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A CRITICAL ANALYSIS OF EUROZONE EXPANSION POSSIBILITIES

KRITICKÁ ANALÝZA ROZŠIŘOVÁNÍ EUROZÓNY

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AUTOR PRÁCE
AUTHOR

Bc. DOMINIK ANTAL

VEDOUCÍ PRÁCE
SUPERVISOR

doc. Ing. et Ing. STANISLAV ŠKAPA, Ph.D.

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Antal Dominik, Bc.

European Business and Finance (6208T150)

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L.S.

doc. Ing. Tomáš Meluzín, Ph.D. Ředitel ústavu	doc. Ing. et Ing. Stanislav Škapa, Ph.D. Děkan fakulty

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Abstrakt

Diplomová práce se zaměřuje na kritickou analýzu rozšíření Evropské měnové unie - Eurozóny, s důrazem na to, které ekonomiky jsou vhodní potenciální kandidáti a podmínky jejich připojení, s pro makroekonomický užitek měnové unie. Práce bere na zřetel rozlišení pohledu na Eurozónu z úrovně ekonomiky členského státu Eurozóny a EU jako celku, a také z makroekonomického pohledu globální ekonomiky. Práce má záměr sloužit jako prostředek pro ekonomické rozhodování na úrovni Evropské Unie zaměří se na racionální zvážení možností v rámci kompetencí a návrhy pro směrování do budoucna.

Abstract

Dissertation thesis focuses on a critical analysis of expansion of the European Monetary Union – the Eurozone, with emphasis on which economies are suitable potential candidates to join and the conditions of integration, for macroeconomic benefit of the monetary union. The diploma thesis takes into account the perceiving of the Eurozone from the level of member state economies, the Eurozone and the EU as a whole, and also from the macroeconomic viewpoint of the global economy. The thesis intends to serve as a vehicle for economic decision-making for the European Union, focuses on rational consideration of options under the authority of and suggestions for development in the future.

Klíčová slova

Asymetrický šok, Centrální banka, Oběživo, Euro, Evropská Unie, Integrace, Měnová politika

Key words

Asymmetric Shock, Central Bank, Currency, Euro, European Union, Integration, Monetary Policy

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Čestné prohlášení

Prohlašuji, že předložená diplomová práce je původní a zpracoval jsem ji samostatně. Prohlašuji, že citace použitých pramenů je úplná, že jsem ve své práci neporušil autorská práva (ve smyslu Zákona č. 121/2000 Sb., o právu autorském a o právech souvisejících s právem autorským).

V Brně dne 31. května 2014

Affidavit

I declare that the submitted thesis is original and was elaborated independently. I declare that referencing of sources is complete, that my work did not violate copyright law (within the meaning of Law no. 121/2000 Sb., On copyright and rights related to copyright).

In Brno on May 31, 2014

………………………………

podpis studenta

Student's signature

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Introduction

The thesis puts a case for integration in several areas. The paper argues that the goal of the integration is free and sustainable common market that is reasonable to handle from a macro-economic perspective. The Euro area, commonly called the "Eurozone" (as well as it is referred to in this thesis, is a collection of countries inside the European who use the Euro as a single currency. The Eurozone is currently, as of 2014, comprised of 18 countries of the 28 European Union members. The current situation is not going to last long, as both the European Union and the Eurozone are still in the era of expansion, it is this year the 10th anniversary of its largest expansion. The European Union is an experiment, that has been in practice since 1st November 1993, as a successor of the European Economic Community in 1958, whose creation was the thrive for peace and prosperity on the continent that had experienced world wars and in that period of Cold War it stood as a counterpart of the Soviet dominated Eastern bloc of socialist countries. Today, decades after the Cold War ended, the European Union expanded further to the east of its former Western borders, and effectively expanded and is operating in the countries that were formerly in the Eastern bloc.

Aim of the Thesis

The aim of this thesis is to provide valuable proposals on the ongoing internationalization and integration of the European economic area, that are indented as framework for decision making from the point of view of European Union's governing bodies. The overall issue of the thesis is the possibilities of expansion and the maintenance of the Eurozone in the contemporary era of internationalization. The objectives of the thesis can be bundled up into the following categories.

1. Identify the current situation of the Eurozone and present views on the future of the common currency market
2. Critically evaluate the advantages and disadvantages of using the common currency by various members of the economic spectrum
3. Bring recommendations for businesses and citizens to handle and maintain the common currency in its adoption and usage

It is the author's aim in the first place for this thesis to be educational and practical, as a "common currency handbook" for the benefit of the European Union as one stable and working economic entity. It is my aim in this particular thesis to gather valuable information on the theory of the current situation and important data, to gather information from practical areas meaning people who are in the contact with the money, consumers and users, and to use all that gathered information to formulate conclusions and recommendations for people across the board meaning the governing bodies of the EU, businesses, and regular people.

1. Theoretical Background

1.1 Common currency

To understand the topic it is important to recap what a currency union is, also the synonym monetary union, is a situation when two or more countries use one currency.
In the present and the history of currency there have been numerous attempts between local country economies to participate in a currency union, on various stages of economic integration, ranging from informal currency union to monetary and budgetary union. In the following sections the author shall review the types of currency unions and offer examples for the reader to illustrate the currency union in practice.

1.1.1 Informal currency union

We distinguish three categories of currency unions, first of all, the "informal" currency union, which is a case when a foreign currency is taken up one-sidedly, without a multilateral agreement or a common policy (McNamara, 1998, p. 23). This happens mainly out of convenience when the local currency system is either not in place because of not being necessary and pointless to adapt when the alternative is dealing with a stable foreign currency, or that the local currency is so unstable that it is failing because of hyperinflation (Vaish, 2005, p. 64). Either case, the running theme of informal currency union is the convenience of being able to choose to adapt a foreign currency as de facto its own without the hassle and effort of creating and policing its own. For examples of this arrangement I would like to draw attention to a couple of cases that can be divided into three further cases, with cases of mutual overlaps concerning a specific currency:

- Sovereign countries using a foreign currency. By this it is meant that a country being formally recognized by the overwhelming majority of UN members, using a currency of a neighbor that has stronger economy, and as a sovereign country which does not have a monetary policy on its own or its own currency is scarcely used. For example the Indian Rupee, a currency of India is also being used as de facto currency in Bhutan and Nepal since 1974 or Swiss franc being used as a currency of Lichtenstein since 1920. A notable example is Zimbabwe, where the local currency is failing to address the hyperinflation and thusly the locals de facto use different foreign currencies to use them as working currency, including the Euro, Pound Sterling and the currencies of neighboring South Africa and Botswana (CIA World Factbook, 2014). Also the Euro is informally used in the relatively new countries of Kosovo and Montenegro in the Balkans (CIA World Factbook, 2014), which is a sign of the direction they are making to get more associated with the European Union and its economy.

- Dependencies using a currency of its overseeing country, a historical principle. The practice is used most notably in the former British Empire, where the dependent territories and also the independent former colonies use a currency of its former overlords. The term Sterling bloc was used to describe the area where the pound was used, when in the 1930s the GBP was no longer participating in the gold standard so a variety of currencies switched from gold to the pound. For this case the Pound Sterling of the United Kingdom is used in its overseas territories that notably include the Falklands, Gibraltar, Saint Helena, as well the Crown dependencies in the English Channel and the Isle of Man, where the local currencies are used and pegged to the GBP and used interchangeably, but not automatically accepted in the United Kingdom, which overlaps to a semi-formal currency union (Hardwicke, 2011, p. 51). Two more sovereign countries and members of the Commonwealth realm, Australia and the New Zealand also have currencies that are informally used in their respective external dependencies as well as geographically relatively close sovereign nations that are also former British colonies with local currencies pegged where the local currency is applicable, a similar case as with the Pound in the Crown Dependencies (Encyclopædia Britannica, 2013). Australian dollar is used notably on the Christmas Island and the Norfolk Island as well as in the sovereign nations of Kiribati, Nauru and Tuvalu. The New Zealand dollar is used in its dependencies of Tokelau and the Ross Dependency as well as in the sovereign Cook Islands, Niue and in Nauru alongside the Australian dollar (CIA World Factbook, 2014). Furthermore the New Zealand dollar is used as a currency of Pitcairn Islands, an overseas territory of the United Kingdom, because of its geographical location in the Pacific where the New Zealand dollar area is the closest and most meaningful option. The US dollar is used informally in Central and South America alongside national currencies, for example in Panama, Ecuador, El Salvador and also dependencies of other nations in the area, like British overseas territories of Turks and Caicos Islands and British Virgin Islands, and the Caribbean Netherlands which consists of three islands that are incorporated territories of the Netherlands (CIA World Factbook, 2014).

- Disputed territories using a currency of its supporter. In the world there is a few of cases, when a sovereign country territory has been violated and a separatist unrecognized but de facto independent country was introduced as well as the currency of its supporter, as in the case of the North Cyprus when in 1983 an invasion of the Republic of Cyprus was led by Turkey to establish the self-proclaimed Turkish Republic of Northern Cyprus (CIA World Factbook, 2014) and the Turkish lira was introduced to connect the users to Turkey in a place formerly using the Cypriot Pound (Economy of Cyprus, 2010, p.32). A more recent example of this practice is the Russian Ruble being used in Abkhazia and South Ossetia, two self-declared de facto independent republics from Georgia and backed by the Russian Federation in economy and military issues, since 2008, where the Ruble replaced the Georgian Lari (Hardt, 2003, p. 31). In these cases the claimant's or supporter's currency is from the point of view of the self-proclaimed republics unilaterally recognized as the acceptable currency, to further weaken the influence of the said territorially violated country (Johnson, 2000).

1.1.2 Formal currency union

When a currency is adopted by two or more countries by an agreement on the authority for minting a common currency, a case of pegging a national currency to a stable economy. This involves multilateral agreements, therefore a formal currency union, also may include a common monetary policy and a common authority for minting. An example of this is shown with the US dollar being used as a currency in the dependent territories of the US like Guam and Puerto Rico, when they are directly using the US dollar or the Compact of Free Association that ensures the currency rules of USD being used in Palau, Micronesia and the Marshall Islands, sovereign nations with close dependent ties to the United States (CIA World Factbook, 2014). Sovereign nations in the former sphere of influence of France, its former colonies, are a good example of a formal currency union with a common policy, the CFA Franc that comprises of West African and Central African CFA franc practically interchangeable currencies, issued by Central Bank of West African States and the Central Bank of Central African States. These countries comprise of former French colonies and their successors in Africa, including Côte d'Ivoire, Niger, Central African Republic, Chad and the Republic of the Congo, and also former Portuguese colony of Guinea-Bissau and a former Spanish colony of Equatorial Guinea. Furthermore, the CFA Francs are pegged to the Euro, formerly to the French on par so there is an fixed rate to the Euro in the present (Gulde, 2008, p. 27). The CFA francs were formerly issued by the French Overseas Issuing Institute since 1945 that delegated its competencies to the two Central Banks in the region, but is still in charge of the CFP franc, which is the Pacific franc used in French Polynesia, New Caledonia and Wallis and Futuna, Pacific dependencies of France, also pegged to the Euro (CIA World Factbook, 2014). A similar arrangement in the Caribbean is the East Caribbean dollar as the Caribbean Single Market and Economy including former British colonies on the Caribbean Antilles like Dominica, Saint Kitts and Nevis, Antigua and Barbuda, and current colonies of Anguilla and Montserrat. And of course the Economic and Monetary Union issuing the Euro used in the Eurozone which is explained in the following chapters.

1.2 Optimum currency area

The main benefits of a currency union are the elimination of transaction costs, better performance of money as a medium of exchange and an accounting unit, furthermore elimination of price distortions that originate by the transaction costs and elimination of exchange rate uncertainty (Ricci, 1997, p.9). In would take into consideration the theory of the optimum currency area, which is a region that benefits as a whole when using a common currency, as a result of the economic integration. Europe is economically a reasonable candidate for an optimum currency area, with the economies being interconnected, yet most of the countries using separate currencies, and the European Union playing the main role, with the establishment of the Eurozone and the common market. There are well described criteria for an optimum currency area in the economic area. First of all the Mundell's criterion, of labor mobility, that the costs of common currency are lowered when the labor force and is easily distributed across borders, this criterion has its issues, as there are naturally issues even inside of the countries that limit domestic labor mobility, but when the borders are lifted, there are benefits from the arrangement of free labor market (Calvo, 2014, p.19).

Then there is the Kennen's criterion, that describes that the optimal currency area is a collection of countries that have widely diversified and are of similar structure, basically when the countries are similar enough economically and the adaptation to frequent exchange rate changes is eliminated (Cihelkova, 2008, p.25.

Furthermore there is the McKinnon's criterion, that describes the optimum economic area as a collection of countries that are open to market with each other, that says as an example that a small but very open economy does not have the potential or means to affect the price of its commodities, therefore an adoption of a common currency is an irrelevant to that and does not pose a threat (Mattli, 1999, p.35).

1.3 Common European currency history

Europe is and always, since the ancient world, has been a multiethnic geopolitical region with countries interconnected by politics and trade, with frequent changes in territorial borders and regimes. The division of labor and the resulting inevitable need for trade means there are financial interactions between the buyer and seller, and through the history of commerce various means of currency were used, and since the governments have the authority to regulate trade and use the tax money for their operation, an agreed means of measure of the currency needs to be in place, for the mutual benefit of the buyer and the seller to motivate the population to work and trade and to regulate the economy by the governmental authority on finance, which becomes a problem when two standards meet, for a tradesman operating in one country is no issue but when moving goods and services across the country borders with different currencies a consensus is needed for both parties be contended. With the currency exchange, a lots of pieces of valuable information is needed for the exchange rate is to be as accurate as to represent the adequate differences in the economies that are related to both the parties' individual backgrounds and to diminish the risk of speculation to achieve sustainability of the practice of exchange of currency for goods in the long run.

So that the tradesmen do not have to worry about macroeconomic issues, another trade is created and that is the exchange of currencies, a whole new money market that keeps track of the economic issues, the movement of currencies to come up with the adequate exchange rates and to set them the way that is profitable for the exchange broker, where the practice is either use a middle rate and have a set commission on the exchange in a form of small percentage or keep two categories of rate for buying and selling a currency, which is roughly a version of the previous case with the commission already being included in the buy and sell rates. It is both the drive to minimize the foreign exchange risk of the currency user that drives the currency trading. To solve the foreign exchange risk related problems, a common currency is a solution, but the adoption of such a system requires considerable multilateral systemic change and effort.

In the following paragraphs the author is about to introduce a concise history of common currency issues that happened in Europe in the history timeline that affects the present day.

