions. Slovenia had to create a lot of institutions (not only financial, but also legal, administrative, etc.) which were modeled on the Western principles. An independent central bank (BoS) was established on June 25, 1991 by the implementation of the Law on the Bank of Slovenia. According to the Act of the Bank of Slovenia which was published in 1991 and replaced by the 2002 Act on the Bank of Slovenia, the BoS is an autonomous entity and its decisions and powers shall be taken independently. Following the establishment of the BoS, Slovenia introduced the Slovenes Tolar on October 8, 1991 (Pleskovic and Sachs, 1994: 191). So people were not attached to the new currency and have not had real trust in it. Moreover, due to their strong ties to the Austrians and Italians, they were familiar and used to the euro. This in part led to high support to euro adoption in Slovenia.

The external support for creating an epistemic community across the NMS that adheres to similar beliefs as the West influenced and affected the domestic change in Slovenia (and all NMS) and the decisions taken. The United States Agency for International Development (USAID) has played important role in the transition efforts towards economic liberalization and democratization through its technical and financial assistance, training and workshops. One of the important programs was the Financial Services Volunteer Corps (FSVC) which provided short-term American expertise to the different financial institutions and had an influential role in the reform (USAID, 1997).

³³ To fully understand the situation and the relation between the elites in Slovenia and the International and EU institutions and member states, it is important to go in analysis at least to the last few years before the fall of Yugoslavia.

Moreover, under the Support for Eastern European Democracy (SEED) Act³⁴, the US provided technical assistance on private sector development, privatization, banking system reform, pension reform, training and debt restructuring. As for the EU, its influence was increasing more with the progress of negotiations with Slovenia towards its accession to the EU. During the 1990s, the EU had exercised its power to push Slovenia to adopt certain policies in order to comply more with the EU laws. Through programs such as Phare, the EU was offering not only technical assistance but also financial one. In addition to that, the Commission was able to push Slovenia to amend its constitution (by changing article 68 that does not allow foreigners to own lands in Slovenia except as inheritance) as a condition to enter into accession negotiations (Bandelj, 2004: 465-466).

After this analysis of the constructivist explanation and the effect of the external players in shaping the developments in Slovenia, we turn to understand the domestic environment. Since as we have seen in this part, domestic players were really involved in the transition and affected the direction in which Slovenia was moving before and after the fall of Yugoslavia.

A Domestic Politics Approach

One important thing we have to understand regarding Slovenia is its transition and development was not a clear cut with the past. The elites during the Yugoslavia period continued to play a crucial role in the transition of the country after independence. By the second half of the 1980s, two main ideas evolved among the ruling communist elites: “decentralization of the federation, democratization and the introduction of a multi-party political system” which was supported in Slovenia (Brinar, 1998: 242). Consensus is the building block for the society and development which drove the elites to adopt a social democratic form. Following independence, the road to the EU was supported by the majority of political parties in the coalition government and the opposition. So there was a broad consensus regarding joining the EU and later the euro which were considered to be the main goals in Slovenia. Add to this that the public support for EU accession was 89.61 per cent in favor in the referendum that took place on March 23, 2003 (EurActiv, March 24, 2003). After joining the EU, the majority of Slovenes were interested in the introduction of the euro in their country (66 per cent in September 2005) (European Commission, November 2005: 5), although they were a bit afraid of possible price increases. Following the euro accession, about 65 per cent of the population were happy with replacing the Tolar by euro (27 per cent unhappy and 8 per cent do not know) (Flash Eurobarometer No 208, May 2007: 7)—which is almost the same as before euro accession.

Slovenia’s road towards the EU and later EMU was relatively smooth. The negotiations with the EU were considered by the public to be a success regardless of some points which were not totally accepted (Bücar and Brinar, 2005). Add to this that the Slovenian constitution requires that after the confirmation of the negotiation position in the government, the parliament (mainly the appropriate parliamentary committee) has to approve it. This process brought more transparency and support to the accession process and adopting the rules that adheres to the EU *acquis communautaire*. In addition

³⁴ For more information on that see the official website at:
http://www.seedact.com/index.php?option=com_content&task=view&id=6&Itemid=7

to that, the institutional construction based on Western ideas was not that hard since a lot of those institutions were being established and developed during the process of fulfilling the Copenhagen Criteria.