1.4 Latin Monetary Union

The following example is a Latin Monetary Union was an endeavor in the 19th century to introduce a single currency system that would be used in its member states which were mutually interchangeable and based on a metal standard fixed exchange rate between silver and gold, specifically 15.5 weight units of silver to 1 gold unit, and this was a basis for a monetary standard in the participating countries. The LMU started by a multilateral agreement in December 1865 when Second French Empire, Kingdom of Italy, Belgium and Switzerland adopted the monetary standard, coming to practice in August 1866 (Willis, 2008, p. 45). The countries used coins of fixed amount of the precious metal and although bearing different national symbols, they were interchangeable when used anywhere in the currency union area, e.g. one French Franc was on par with one Italian Lira, because of the notion of agreed standard, as the currencies are backed by gold effectively and practically interchangeable for gold. The LMU was later expanded in 1868 by Greece and Spain and later in 1889 by Romania, Bulgaria, Serbia, San Marino and also Venezuela (Willis, 2008, p. 36). The LMU was until its dissolution in 1925 served its purpose in helping trade as the exchange rates were fixed when the countries effectively used a single currency. The failure of this system came because of a multitude of reasons, that are mainly the non-sustainability of the value of the precious metals, which is a system prone to damage from either speculation or ironically, progress in technology that allows the metals to be explored, mined and processed (Willis, 2014, p. 70). In the category of speculation is the effort of the French Emperor Napoleon III allying with Papal State in debasing the currency, when the silver coins were minted with less silver and using other metals as supplements thus making it profitable to be sold for more gold, which was a threat to the stability so the bankers boycotted the Papal State Coins (Willis, 2014, p. 84). The problem with the silver value decrease by 1873 caused the countries to fear for the gold reserves so in 1874 they members granted limiting the conversion of the metals and by 1878 with the value of the silver plummeting, the minting of silver coins stopped (Financial History Review, 2000, p.25). Technically since 1873, the LMU was using the gold standard (Willis, 2008, p. 93). According to Gresham's law, that basically states that "bad replaces good" referring to money (Mehta, 2000, p.54), when the less desirable money is being exchanged for the more desirable, and also with more impact on the matter was the larger availability of silver to be used in minting coins. But the main problem that caused the breakdown of the system was the inability and negligence to restrict minting banknotes based on the two metal standard, where the large economies of France and Italy to print paper money backed by the currency of all the other members for their own interests (Financial Times, 2011).

Although the Latin Monetary Union went defunct and was dismantled, Europe evolved and its countries in the changing world, affected by two world wars and economic hardships, at the brink of the next century there was another attempt to resurrect the old idea to introduce once again a monetary system that brings the users closer in facilitating market operations and unites economies and people.

1.5 The Euro as a common currency

To explain the issue with the common currency it is valuable to go into overview on the Euro, as The Euro is the official currency of the countries of the Eurozone, which as of 2014 consists of 18 countries out of the European Union's 28. The countries of the Eurozone are, in alphabetical order: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain. The latest accession to the Eurozone was Latvia on 1st January 2014 and the closest next country that is adopting the Euro is going to be Lithuania on 1st January 2015. Aside from the official members, Euro is also used in European small states that are Andorra, Monaco, San Marino and Vatican City, which have monetary agreements with the EU that award them rights to mint their own Euro coins too, as well as certain dependent territories of EU countries, and furthermore, it is unilaterally adopted by non-EU countries of Kosovo and Montenegro. In the European Union there are countries that are on various stages of the Euro adoption integration mechanism that leads them to adopt the Euro in the future, or have a permanent opt-out as does the United Kingdom and Sweden, or other EU countries not yet a part of the integration mechanisms. The Eurozone is the world's second largest economy, concerning estimates of the IMF (International Monetary Fund, 2008). The Euro also ranks 2nd behind the US dollar in the amount of reserve currency and traded currency (Business Insider, 2013), ranking as a distant second with 24% behind 62% worth of USD. Where the Euro ranks first, it is the highest value of circulating banknotes and coins, €951 billion (Federal Reserve Statistical Release, 2013). As of the aggregate mass of the usage and the reserves, the Euro and USD are the two most prominent anchor currencies in the world (Roy, 2007, p.75) In the overview, around 334 million people in Europe use Euro on day-to-day basis (Population Reference Bureau, 2014), and furthermore, around 210 million citizens of other countries in the world use currencies that have a fixed exchange rate with Euro, i.e. are pegged to it. These countries that use currencies pegged to the Euro are, Bosnia and Herzegovina, Bulgaria, Cape Verde, Comoros, Lithuania and as well as the multiple users of West and Central African CFA Francs and CFP Franc users in the French Pacific territories. As a form of peg there is Denmark where the Danish Krone is in the ±2.25% band of fluctuation.

Euro launched on 1.1.1999 created the second largest currency area in economic size after the US, with population of 290 million (OECD, 1999, p. 8) with the intention of being a common trade facilitator and reserve value holder as well as intending for the new members to integrate in the system (Hamori, 2011, p.25). Promoting economic integration is advised to be made by heightening the degree of interdependence of trade which had been being implemented prior to the adoption of the Euro (OECD, 1999, p.

22). Euro made its debut into circulation by replacing currencies of 12 EU countries on 1st January 2002 (Mulhearn, 2008, p.13).

Before Euro came into circulation, it existed as an accounting currency, introduced to world financial markets 1st January 1999, when it came as a replacement of the European Currency Unit on par rate, which had been in place since 1979 to minimize fluctuations between the member state economies, when ECU was an aggregate of currencies of the then European Community members (Dyson, 2002, p.52). Euro is the first single currency that not only independent on gold, but also on a nation-state (Marsh, 2011, p.12).

Euro is issued by the European Central Bank, one of the European Union institutions, that resides in Frankfurt, Germany, and was founded in 1998 to operate the Eurozone and its main goal is maintaining price stability by controlling interest rates thus keeping inflation at a low and reasonable rate of 2% in the long term (European Central Bank, 2014). The president of the European Central bank is Mario Draghi, an Italian banker, former governor of Bank of Italy, and ranking as the 9th most powerful person in the World of 2013, as he is in charge of maintaining stability and unity in the largest currency area with a sum of GDP of 17,37 trillion USD, according to Forbes (Forbes, 2014).

1.1 Economic fluctuations

A monetary union, as an economic entity faces fluctuations, also described as shocks. The issue with a monetary union is that there is a difference between two types of shocks, a symmetric and an asymmetric shock. Asymmetric shocks are in the context of a monetary union changes in the micro economic scale that have different effects on parts of the country, or for that matter, a different countries inside the monetary union.
If the impact of an asymmetric shock is prone to be large and widespread, the response is ought to be a prompt response from the monetary authorities, where the monetary impulse is to be taken by the countries not affected by the shock, in the Eurozone (OECD, 1999, p.34). Southern countries of the Eurozone comprise of one third of the Eurozone GDP (Erceg and Lindé, 2010, p. 49). Initial shock would be eased by modifying short-term interest rates (OECD, 1999, p. 22).The effects of shocks depend on the perceived depth and duration of the underlying liquidity trap and are not reduced

to the extent that they become common across member states is not valid in an environment with monetary and fiscal constraints (Erceg and Lindé, 2010, p. 56). Reducing government debt is faster when spending cuts are introduced gradually (Erceg and Lindé, 2010, p. 37). Another advantage of this kind of economic system, is that a monetary union is less prone to asymmetric shocks the more the regions are integrated and diversified inside themselves (OECD, 1999, p. 163). For a currency area as large as the European free market, heightened supply and competition assure a higher level of economic rise in the regions that were previously deemed as economically weaker, as the most significantly rapid rises in economy were in the economies that joined the European Union in later stage since its establishment, as Portugal, Spain and Ireland (OECD, 1999, p. 145) till the time of the largest enlargement of the EU in 2004 when 10 Central and Eastern European countries alongside Cyprus and Malta joined the EU.

1.2 Integration mechanisms

To create a single market and consequently a single currency to facilitate the market, the author would explain the integration mechanisms and the process of creation of the single European currency.

First of all, the European Monetary System was established in 1979 whose intention was to scale down fluctuation of exchange rates of the currencies of the European Community (Gros and Thygesen, 1992), thusly creating an Exchange Rate Mechanism, abbreviated ERM, with the forecasted intention of creating a monetary union in the future. This led to a creation of the mentioned European Currency Unit, the accounting currency that was based the average of the currencies joined. The rates of the currencies had to be in the 2.25% variation margin in exchange for the ECU, and calculated on a parity grid of ECU and the currencies. Exceptions were made for the weaker economies of Spain, Portugal and Italy, where their currencies were able to vary in a 6% margin from the ECU rate. This band of margins where for their slithering nature named the "Snake in the tunnel" as it is meant to move in the tunnel of the exchange rate constraints (Kaltenhaler, 1998, p.45). As mentioned before, countries excluded from the Euro mechanisms did not participate in the ERM. However, although the snake was a reasonable idea to keep a certain price level and to bring them closer, the market pressure put a lot of stress on the snake, so occasionally, because of the market, rates went outside of the tunnel constraints (Madura, 2014, p.194). The margins were subsequently widened to 15% in 1993, as a response to speculator attacks of the French Franc (Parsons, 2006, p.226).

With the dissolution of the European Currency Unit at the end of 1998 and the introduction of the Euro as a new currency, the exchange rates were solidified and thusly the value of the Euro was set, with ERM II replacing the former ERM, which is one of the targets in joining the Eurozone, with the snake tunnel bands of 15% and in the case of the Danish Krone it is 2.25%, although in practice the difference is less than 1% (Wivel and Anders, 2013, p.53). The second and latest country currently participating in the ERM II is Lithuania, with the Lithuanian Lit, which is pegged to the Euro in a fixed rate, when the Lithuanian currency changed its anchor currency from the US Dollar to the Euro 2nd February 2002, two (Terterov and Reuvid, 2005, p.31).

European Monetary Union requires more accountability and more balanced coordination of a wide range of economic policies (McNamara, 1998, p.9).

Although the criteria are established and the currencies are slowly being exchanged for the Euro, the reality illustrates that there is no prime example or best practice how to adapt the Euro, and so every country accession is a specific example (Beblavy, 2011, p.131).

The general criteria of joining the Eurozone are well described and theoretical. According to the binding Lisbon Treaty, coming into effect in December 2009, all European Union members are obliged to replace their currency with the Euro, with the exception of the United Kingdom and Denmark who have negotiated a permanent opt-out (Lynch, 2014, p.155). The countries currently with a set date are Lithuania as mentioned in 2015 and Romania in 2019 (European Commission, 2014). The countries willing to have to comply to the convergence criteria, as the following table describes, from the European Commission:

What is measured:	**Price stability**	**Sound public finances**	**Sustainable public finances**	**Durability of convergence**	**Exchange rate stability**
How it is measured:	Consumer price inflation rate	Government deficit as % of GDP	Government debt as % of GDP	Long-term interest rate	Deviation from a central rate
Convergence criteria:	Not more than 1.5 percentage points above the rate of the three best performing Member States	Reference value: not more than 3%	Reference value: not more than 60%	Not more than 2 percentage points above the rate of the three best performing Member States in terms of price stability	Participation in ERM II for at least 2 years without severe tensions

Table 1: Convergence criteria. (European Commission, 2014)

As the Table above implies, European Monetary Union defines are 4 areas of reference in economic performance, and a unit of measure to each of the criteria. Lithuania has fulfilled the criteria and the adoption of Euro is a matter of time, however Romania only has a target date set but is not a member of the ERM II to comply to the criteria yet, but will do so in the near future to match for the target.

2. Problem analysis and Current Situation

2.1 Potential candidates to the Eurozone

The author chose to measure of the Gross Domestic Product, which a value of commodities produced in a year in a specified country. The GDP is measured by the exchange rate principle, ordinary the exchange rate with the US dollar, so that is the unit of measure used, and this measure is preferred when comparing countries against each other, however, as the currencies values are variable, the amounts do not need to be equal to the market exchange rate, but overall works as a means to measure a country's produce around a particular year. Even though GDP is not an appropriate measure of the economic health, it is a helpful measure to identify the size of the economy of a country. But what is the main object of this measurement, is that the author is looking at the structure of the international trade of these countries, i.e. the export and import happening in a particular year and their balance as a differential between them.

To make a case for accession, the author chose 10 countries at various stages of the European Union and the Eurozone accession, to illustrate a point which is how the particular country benefits and adds to the Eurozone as a whole. Alongside the country description an evaluation of political risk is made.

2.1.1 Political risk

To address the political risk in general in these countries, generally speaking, the largest source of discomfort and political issues comes from the fact, that these new member states, potential Eurozone countries, are formerly members of the Eastern bloc, which has implications like the sizeable dependence on Russian imports, in form of energy - petroleum and gas, military technology and its maintenance, and also the period of transition to the open market economy has been abrupt, resulting in differences between the "Old members" and the "New" ones that are mirrored in the socio-economic terms of standard of living, poverty, unemployment are prevalent in these New countries. This arrangement is accounted for the membership in the former area of influence of the Soviet Union as a superpower engaged in the Cold War with the democratic West, which is the root of the unpleasant economic results, as the countries are in the process of adapting to the European standard.

A viewpoint of the World, as designed after the World War II, as emerging superpowers USA alongside with the Western allies and the Soviet Union on the other end, divided Europe and the Central and Eastern European countries fell under the influence of the USSR, which is a widely spread view even almost 70 years after, and is used as an apologetic explanation of mistrust of some of the Central European governments in face of the European Union, and with the openly nationalist approaches of the locals create a dangerous mix of mistrust and cooperation avoidance, explained by "national interests". This view is being tested in the recent cooling of relations between the United States and European Union against the Russian Federation, resulting from the Crisis in Ukraine. The geopolitical, socio-economical, demographic changes are challenging the status quo set by the former superpowers, and the countries face difficulties, as people around the Central and Eastern Europe do not challenge this world view. In the recent events of the past year, a decline of the association agreement between Ukraine and the EU resulted in mass protests, leading to the loss of power and ousting of the pro-Russian president Yanukovych (BBC News, 2014), which threatened the Russian influence and let to annexation of the Crimean Peninsula and the creation of the separatist republics in the Eastern Ukraine in Donetsk and Lugansk regions, leading to a situation that the new Ukrainian government has to face. As the EU's stance on the problem is clear, the new member states' population is divided on the situation, which is visible as the heads of governments silently support the Russian endeavors, by avoiding criticism, to account for the contracts with the Russian Federation on mainly the natural gas and petroleum supplies, to play off the EU and Russia at the same time, as is the case with the Slovak government and its head Robert Fico (The Slovak Spectator, 2014), or more nationalist Hungarian government with the prime minister Viktor Órban who call even for non-liberal democracy (Financial Times, 2014), with his open favor of non-democratic issues accounts for the examples of scaremongering among the populace about globalization and international cooperation, of the Western countries.

After the recent downing of the Malaysian civilian airliner, EU and the US agreed on the toughest sanctions against major segments of the Russian economy (Forbes, 2014). The view of the people in the Central and Eastern Europe is being massaged by spreading fear in how the sanctions would harm their interests, and Russia will not be hurt, which is ill derived, as the European Union is a larger and much diverse market, and it is Russia that is reliant on the foreign investment and payments for gas, technology transportation sector, originating from the Western countries. This is reminding of the case with the former Communist bloc, that the Western sanctions proved to be effective, as the USSR and its satellites could not prosper on the free trade and which brought the collapse of the communism and the end of the Cold War in Europe, or the country had to adapt to the market economy, as it is the case with China.

It is Russia, not the EU who is threatened by sanctions, and the EU has an opportunity to show its diverse economy to handle the emerging Cold War-ish environment. It is also a further incentive to diversification and look for the alternate means of energy that will replace the need for natural gas and oil entirely, like the electric energy harvested from the Blue or Green and solar energy. Against pacts, in the end it is the economics that prevails.

2.1.2 Romania

Romania accessed the European Union on 1st January 2009 alongside Bulgaria. Romania is currently the poorest European Union country by GDP per capita, 13,2 USD per capita (Purchasing power parity, 2013 est.), but has a real GDP growth of 5,1% (2014) (CIA World Factbook, 2014). As well as the rest of the former Eastern bloc Romania transformed to the market economy in the 1990s and by the opening of the markets and access to the foreign investment, Romania has transformed to be a market economy with a high growth of economy, having of the highest in the European Union, 8% in 2008 before the economic recession (Bloomberg, 2014). Romania is scheduled to adopt the Euro in 2019 as mentioned, which means the country will have to undergo the convergence criteria to adopt the common currency. Romania has to firstly undergo a structural reforms for the economy is less prone to fluctuations. Romania is chosen in this defile of potential Euro countries because of its scheduled accession, and would serve as a benchmark for the other countries to be compared to. The economies of Romania and Bulgaria, although meeting some of the macroeconomic criteria to adopt the Euro. that are public finances and the long-term interest rate, but their economies underperform when compared to majority of Euro users, according to a European

Commission Report (Balkan Insight, 2014). As a country that underperforms, but has agreed to a set date, is an example for other countries that the single currency is not a matter of the performance of a particular region, but of the currency area as a whole.

As it is visible from the Chart 1 and 2, the largest economic partner in international trade both in export and import is Germany, which is a running theme concerning trade in the Central and Eastern European countries. Together with large European and Euro area economies Italy and France they comprise a third of the export chart and more than a fourth of the imports. Balance of international trade is in imports favor, meaning that the country relies on trade partners that are mainly from the EU. Adopting a Euro instead of Romanian Lei is taking place in 2009 and the main reason is to tie Romania closer to the European Union, and by this the Eurozone will establish its Easternmost outpost in the former Eastern Bloc, and after Slovakia, Slovenia, Estonia, Latvia and Lithuania, Romania will become 6th country in the former Soviet influence area to adopt the European Common Currency. Also Romania would become the easternmost Eurozone country on the continent (more to the east are only the Republic of Cyprus and eastern islands of Greece in the Aegean Sea).

The political issues of Romania, being one of the poorest countries not only in the EU, but also Europe, it is dependent on the IMF safety belt to account for the budget deficits, and the political uncertainty is higher than in the other countries in the region, to handle the external shocks it is facing (Reuters, 2014). Romania has a sizeable labor force that has the possibility to work in the EU, and it is in the best interests of the Romanian and European citizens to accommodate for that possibility, rather than restrict it. The country suffered a crisis in 2012 as a result of the economic recession, and led to attempt to impeach the president Basescu but the referendum did not reach the validity threshold, but the election results that year saw his losing with the win of Social Liberal Union, but the country is still prone to antigovernment protests (Romania Insider, 2012). The bold choice to adopt the Euro and to set the date are challenges which has to be accounted for, and may serve as an example of a poor country managing to become an Eurozone member.

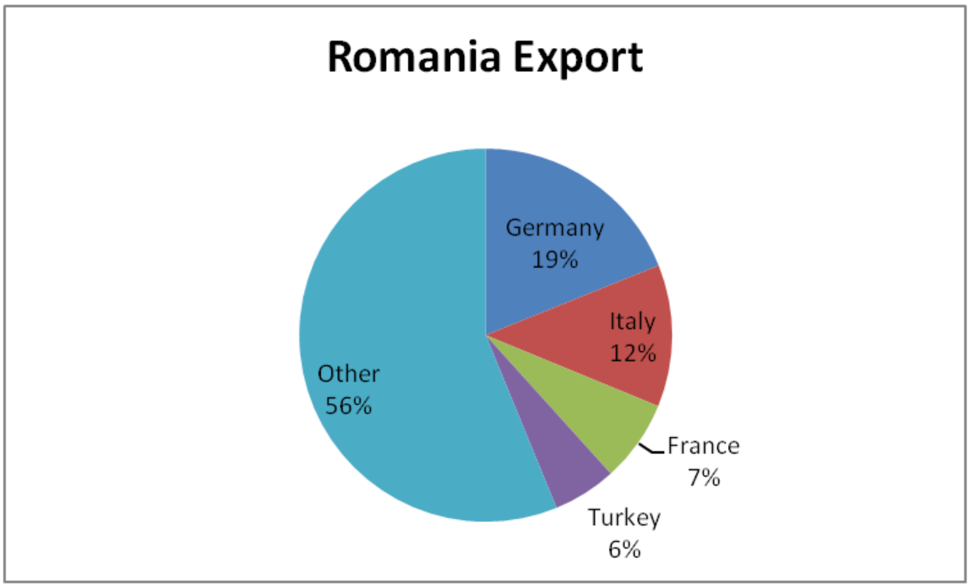


Chart 1: Romania: Exports business partners. Graph creator: Author, Data source: 2012 estimate. CIA The World Factbook, 2014

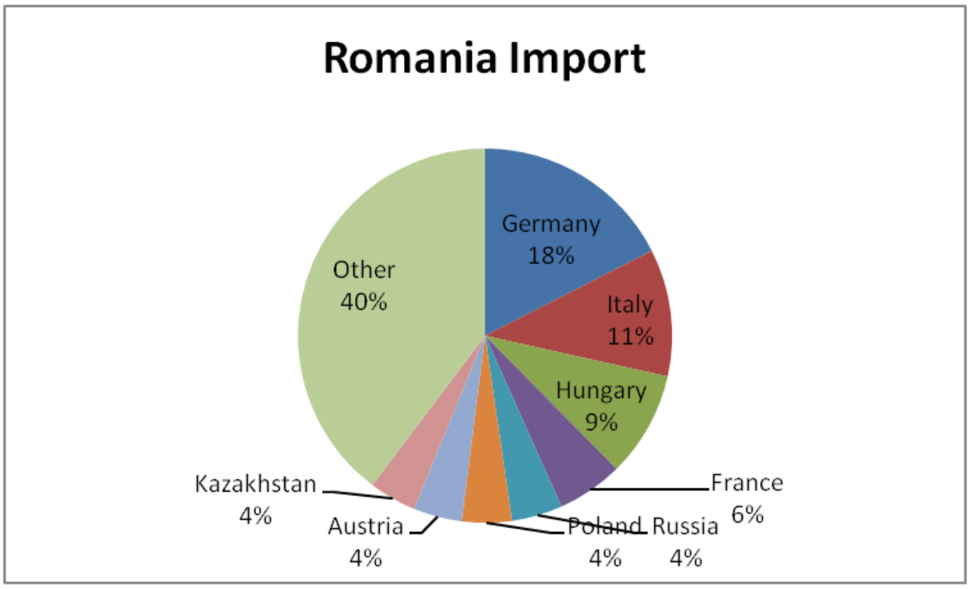


Chart 2: Romania: Imports business partners. Graph creator: Author, Data source: 2012 estimate. CIA The World Factbook, 2014

GDP (billion USD): 189,64

Exports (billion USD): 61,24

Imports (billion USD): 69,75

Balance (billion USD): -8,51

(2013 est. Source: CIA The World Factbook, 2014)

2.1.3 Bulgaria

Moving on, I have chosen Bulgaria, as it is, like Romania a quite recent acquisition to the European Union, and in the future, when the Bulgaria will be facing adopting the Euro, it will be bordering north and south the Euro area, Greece on south, which is in the Eurozone since its beginning and Romania, that will have been using the Euro since 2019. In this arrangement, Bulgaria's join would effectively create a large bloc of Euro using countries in Southeastern Europe, boosting the Bulgarian economy with the loss of currency exchange barriers between its neighbors to north and south, and to the rest of the Eurozone, making it more stable. As seen in the Charts 3 and 4, we have an insight of the country's international trade, where Germany is both 11% in the export and import area, and France is accompanying it. Bulgaria's southeastern neighbor Turkey is a large part of the trade, but what makes Bulgaria different, is the reliance on Russia in its imports, 21%, which describes the dependence of Bulgaria on Russian energy and products. But when counting the percentage of the exports and imports to and from the European Union, Bulgaria, similar as Romania, is one third with the most important EU countries.

The main political issue with Bulgaria is the Russian fossil fuel reliance, and also the construction of the South Stream pipeline, an alternative gas pipe from Russia to Europe which avoids Ukraine, which the Bulgarian government stopped, with the reference to its EU ties, although the construction material for the pipes is being transported to Bulgaria (Euractiv, 2014). Also the domestic political uncertainty pose threat to implementation of reforms and to the investment, and as in other countries in the region, corruption, inefficient judicial and public services are a problem and have the effect of losing trust in the government (Thomson Reuters Foundation, 2014).

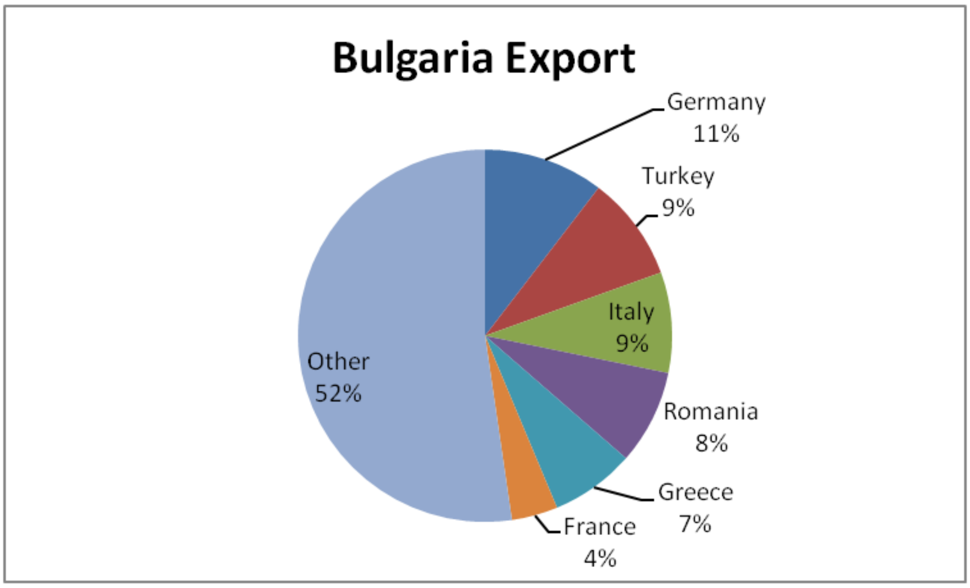


Chart 3: Bulgaria: Exports business partners. Graph creator: Author, Data source: 2012 estimate. CIA The World Factbook, 2014

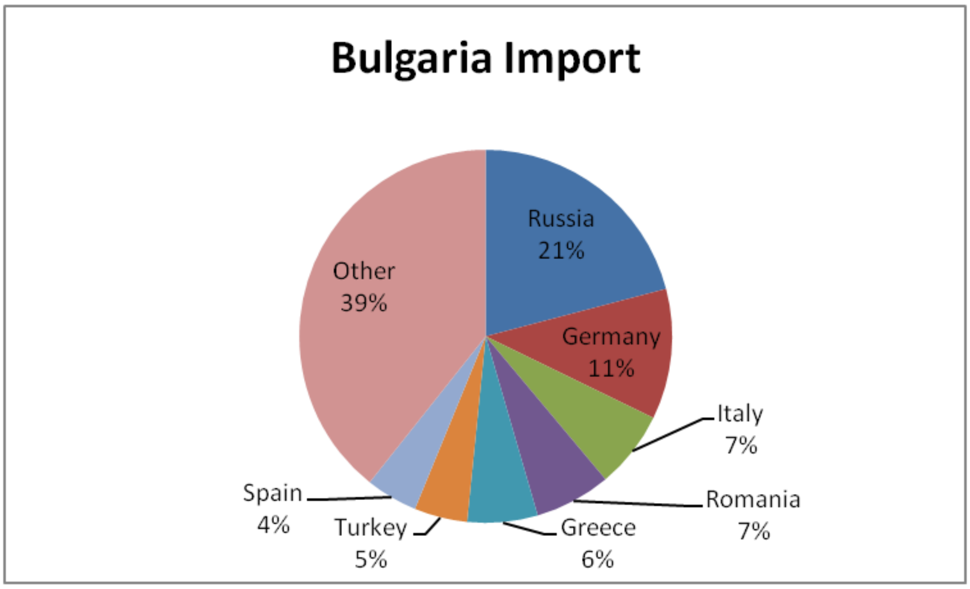


Chart 4: Bulgaria: Imports business partners. Graph creator: Author, Data source: 2012 estimate. CIA The World Factbook, 2014

GDP (billion USD): 53,01

Exports (billion USD): 27,9

Imports (billion USD): 32,88

Balance (billion USD): -4,98

(2013 est. Source: CIA The World Factbook, 2014)

2.1.4 Poland

Poland is Central European country and is bordering the Euro Area Countries on the west with Germany, and in the South, with Slovakia. Germany is by far the largest partner in Poland's sizeable international trade making up one quarter of both imports and exports, with other large economies of the EU of France, Italy, and UK behind. Russia is a large partner in imports, 12%, mainly with energetic supplies, as a transit country of natural oil and gas into the Western Europe. Poland accepting the Euro in the future would lose the monetary barriers for more than 40 million Polish, easily expanding foreign investment from the Eurozone countries without the foreign currency exposure risk. Poland's international trade balance is fairly balanced, in slight majority with the imports.

Politically, Poland is regarded as a cooperative and enthusiastic EU member, and even in the general mistrust of the common currency, the prime minister Tusk affirmed the ambition to join the Eurozone, promising that after the implementation of reforms and reemergence from the economic recession Poland would meet the entry criteria by 2015, which is a desirable goal for Poland to eliminate currency volatility, adopting the common currency would put Poland in the center of the economic decision making in the EU (Kyiv Post, 2012).