Slovenia enjoyed a stable political rule following its independence. As in economic liberalization, political development was gradual and started by the end of the 1980s. No clear cut with respect to ideology (mainly communist one) was established in the early years following independence. The country enjoyed “a broad governmental coalition-building with the same party in the centre for most of the 1990-2004 period” (Fink-Hafner, 2006: 203). Having the same elites in power for more than a decade—during this important transition and state building period—resulted in a stable system in which no main struggles with the BoS policies and decisions were seen. Taking the fast track to join the euro made it easier for the progress of the country and lowered the probability of having problems in case a long track was taken. Since a newly independent country, creating most of the necessary institutions and being eager to be part of the Western world (by joining the EU and later EMU), helped increase the trust of the Slovenes in their country and solved the problem of the lack of trust in their newly established institutions. This also led to strengthening the democratic rule and the development of the country. It also blocked the way on having unnecessary problems that might face euro accession such that in the Czech Republic or the constitutional problem in Poland. So the domestic environment was in favor of such a decision based on the elite’s enthusiasm and the public opinion support for euro adoption.³⁵

CONCLUSION

Regardless of the fact that the long term economic benefits outweigh the costs as agreed upon in the literature on EMU; however, most NMS including Poland and the Czech Republic are still outside. In this paper we tried to offer an alternative explanation to the cost/benefit analysis to understand why some countries decide to take the fast track and join EMU soon, while others take the slow lane and do not really know when they will join. We used two approaches in our analysis a constructivist and a domestic politics approach. While constructivism helped us understand the social learning and policy transfer process that was going on post communism, the domestic politics approach helped us understand the political, legal, and domestic environment. It also allowed us to understand how receptive the NMS were to the EU and international community’s support. We used three cases to test our framework: the Czech Republic and Poland—two countries from the NMS that have not joined EMU yet; and Slovenia—which is the first to join.

All three countries went through the socialization process and transfer of ideas—though Slovenia had slightly different path. Slovenia diverted from the other two countries by adopting sort of different policies than suggested by IMF and other financial

³⁵ We have to keep in mind that this does not mean that reforms have not faced some disagreements especially in the parliament and the public—regarding privatization for example. Most opinion polls during that period showed no support for privatization as suggested by the Commission and majority wanted to see the big companies and banks operated by the government or in case privatized, then by a domestic owner and not foreigner (for more information see Lindstrom and Piroška, 2007)

institutions—especially regarding privatization. In addition to that, Slovenia had to go through a construction of its institutions which was not similar to both the Czech Republic and Poland. Slovenia's development was not a clear cut with the past; on the contrary, it was a continuation of a transition that started in the late 1980s when it was still part of Yugoslavia. The same political elites who started the transition before independence, continued with the reforms afterwards. While in the other two cases, we saw more movement in the direction of cutting the ties with the communist past and moving in a full speed toward market economy and democratization.

An important observation that we have seen is the existence of almost a political consensus in Slovenia towards EU and EMU since the early transition years. This was not the case in both the Czech Republic and Poland. Both countries have had domestic problems and internal struggles. The Czech Republic experienced a long-time conflict between the CNB (early euro adoption) on one hand and the government and the president (euroskeptic) on the other one. As for Poland, the domestic problems leading to euro accession delays are several: struggle between the NBP and the government during the years of Balcerowicz (when he was the Governor); struggle between the government (euro enthusiast) and the current NBP's governor and the president (both are euroskeptic); a struggle between the current coalition and the opposition (euroskeptic); and some legal issues that need to be resolved before joining the euro. One more observation is that the public support for the euro in Slovenia is much higher than in both Poland and the Czech Republic.

Based on what we mentioned earlier, we believe that our arguments set in the introduction that in order to understand the speed in which a country join the euro, we have to move beyond the cost/benefit analysis and look at it from a constructivist approach (with focus on social learning, policy transfer, elites networks and epistemic communities) and a domestic approach were proven crucial when tested empirically. A point that needs more emphasis is the institutional formation in those NMS, was it a total construction or just a reformation³⁶. One last conclusion is that the decision to join EMU fast or slow could be understood more via the domestic angle than the constructivist one (although it is important for our understanding how the ideas and learning transferred to the NMS). When the domestic environment was supportive to EMU, a fast track was adopted (Slovenia), when it was not in favor, then a slow track was taken (the Czech Republic and Poland).

³⁶ Due to lack of space and since it moves beyond the aim of this paper, we did not discuss it in details here. However, we will include it in the larger project.

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