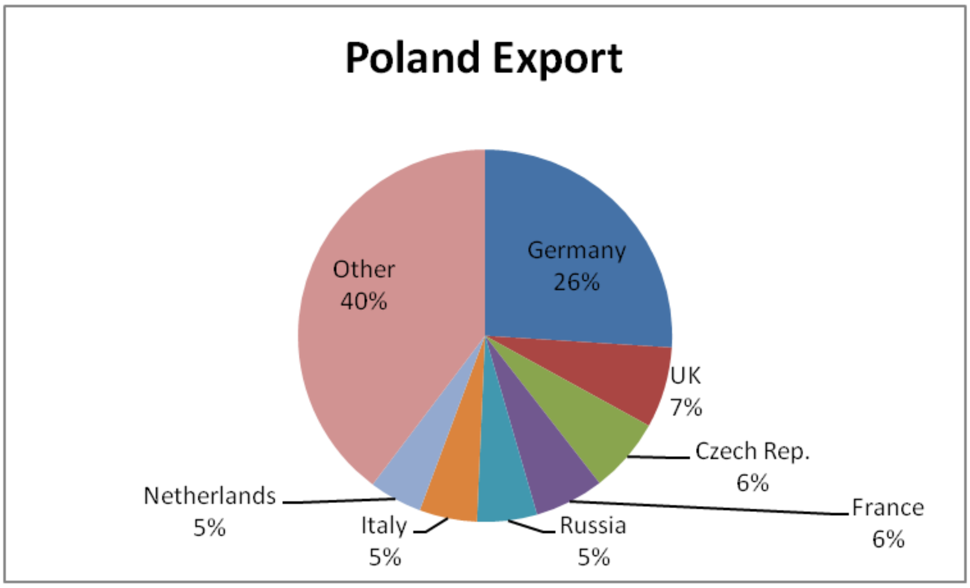


Chart 5: Poland: Exports business partners. Graph creator: Author, Data source: 2012 estimate. CIA The World Factbook, 2014

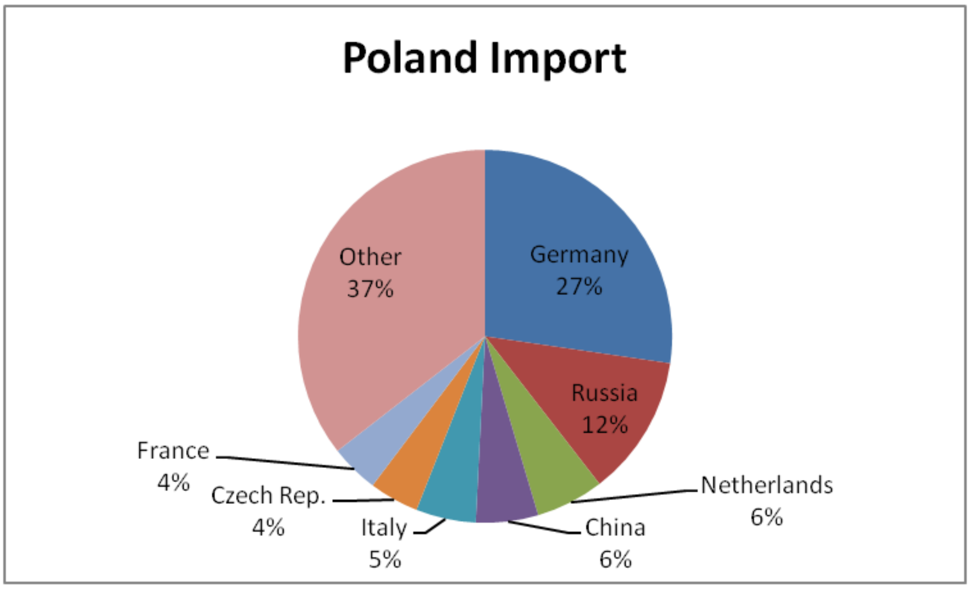


Chart 6: Poland: Imports business partners. Graph creator: Author, Data source: 2012 estimate. CIA The World Factbook, 2014

GDP (billion USD): 517,54

Exports (billion USD): 202,3

Imports (billion USD): 207,4

Balance (billion USD): -5,1

(2013 est. Source: CIA The World Factbook, 2014)

2.1.5 Hungary

Hungary is a Central European Country bordering with the Eurozone countries, Austria and Slovakia, and since 2019 Romania will join, thus Hungary when adopting the Euro would create a "Euro bridge" to Romania, a corridor of the Eurozone connecting the Western Europe with Romania, and when Bulgaria is a Euro area member, the "Euro corridor" would connect the Old Eurozone of the Western Europe and Greece with these Hungary, Romania and Bulgaria. This would make opportunities for the foreign investment, something which a smaller country like the Slovak neighbor benefited. As with the international trade, they are fairly balanced with Imports being slightly worth more, and the classic composition as with the European countries, one quarter belonging to Germany, and also other Eurozone countries like Slovakia, Austria, Italy and France for the main part, and European countries Romania and the UK. Russian imports are up to one tenth as expected, when Hungary, as well as Poland, Slovakia are transit countries of Russian gas and buying gas for their consumption, also a sizeable amount of imports from China.

Politically speaking, Hungary suffers a very controversial political environment, with a nationalistic center-right party Fidesz led by PM Orban, which accounts for an authoritarian means of political discourse, and the exchange rate volatility of the Forint resulting in high exposure of borrowers, brings mistrust of the investors (Global Edge, 2012), and the strive for non-liberalization of democracy, and nationalist rhetoric of the political players pose a threat to openness and democracy in Hungary, which shall not go unchallenged by the international environment (Washington Post, 2014). The nationalist rhetoric is a barrier when concerning the Euro adoption in this environment, and can be held as a politically motivated issue against the common currency, for popularity and nationalist purposes.

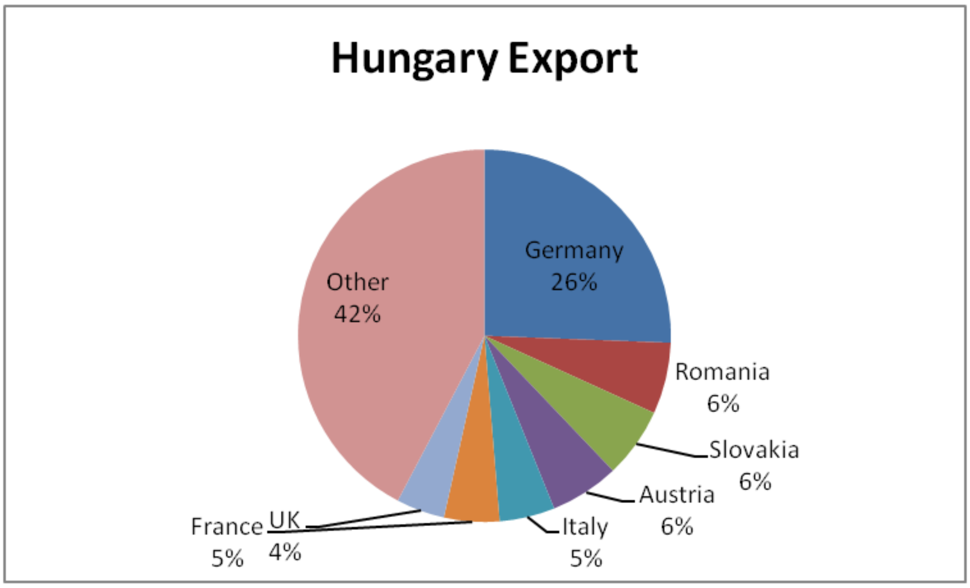


Chart 7: Hungary: Exports business partners. Graph creator: Author, Data source: 2012 estimate. CIA The World Factbook, 2014

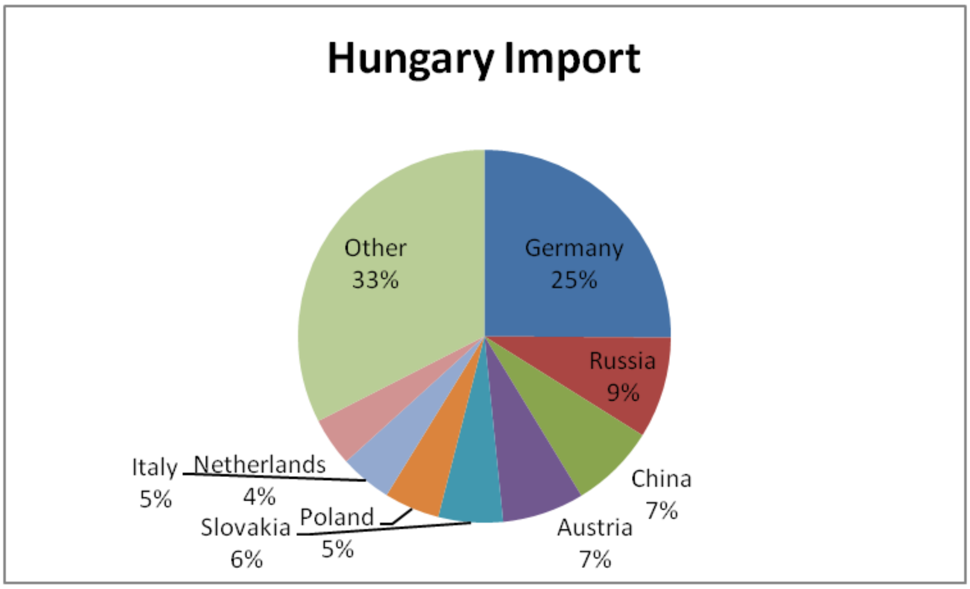


Chart 8: Hungary: Imports business partners. Graph creator: Author, Data source: 2012 estimate. CIA The World Factbook, 2014

GDP (billion USD): 126

Exports (billion USD): 92,98

Imports (billion USD): 89,52

Balance (billion USD): 3,46

(2013 est. Source: CIA The World Factbook, 2014)

2.1.6 Czech Republic

Of all the countries measured in this thesis, Czech Republic is arguably the most locked in between the Eurozone countries, Germany in the west, Austria in the south and Slovakia in the east. Only neighbor country not using Euro is Poland. Czech Republic's composition of foreign trade is expectedly very much in favor of the European Union and especially the Eurozone countries, where the largest trade partner is Germany, scoring almost a third in both charts, and in exports Slovakia follows. As for the Eurozone, it accounts for more than 50% of Czech Republic's Exports and Imports. What makes Czech Republic stand out is the positive balance of the foreign trade, with more than 10% in the plus. A country like this is more attractive to the foreign investors than for example Hungary, which is of almost the same size, in the economic terms, but is much closer to the Western Europe, Locked three quarters in the Eurozone and the decrease of the foreign exchange risk is the tipping point to avoid uncertainty of the investors.

Politically, the Czech Republic has a high dependence on European demand, with exports being 84% of the GDP of which 67% are into EU, also this interconnectivity with the Europe makes the country a good destination of FDI in Central Europe, also with the containment of the external debt (Global Edge, 2013). The country suffers a lot from internal political clashes and a mistrust and a little interest of voters, which is a situation that makes the non-standard parties favorable (Global Post, 2013), which is also a heightened popularity of the success of Andrej Babiš and his party ANO in Czech early legislative elections and also the recent EU elections. The Koruna is favored and as in Hungary is can be held as a political issue, to aim for the voters who are generally in favor of the domestic currency as a means for sovereignty and identity, not taking into consideration of the surrounding nation states not losing their national identities, but rather connecting them.

Chart 9: Czech Republic: Exports business partners. Graph creator: Author, Data source: 2012 estimate. CIA The World Factbook, 2014

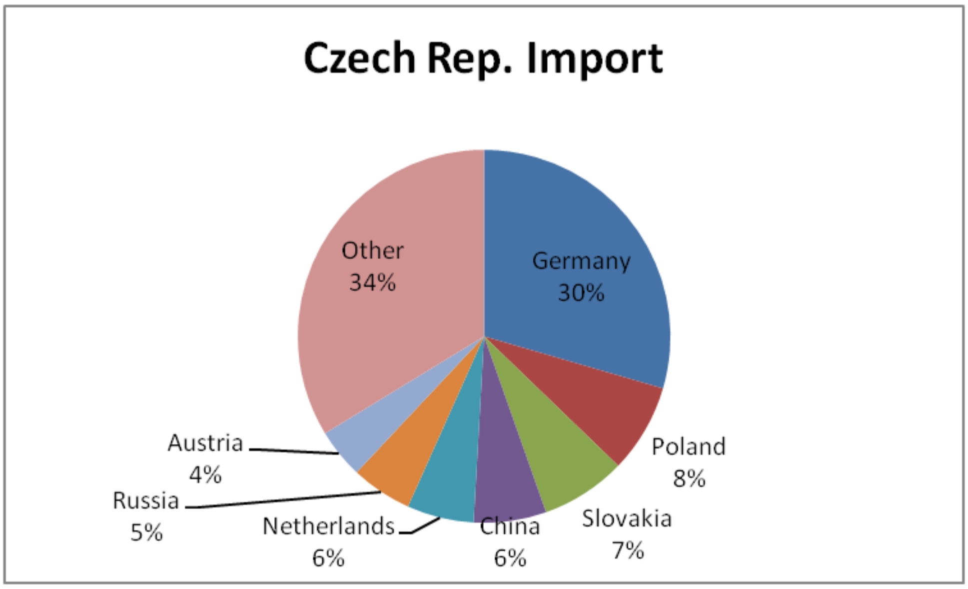


Chart 10: Czech Republic: Imports business partners. Graph creator: Author, Data source: 2012 estimate. CIA The World Factbook, 2014

GDP (billion USD): 198,45

Exports (billion USD): 161,4

Imports (billion USD): 143,4

Balance (billion USD): 18

(2013 est. Source: CIA The World Factbook, 2014)

2.1.7 Sweden

This choice if more diverse economy than the others described is Sweden, which is not using the Euro, nor shows interest, but has formally agreed to adopting the Euro in non-specified future, unlike the UK or Denmark who have dealt that they will not be using the Euro. This example is as a control subject, to see what percentage of trade Sweden has, as it is geographically in the Scandinavian Peninsula and borders Eurozone with Finland, which is a way smaller economy but a valuable business partner accounting for 7% of exports to Finland and 5% imports. In the exports, main business partners are Norway and Germany followed by the UK and Germany has a largest import part on the Sweden's trade record. A similarity with the Czech Republic is the positive balance of international trade. Overall, Sweden is trade partners with the European Union countries, the largest exception is Norway, which is not a member of the EU, but a member of the European Economic Area, alongside with Iceland and Liechtenstein, which allows those countries bilateral agreements with the European Union and gives them maneuvering space in their local policies.

Sweden's political situation of Sweden is stable, the economy is sound and diversified, competitive, which in the financial crisis led to an increase in bankruptcies, country holds traditionally the highest investment rankings, country has healthy public finances, with a strong influence of the banking sector, and despite having a generally aging population, with youth unemployment as is typical for European countries, Swedes have a high standard of living and household wealth. Moreover, the country specializes in high-tech goods and ecological sources in the energy sector, notably the green energy (Global Edge, 2013).

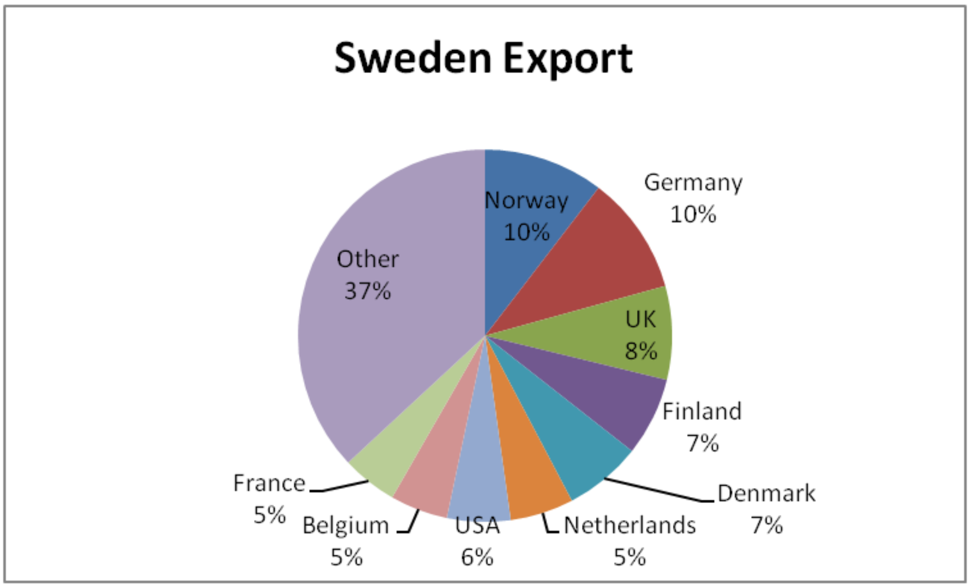


Chart 11: Sweden: Exports business partners. Graph creator: Author, Data source: 2012 estimate. CIA The World Factbook, 2014

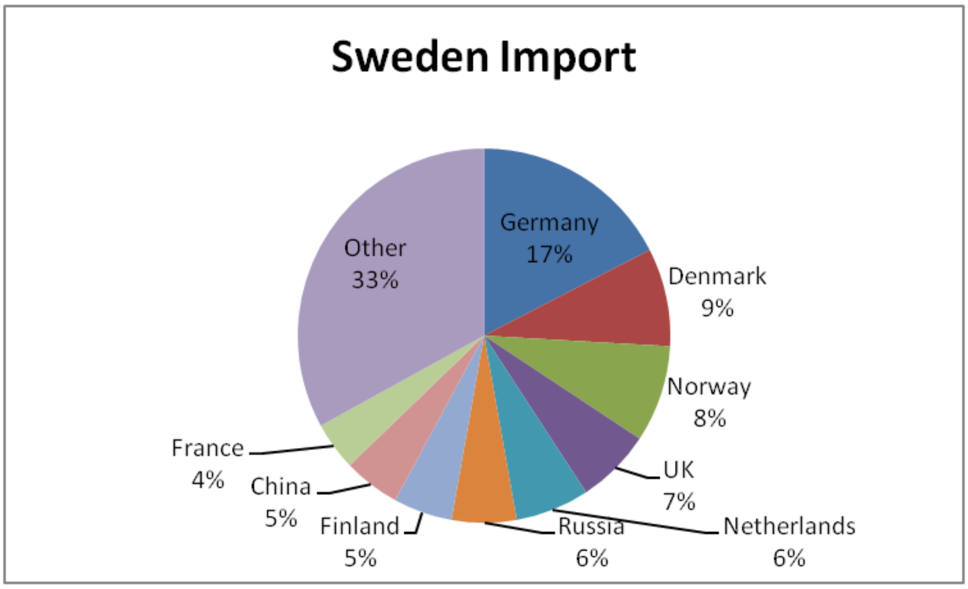


Chart 12: Sweden: Imports business partners. Graph creator: Author, Data source: 2012 estimate. CIA The World Factbook, 2014

GDP (billion USD): 557,94

Exports (billion USD): 181,5

Imports (billion USD): 158

Balance (billion USD): 23,5

(2013 est. Source: CIA The World Factbook, 2014)

2.1.8 Croatia

Croatia is currently the newest addition to the European Union club. With more than a half of exports and imports to and from the Eurozone countries, and a stable amount of tourism industry money coming to the Croatian economy, the country is well suited for the adoption of the Euro, even for not being in the integration mechanisms, as the majority of the European tourists use the Euro, that has to be exchanged for the Croatian Kuna. A streamlining of this process could affect the tourist industry, and furthermore, Croatian neighbor Slovenia has been already using the Euro, and one of the two most important business partners, Italy (alongside Germany) is nearby across the Adriatic sea and being interconnected with Croatia with the sea transportation.

Politically, Croatia is a relatively new country, as is the case in the Central and Eastern Europe after the end of the Communist bloc and the rise of nationalism, Croatia was a part of Yugoslavia, which was torn in civil war in the 90s, with disputes against Serbia still last. Croatia was badly hit by the financial crisis, which affected the tourism based economy, which is an industry heavily dependent on the consumption of luxury services, and has been a recession since but recovering. Croatia is a favorable destination of tourist from all over Central Europe and has a potential of attracting tourist from elsewhere. Croatia is the newest member of the EU, since 2013, and its economy is opening, but there is a heavy exposure due to the local currency that affects the economy (BBC News, 2014).

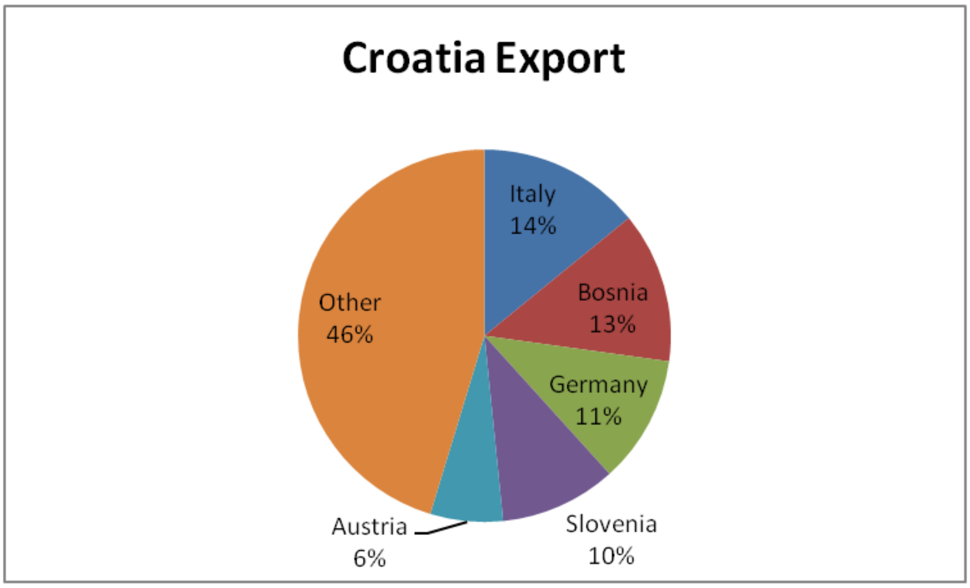


Chart 13: Croatia: Exports business partners. Graph creator: Author, Data source: 2012 estimate. CIA The World Factbook, 2014

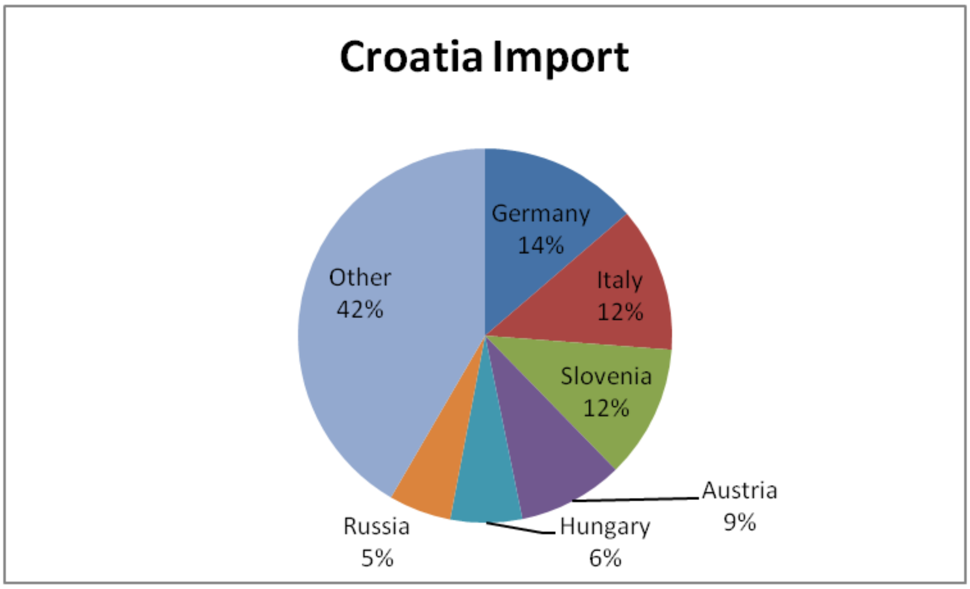


Chart 14: Croatia: Imports business partners. Graph creator: Author, Data source: 2012 estimate. CIA The World Factbook, 2014

GDP (billion USD): 57,54

Exports (billion USD): 12,36

Imports (billion USD): 21,74

Balance (billion USD): -9,38

(2013 est. Source: CIA The World Factbook, 2014)

2.1.9 Bosnia and Herzegovina

Now let us turn the attention to non-European Union countries, which does not limit the possibilities of this thesis. Bosnia and Herzegovina, also called just Bosnia, is a small economy bordering with European Union member Croatia to the north and the west, and a war-torn nation, after the Yugoslav War. The majority of people are Bosnians, who are pro-European oriented, and even the local currency Bosnian Convertible Mark is pegged to the Euro, since 1998 when the Bosnian Mark was pegged with the German Mark on par, thus the name, and when Germany adopted the Euro, the peg stayed in place. As the international trade balance implies, Germany having close monetary ties to Bosnia, is the most important partner, as well as the neighbors of EU member Croatia and on the other hand Serbia. Majority of the trade transactions are to and from the European Union, although the Russian influence on the imports.

In political risk, Bosnia and Herzegovina is still recovering from the desolation of the Yugoslav wars due to its break up, as the country is multi-cultural and in the nationalist terms an uneasy solution how to align the borders, which had Bosnia as a part of the Yugoslav Federation. The root of the conflict is that in Yugoslavia, in places like Bosnia and Kosovo there is a multiethnic background, resulting from their history. Bosnians, Croats and Serbians speak dialects of one language but the difference is in religion, which accompanies the ethnicity, when Croats are Catholics, Serbians are Eastern Orthodox and Bosnians are Muslims, creating a situation that a religion defines one's ethnicity, and these three religion-defined ethnics lived together in Bosnia, and the result of the war, alongside mass displacement of people, half of population - 2 million, was the establishment of Serbian governed Republika Srpska, on the northern and eastern edges of Bosnia, and a Croat-Bosnian inhabited Federation. Bosnia is one of the countries that are most prone to corruption, mainly as a result of its recent history, and EU talks that are on, are also aimed at capturing war criminals, as was the case in Croatia accessing the EU. Bosnians are more pro-West oriented than Serbs, who are traditionally backed by Russia, as the NATO forces took part in the operations in the war, and still its legacy of nationalism and instability remain an issue (BBC News, 2014).

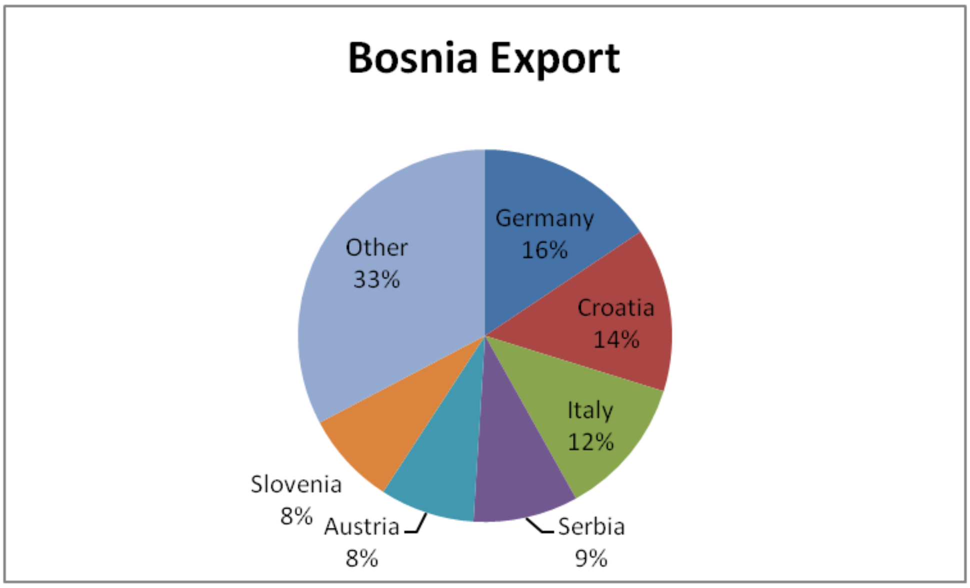


Chart 15: Bosnia: Exports business partners. Graph creator: Author, Data source: 2012 estimate. CIA The World Factbook, 2014

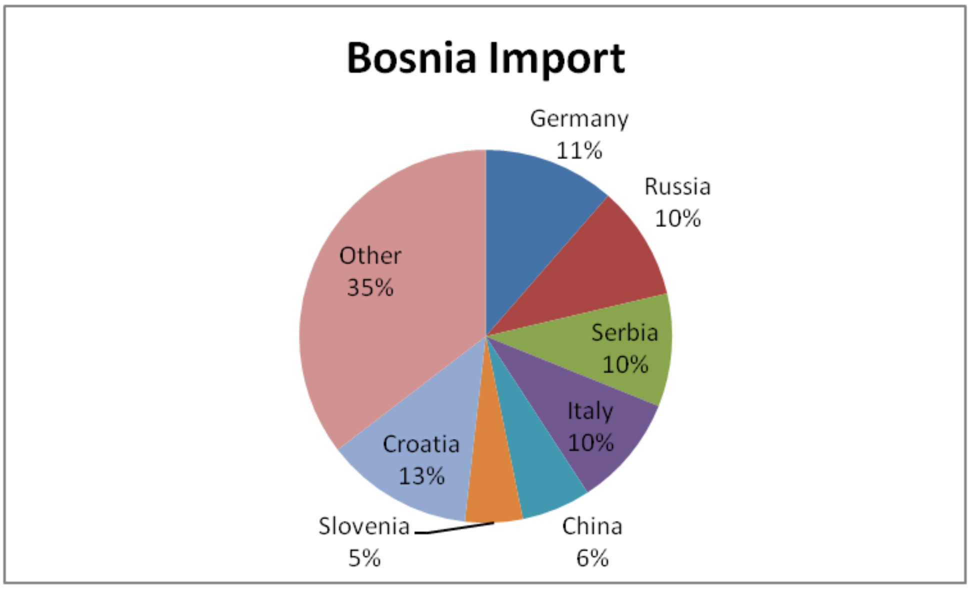


Chart 16: Bosnia: Imports business partners. Graph creator: Author, Data source: 2012 estimate. CIA The World Factbook, 2014

GDP (billion USD): 17,83

Exports (billion USD): 5,69

Imports (billion USD): 10,3

Balance (billion USD): -4,61

(2013 est. Source: CIA The World Factbook, 2014)

2.1.10 Macedonia

Macedonia is a small landlocked country in the Balkans, its most valuable business partners are EU countries, and especially almost two fifths of the exports go to Germany, which is the highest share in this thesis summary. Macedonia is bordering Greece and Bulgaria, that are EU countries, and Greece is in the Eurozone. Macedonia is pro-European oriented as suggested by the trade balances. Macedonian currency is currently the Macedonian Denar which replaced the Yugoslav Denar on par when Yugoslavia began to disintegrate in 1990, and the currency went through a conversion in 1993 with the New Macedonian Denar that replaced 100 old Denars for 1 New. Thus the Macedonian currency is not pegged to any anchor currency and making it vulnerable.

In political case, Macedonia left the Yugoslav Federation without violence, as was the Bosnian case, but the tensions remain among Macedonians and Albanian minority, creating tension and instability, which lead to loss of credibility. Also there is the name dispute with Greece, who claim that the Macedonia is a Greek region and demand the official name for the country as the Former Yugoslav Republic of Macedonia, awkwardly abbreviated FYROM., and Greece's attitude blocks the Macedonian joining in the EU because of this petty dispute (BBC News, 2014), but in 2005 Macedonia was confirmed as an EU candidate, as the International Court of Justice ruled against the Greece's bid. This being resolved, opens the path for further integration in the EU, and the possible adoption of the Euro, as Greece is one of the original users and the other neighbor Bulgaria will most likely be using the Euro when the common currency issue will be current in Macedonia.

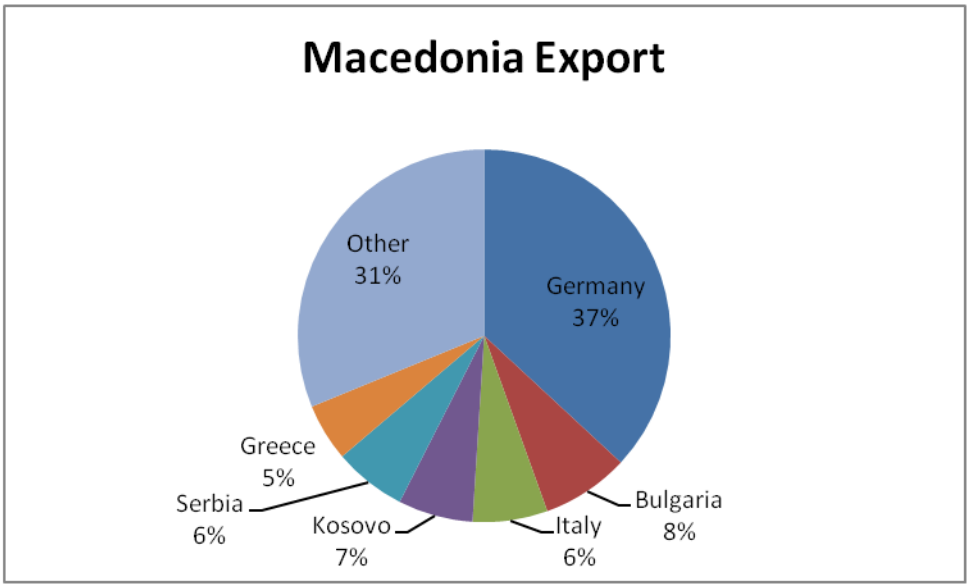


Chart 17: Macedonia: Exports business partners. Graph creator: Author, Data source: 2012 estimate. CIA The World Factbook, 2014

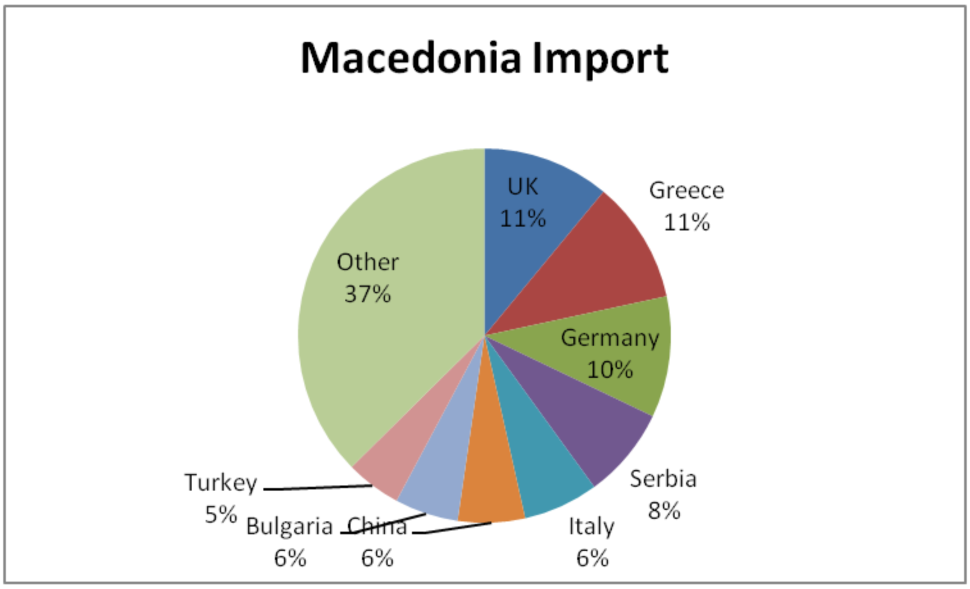


Chart 18: Macedonia: Imports business partners. Graph creator: Author, Data source: 2012 estimate. CIA The World Factbook, 2014

GDP (billion USD): 10,22

Exports (billion USD): 4,27

Imports (billion USD): 6,6

Balance (billion USD): -2,33

(2013 est. Source: CIA The World Factbook, 2014)

2.1.11 Kosovo

Last on the author's list of suggestions is the one of the newest country in Europe, Kosovo, which is partially recognized by the majority of the UN countries. Kosovo, as a former province of Serbia, has a large support of the Western Europe and the United States. Kosovo's economy is very small and relies on the Western partners partially the EU countries of Germany and Italy, but also Serbia and Macedonia, which are neighbors, while the exports go to Italy and Albania. Kosovo unilaterally adopted the Euro, so the conversion to the common European currency already happened there, even without the formal procedures, and although not having any formal say in the monetary matters of the European Central Bank, Kosovo enjoys Euro's stability and monetary credibility. In the future when European Union would be joined by Kosovo, economic matters would have been streamlined.

Last, but not least, the most controversial country on the list, politically. As is the case with former Yugoslav countries, which are a stage of the Western countries and Russia to advance in a geopolitical scale, as the regions have a significant importance because of their location, that makes them strategic for communication, trade, or even military aims, Kosovo is the newest country in Europe, and with a polarizing international recognition response. Until its independence, Kosovo was administered by the UN, which served as a facilitator of peace to prevent clashes between the Kosovar, which are ethnic Albanians, and the Serbs. Major European countries and the US recognize Kosovo, but Russia and China claim that Kosovo is a part of Serbia, thus creating and international discourse, but the odds are in favor of the Western aim for Kosovo (BBC News, 2014). An interesting case with Slovakia, which does not recognize Kosovo, with the explanation that its independence would be a precedence for Hungarian minority in Slovakia to take a similar action (Global Voices, 2008), but with the recent Ukraine situation does not stress the point against separatism, uncovering the pro-Russian rhetoric, but the new president Kiska suggests to recognize Kosovo.

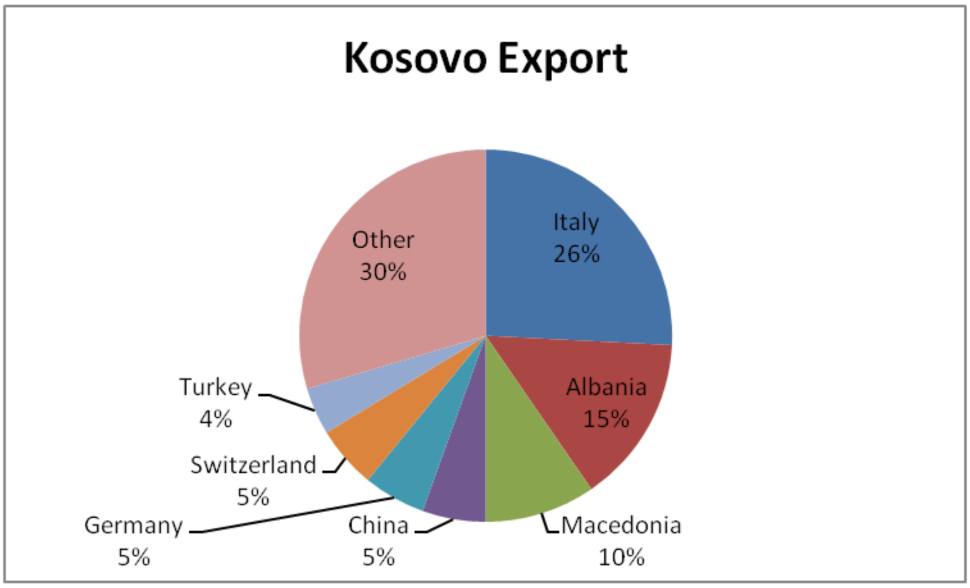


Chart 19: Kosovo: Exports business partners. Graph creator: Author, Data source: 2012 estimate. CIA The World Factbook, 2014

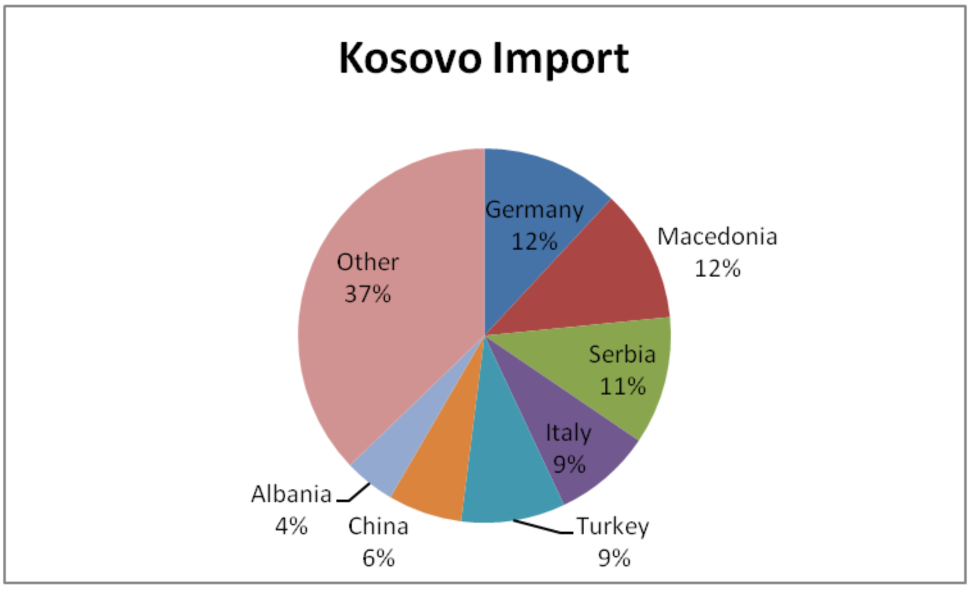


Chart 20: Kosovo: Imports business partners. Graph creator: Author, Data source: 2012 estimate. CIA The World Factbook, 2014

GDP (billion USD): 6,96

Exports (billion USD): 0,41

Imports (billion USD): 3,4

Balance (billion USD): -2,99

(2013 est. Source: CIA The World Factbook, 2014)

2.2 GDP Growth Rate comparison

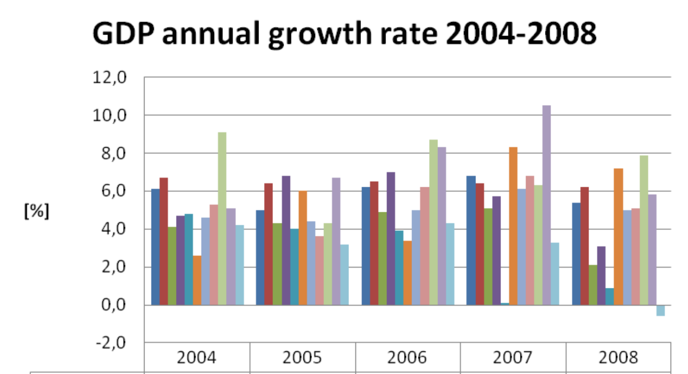
The GDP growth rate is the most prominent measure of a country's economic health, being positive it means the economy is rising, that implies the business and personal income are growing, and on the other hand when it's declining, it creates uncertainty among investors, and can depress the economy further, when this is happening consecutive years it means the country's economy is in the recession. For the comparison I would use macroeconomic data on the GDP growth rate of the suggested countries to highlight their potential they would bring to the table as a Eurozone member state. As a benchmark the author includes an extra country, which is Slovakia, which is the only one on the chart that is a Eurozone member. A case can be made with Slovakia's accession to the Eurozone. Slovakia benefited from the adoption of the Euro, when being chosen by investors for one of the reasons being it is in the Eurozone, when the adoption of the Euro proved to improve competitiveness of Slovak exporters and resilience of its economy when facing unpleasant external economic developments (The Slovak Spectator, 2012), and the adoption of the Euro is being attributed that the economic recession did not affect Slovak economic as when Slovakia would be using its former national currency.

For visual reasons the graph table is separated into two small tables, so the numbers and the differences on the bars can be seen better. On the Chart 21, you can see the annual GDP growth of the selected European countries, prior to the economic recession, where all the countries are experiencing economic growth. Slovakia had its peak in 2007, whilst entering the ERM II integration mechanism. Bulgaria and Romania are performing in accordance with their relative economic sizes whilst Romania experiencing a higher growth. Comparing another two relative companies, Croatia and Bosnia, there is a higher growth in the weaker Bosnian economy over these 5 years. Kosovo's growth has been relatively rising, Macedonian as well. Dissecting the performance of Sweden, it is the only one on the table that went to negative numbers, as the recession hit, as well as Hungary experiencing its lowest but positive growth rate in 2008.

On the Chart 22 you can see the GDP growth results of the same countries but consecutive years since the economic recession, starting from 2009 and ending in the latest complete year of 2013. What is interesting to find out, that from the European

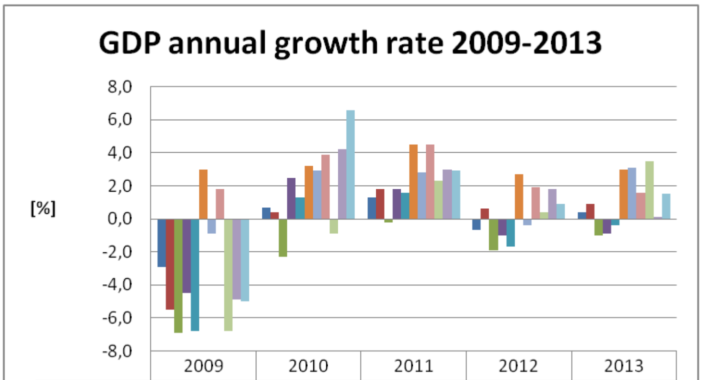
Union countries, only Poland retained its GDP growth although being hit by the crisis, although less than 2% but all other EU countries went into negative growth of GDP, and Poland's performance peaked in 2011 and since has been falling down steadily. One other country that seems not being hit by the crisis is Kosovo in terms of the economy growth. Even in the crisis continuing year 2009, Kosovo gained 3% GDP growth, which is a successful situation, for the economy size being small. Country put into the mix for control purposes, Eurozone member Slovakia got into negative numbers the year following the crisis, but recovered quickly the next year, although the economic performance is on the decline since 2010. Croatia has been in the negative numbers since the crisis, having the lowest decline in economic growth of almost -7%, and its economy although recovering from the decrease, but has not reached the positive growth and oscillating around -1%. Macedonia started in the slight negative of -0,9 but kept its standard around 35 excluding the year 2012 where the economy growth fell being very slightly. Romania is showing steady growth without a small fallback in 2012 but heading well. The only countries being in the economic decline last two years are Czech Republic, Hungary and Croatia, where the decline has been on the positive trend. To count the three best performing economies in the last year of 2013 from my selection, the best ranking country is Romania with 3,5%, and then Macedonia and Kosovo with 3,1% and 3,0% respectively.

For comparison, Sweden as a traditionally sound and healthy economy suffered -5,0% decline from the crisis, which compensated with 6,6% the next year, and the growth has been oscillating steadily in the positive numbers.



	2004	2005	2006	2007	2008
Bosnia	6,1	5,0	6,2	6,8	5,4
Bulgaria	6,7	6,4	6,5	6,4	6,2
Croatia	4,1	4,3	4,9	5,1	2,1
Czech Rep.	4,7	6,8	7,0	5,7	3,1
Hungary	4,8	4,0	3,9	0,1	0,9
Kosovo	2,6	6,0	3,4	8,3	7,2
Macedonia	4,6	4,4	5,0	6,1	5,0
Poland	5,3	3,6	6,2	6,8	5,1
Romania	9,1	4,3	8,7	6,3	7,9
Slovakia	5,1	6,7	8,3	10,5	5,8
Sweden	4,2	3,2	4,3	3,3	-0,6

Chart 21: GDP annual growth rate 2004-2008. Graph creator: Author. Data source: (The World Bank, 2014)



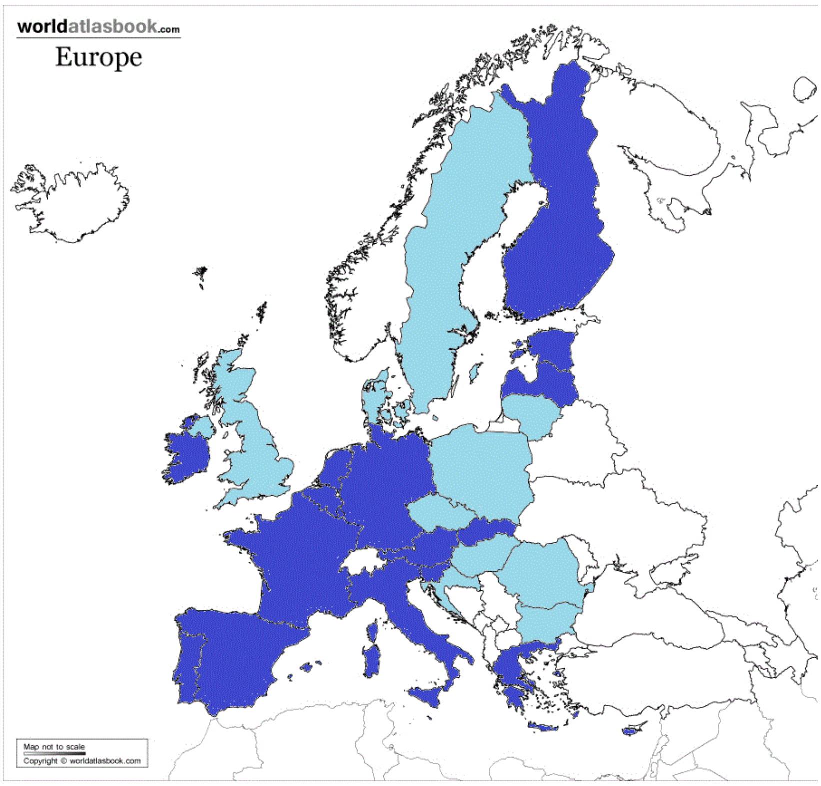
	2009	2010	2011	2012	2013
Bosnia	-2,9	0,7	1,3	-0,7	0,4
Bulgaria	-5,5	0,4	1,8	0,6	0,9
Croatia	-6,9	-2,3	-0,2	-1,9	-1,0
Czech Rep.	-4,5	2,5	1,8	-1,0	-0,9
Hungary	-6,8	1,3	1,6	-1,7	-0,4
Kosovo	3,0	3,2	4,5	2,7	3,0
Macedonia	-0,9	2,9	2,8	-0,4	3,1
Poland	1,8	3,9	4,5	1,9	1,6
Romania	-6,8	-0,9	2,3	0,4	3,5
Slovakia	-4,9	4,2	3,0	1,8	0,1
Sweden	-5,0	6,6	2,9	0,9	1,5

Chart 22 DP annual growth rate 2009-2013. Graph creator: Author. Data source: (The World Bank, 2014)

3. Proposals and Contribution of Suggested Solutions

In this part of the thesis I would like to propose to illustrate the options of the admission of the new Eurozone countries to the table, with accompanied map and the gist of economic statistics, that is the GDP. Although the future situation are impossible to forecast concerning a future when countries join the Eurozone, I chose to illustrate that with the latest numbers of Population and GDP, similar case when illustrating future value of an investment by comparing multiple present values. With the map I sourced and colored using the MS Paint tool to illustrate the range of the potential Euro Area. The values of the population are 2012 estimates and the GDP are latest 2014 estimates, but for an example they are sufficient to illustrate the argument, as it is obvious that the GDP and population will grow over time.

3.1 Eurozone expansion possibilities

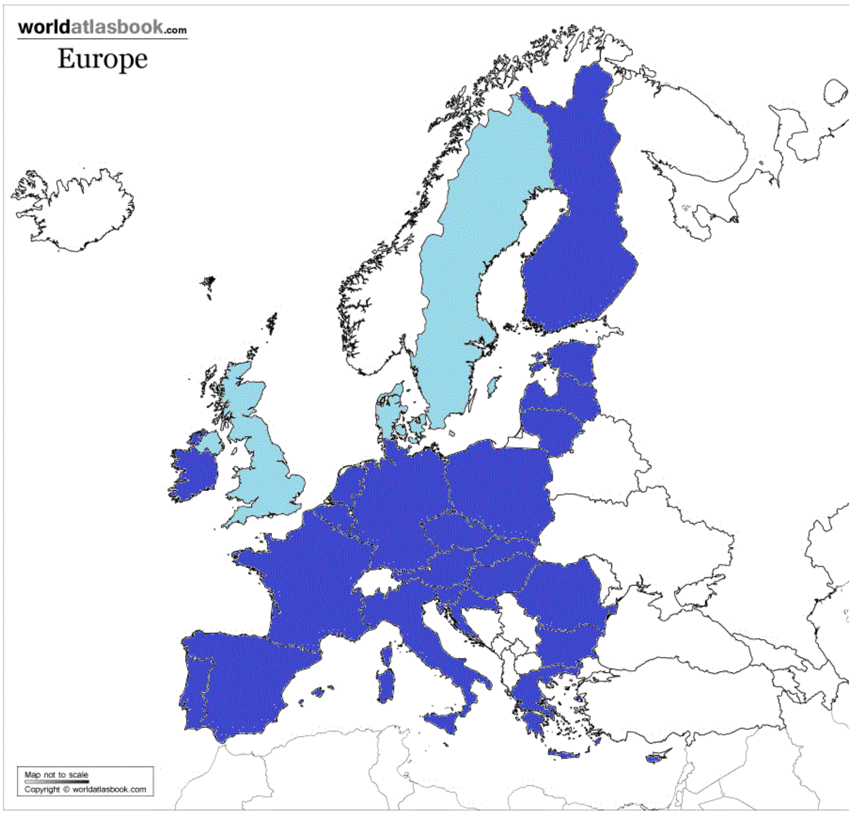


Picture 1: Eurozone Today 2014. Source: blank map (Worldatlasbook.com, 2011). Color added by Author

	Eurozone
Population [million]	332,88
GDP [billions USD]	12749,93

Table 2: Eurozone - Population, GDP. Source: Ieconomics, 2014

In the Picture 1 accompanied by Table 2 we can see the current extent of the Eurozone in dark blue, supplemented by the current area of the European Union in light blue. The Euro area is not represented as a single geographical unit, rather divided by stretches of land outside the Eurozone and water. Euro is the official currency used by more than 330 million European Union citizens and has a collective GDP of almost 13 billion USD.

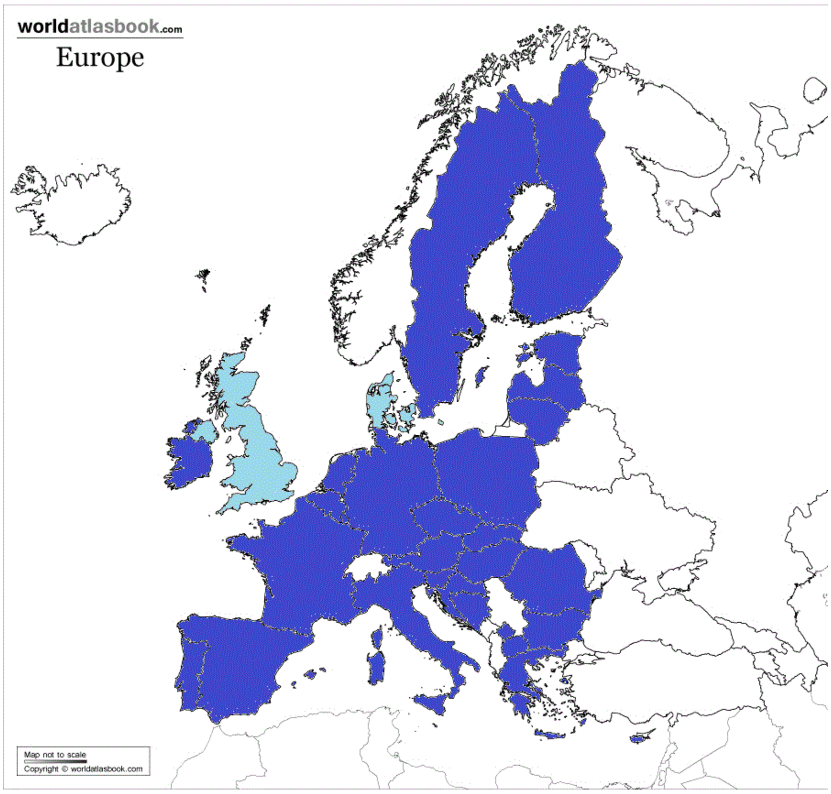


Picture 2: Eurozone enlargement. Source: blank map (Worldatlasbook.com, 2011). Color added by Author

	Eurozone + Lithuania, Romania, Czech Rep., Poland, Hungary, Croatia, Bulgaria
Population [million]	433,23
GDP [billions USD]	13934,36

Table 3: Eurozone enlarged - Population, GDP. Source: Ieconomics, 2014

In the Picture 2 alongside with the Table 3 we can see the potential extent of the European Union as suggested by the concept of joining the most valuable potential candidates. Lithuania is already included, as it will be joining the Eurozone in 2015 anyways, and the prediction for the rest is to be joined by Romania in 2019 as scheduled, and the Czech Rep., Poland, Hungary, Croatia and Bulgaria. This join would create a more united Eurozone, where the continental bulk of the Eurozone countries are connected by land, except for Finland, Ireland, Malta and Cyprus, but the center is unified which is connected by infrastructure and gives possibilities with convenience in investment and transport, a foreign exchange risk free zone. This prediction would be dated for mid 2020s according to the speed the countries join the Eurozone. What is more, adding the 7 countries, the collective GDP as of present value terms rose almost by more than 1 trillion USD, and, what is more important, the population of the countries in the Eurozone rose by 100 million inhabitants. With that amount of people, concerning that in the European Union, the labor force participation is 57,6% (The World Bank, 2014), country by country meandering around the amount, from 55-60%, this means a total increase of work force in the Eurozone by minimally 55 million people ages 15 and up.



Picture 3: Eurozone full enlargement. Source: blank map (Worldatlasbook.com, 2011). Color added by Author

	Eurozone + Lithuania, Romania, Czech Rep., Poland, Hungary, Croatia, Bulgaria + Sweden, Bosnia, Macedonia, Kosovo
Population [million]	446,72
GDP [billions USD]	14509,48

Table 4: Eurozone fully enlarged - Population, GDP. Source: Ieconomics, 2014

As you can see on Picture 3 joined by the Table 4, the map and the figures show the largest extent of the Eurozone expansion counting all the countries described before. Balkan countries; Bosnia, Macedonia, Kosovo and also Sweden. By this count, the Eurozone would have expanded by 13 million people accounting for approximately 7 million work force, and the GDP would have risen by more than 500 billion USD, for most of which is Sweden accountable. Adding the non EU countries to that list may seem contra-intuitive, but in the time frame of reference of circa early 2030s this arrangement would likely become a reality, when new countries would have joined long before the adoption of the Euro. This model of Eurozone comprises almost of entire Western and Central Europe and is home of more than 450 million inhabitants in today's terms.

3.2 Suggested solutions

Based on the study that has been conducted, as an audition for the new Eurozone members, we have seen that economic fluctuations and disturbances, whether global or regional, leave impact on the country's economy's performance. But what I want to address in this thesis, more than yearly economic data on country's economic growth and health, which is all very helpful and meaningful, but the nature of the currency union itself. What is a currency union anyway? From what we learned is that a currency union a collection of countries that use a single currency. In this way, the Eurozone is an experiment, where countries ceased to use their national currencies to replace them for the Euro, the reasons being, from the Eurozone perspective, stability, and that is what is expected by the users of the Euro. That no matter what disturbances and fluctuations the consequences value of the currency being affected are minimized. All the user of the currency across the spectrum of professions and consumers is that the currency serves its purpose, which is to facilitate trade and hold the value entrusted in it.

When there are geographical regions using different currencies, as the specialization of work and trade are always existing, the economy finds it way, so currency exchange becomes an area of human interest, as the economic disturbances affect the regions, either symmetrically, when the areas are affected in the relatively equal way, also asymmetrically. Differences in the economy and the fluctuations are always there to move the exchange rate of two currencies. I would like to tackle the misinformation of people and to address wide range of readers with my thesis. There is a misconception in the society, about what a "strong" currency means. Currency is not strong in having to pay more units of another currency for, obviously, but how well it keeps its value and the differences in exchange rate are as minimal, but also depending against which currency. Europe is a large pool of different nations of which most have their own currency. The largest problem of this arrangement is the foreign exposure risk, where changes of rates can have tremendous effect on the businesses situation, that is why there are different means to handle that problem, for example buying forwards or options, or agreeing to pay in a single common currency, which are all valuable and useful means, but are only solutions for a problem that there would not have been in the first place, if the countries where the businesses operate from had a single currency.

A very important observation is, that the exchange rate fluctuations are a double-edged sword, they always have a "bright" and a "dark" side, when two businesses do trade with each other, as one is favored by an exchange rate fluctuation, the other one gets a damage of an equal magnitude, as the trade overall, is a zero-sum game and where in a long term a business cannot rely on the economy to be in his favor.

Also the national banks, who handle the national currencies, they have a significant amount of power on their respective markets, and can adjust the rate of their currencies against the environment by operations on the currency market, but those operations are short-sighted and only work as a quick solution for a problem that there would not have been in the first place, meaning maintaining a value of the currency, without any risky operations that would benefit largely a certain amount of people and businesses, but in the same way damage another groups of people and businesses. It is only a matter of perspective on the subject. There is also a risk of speculation when dealing with a foreign exposure risk and when a combination of few pieces of valuable information and an amount of the currencies exchanged can make a large difference. Of course, there is this issue when agreeing on a fixed rate between two currencies, but that risk is diminished once the fixed rate is in operation. The common currency area's purpose in the first place is to facilitate the exchange in a larger area, and according to Mundell's model of optimum currency area, that is a reasonable progression. Just as when a single region, a country uses one currency, to make the trade easier inside it, but in the globalized era, when trade is happening all around the world and business transactions are dealt and executed in a matter of moments, and there is a trend of the rise of the automation with these transactions, it is reasonable to suggest that it is in the country's, meaning its populace and businesses, to adjust to that arrangement and agree on a common currency, and that is the same case as with one country, only a larger geographical scale.

I would like to argue that what is happening in the Eurozone, the European Union, and Europe in general, is a de facto "common" currency area. Concerning the

Eurozone the case is clear: one currency managed by an authority of a central bank that oversees it. A peg is an example of a "common currency area" which is a semi-permeable mix of currencies, that one's value is based on the other, so the transaction risk is avoided, and therefore rationally, the country with a peg can as well be using the anchor currency, if it was not for political or other reasons, because it is de facto using the common currency. A country like Denmark, which uses the Danish Krone pegged to the Euro in a crawling peg, similar to the "snake tunnel", allowing for miniscule fluctuations, but an example of this is the CFA Franc of Western and Central African countries, which have a fixed rate with the Euro and no fluctuations are possible, or Bulgarian Lev, where a Euro is exchanged for a fixed amount of the Bulgarian currency, which is de facto using the Euro, with the multitude of banks having to do the overseeing and maintenance rather than interventions. A similar case is with the pegs of the US Dollar, I would like to bring the attention to the Cuban currency, as the Cuban Convertible Peso (CUC) is pegged with the USD on a fixed rate, which is a fact that may seem contra intuitive as the political situation of the countries is not an example of a good neighbor cooperation, but as it is the theme of the currency, money unites, and although Cuba and the United States do not have formal cooperation, the CUC is fixed to the USD, and the CUC as a "tourist currency" replaced the USD in the exchange, but the reliance on the USD is still in place in the form of peg, although the Cuba has two currencies, the most common among the population for their wages and expenses is Cuban Peso (CUP) which can be exchanged for the CUC in a different but fixed buy and sell rates. Although this is a rather extreme example of a de facto common currency, it is a fixed peg, and I would like to draw attention to the currencies that are not pegged, but they are floating freely. As there are the world currencies that have the largest portions of usage and reserves in the World, the US Dollar, Euro, Sterling, Swiss Franc, Canadian Dollar, Japanese Yen, and their exchange rates vary because of macroeconomic factors that include inflation and interest rate differentials, public debt and political and economic stability, it is understandable that they are there as they have value entrusted in them. When it comes to small economies, their currencies are highly dependent on what their environment is, what their trade partners and investors are, and for example the Czech Republic, an European country doing trade mostly with the EU and the Eurozone, the aim is to keep the exchange rate of the Koruna as stable as not to distort the trade that would have negative consequences, and as it was explained before, and exchange rate is that double-edged sword that has both positive and negative effect on certain subjects. An export and import deals are affected one way or another by a change of the exchange rate, or a company that is billing its revenues in Euros but has to pay worker's wages in Korunas, the exchange rate is a big issue. As there are mechanisms and means to avoid or diminish the exposure risk, they are a solution to a problem that there would not be if the currency was one. And as well as other European countries that are dependent mostly on the trade with the EU, a huge amount of risk is transferred by the monetary authorities on the businesses doing the cross border trade, when the trade and free movement of commodities and labor force is what makes the economy work. This type of arrangement with the Eurozone and the other currencies in its sphere of trade are in my opinion a de facto a common currency area, with the added exposure risk, because although the exchange rates are floating freely, it is in the best interests of the economy for the fluctuations to be under control.

3.3 Responses to difficulties with the theory

I do realize that there are a few open spaces with the theory, and I would like to address the common issues there can be make.

3.3.1 Change

The most common problem people have with adopting a currency, is that it is against a tradition or not patriotic. I want to shed some light on the issue, is that a type of currency does not define the people who are using it, in the way they would lose some of their individuality, that does not make sense. When the 12 out of the EU 15 countries started using the Euro 12 years ago, there has not been a situation that a country was hurt on their distinctiveness by using a common currency. There are still nations in Europe regardless of what is the currency they use, and that is not going to change. Apparently, there are interest groups who want to oppose the common currency, to use this kind of argumentation of scaring people which helps them politically in some way, but nationalism and economy do not mix well and the economy and trade prevails. In the country of the author's origin, Slovakia, there were also notions of opposing the Euro, and the scaremongering turned out to be untrue, or the predictions of price level rising and other expectable economic changes, would have occurred with or without the Euro. These issues have a running theme of not being economical, but politically motivated, to feed on misinformation and on the gullibility of voters, where the motivation to do that is limited to election periods, but economy is a long term process that needs to be taken into consideration more than short term political benefits.

3.3.2 Economic risk

Another issue I want to address is the economic crisis happening in 2008 and people losing trust in the Euro and turning away from it. To make sure, the economic recession originating from the US and hitting Europe was not a result of any currency, but a lack of transparency and regulation over decisions of short term profit oriented banks, that resulted in the unfortunate events, and also the mistrust of the Greek events, that led people to polarize the Europe in what way to approach the problem. There is no point in pointing fingers and looking for blame, as it is not the subject of this thesis, but I have to exclude a currency and a participation of countries in it to be blamed on any crisis, where the logic is as summarized in a simile "when being robbed, do not blame the robbery on the money, but the robber" which is something the Euro is blamed for but that is completely unreasonable. If a region is underperforming, for example a state in the United States, to pick one, Wisconsin, then the problem is systemic and people would be out of their minds to blame the US Dollar on putting them into a sticky situation with Wisconsin, the same was as an unfortunate economic situation led Wales to underperform, people would not be entitled to blame the Pound for that matter. But when it comes to Euro as a single currency, as if suddenly those misled accusations made sense. I have to state that this is not my opinion because I reside in an Eurozone country, but that is also how I would approach the fictional Wisconsin or Wales scenario, and how it should be approached. As in the previous case, it is not an economic but a political matter, as what is needed for the economy is long term oriented solutions, political structural solutions, transparency and maintenance.

3.3.3 Regulation

There can be a criticism, which an adoption of the Euro means that a country would lose its sovereignty over their banks. This is technically true, but in the status quo of not having Euro, the central bank is also not independent on the money market, and has to participate in maintenance and regulation, to keep the inflation and interests rates, to maintain an exchange rate that does not have unexpected fluctuations, but the users of the system, people and businesses do not have that control over their national bank in the first place. By placing the force in a European Central Bank, does not make much difference rather than convenience for the participating country and its populace and businesses. Although the Eurozone does not have a fiscal policy, which would surely solve many of imperfections and issues, as a monetary union it still serves a purpose and successfully, even without the fiscal issues, but I admit that harmonization and approximation of monetary and fiscal policies are going to bring stability than ever before.

3.4 Recommendations regarding the adoption of the Euro

As for the transition from the national currency to the common currency is a large step, measures have to be made to ensure a smooth transition. These scenarios can differ from case to case but can be put into two categories of scenarios, based on the stages of the evolution of the Eurozone (European Commission, 2013).

- Madrid scenario - a procedure of the Euro adoption in the situation when the first countries adopted the Euro simultaneously. As the exchange rate was set between the 12 country currencies and the Euro was born on 1st January 1999, and during the next 3 years when the coins and banknotes entered the circulation, the local banks were preparing for the currency changeover with practical adjustments, as the Euro already existed in the form of accounting, scriptural money. For transition of the money in hands and wallets of the population, from the 1st January 2002 when the Euro entered the public as coins and paper money, according to the regulation a period of dual circulation was set, that could last up to 6 months, but in practice the member states set it shorter, as this dual money period was to account for the spreading the tangible money into the economy, among the banks, businesses and citizens. This dual circulation period is characterized as the Euro is a legal tender being used in transaction alongside with the currency it is replacing, and as the period has ended, the businesses and citizens are no longer obliged to be handed the former currency. The businesses are however obliged to, according to domestic law, to show dual prices a period after the former currency is not accepted, to account for the adjustment of the people to the new prices, this period can last years. As for the conversion of the former currency, local central banks apply a policy to convert them for the Euro to account for a late exchange, after the dual circulation in shops has ended.

- "Big Bang scenario" - An exchange from the national currency to the Euro, with the Euro already being used in circulation in the other member states, when, as the name implies, as taken from the named so theory that explains the origin of the universe, that the coins and banknotes enter the circulation the day of the country's adoption of the Euro. The citizens and businesses have access to the Euro, as it is in circulation in the member states, but until the adoption it is treated as a foreign currency. Once the Euro is introduced, the notes and coins are released into the circulation, by the Central bank and the private banks have a supply of the Euro as well. Then as with the Madrid scenario, a dual money period is running, maximum 6 months, after those the businesses no longer have to receive payment in the former currency, but the conversion rate is shown afterwards until a set period, but can be individually prolonged, and the Central bank has the authority to exchange the former currency under its terms. The big bang can be adjusted with a feature of phasing-out period up to one year, when some legal issues, as contracts can still be valued in the former currency.

For cite an example of the adoption, and as an example of recommendation, I refer to Slovakia, which happened to adopt the Euro on 1st January 2009, as a 13th country of the Eurozone, so the big bang scenario was used, as explained further (Euromena, 2009). The conversion rate was set 6 months before, 38th May 2008, 30,126 Slovak Korunas for 1 Euro, and the dual pricing has to be shown using the formula, and no rounding of the conversion rate is allowed, but the rounding of the final price has to be the exact mathematical rounding. The dual circulation ended 17th January, only lasting 16 days, which is the shortest period, as the countries before used up to 2 months of the dual period. The majority of the cash was, in fact, exchanged in the new year's first week. The dual price is still used in shops in Slovakia, as some people still "think" in Slovak Korunas in terms of groceries and other goods price. After the dual money period, the cash was being able to be changed in the Central bank and other banks, which in turn were able to exchange them in the CB. The SKK coins were accepted for exchange for the Euro until the end of the year, but the period for exchange of banknotes in the Central bank is without limit, so in the case someone discovers old Slovak Koruna banknotes, the Central bank promises to exchange them for Euro indefinitely. In a "no harm to the citizen" rule, is the states to citizens' payments are rounded up to the nearest cent and the other way around, the payments to the state from ten citizen are rounded down. This rounding may be to the nearest 1 cent or 10 cents in some cases. As for the responsibility, each entity, business, citizen or otherwise are accountable for the preparations for the conversion, but with the help of the media and informational campaigns the changeover happened smoothly.

For a country to adopt the Euro it is recommended to go by the Big Bang scenario, to have a short dual circulation period, as the society is already accustomed to the Euro in some way, and the transition is way less costly and smoother than when the first countries introduced it. After the conversion rate is set, there is no room for "snake tunnels" so the foreign exposure risk to in terms of the local currency to Euro is non-existent and the businesses and citizens have enough time to account for the change, to change their tangible savings and cash, in the regular exchange matter, as businesses are supplied with the Euro and can pay back Euro change for local currency, and the value of deposits in banks is converted instantly by the conversion rate. This is explained but for a layman has to be kept in mind in the internet banking, as the amounts typed are now in the new currency.

Conclusions

To conclude my diploma thesis, I believe that I have made the case of Euro being the experiment of the European Union that is turning out to be successful, after 15 years of existence. The Euro did not spring into existence overnight, but was rather a solution to economic issues before, as a successor of a virtual currency unit made of the member's currencies, and now the Euro embodies the concept. Now Euro officially is being used in 18 countries, 330 million people, which is overall more than the population of the United States. Euro is the second most commonly used currency and second largest currency in reserves around the World. When contemplating a country's join to the Euro the question should not be IF but rather WHEN, because as it was made apparent, using the common currency that the majority of business partners either officially use, or are accustomed to that, it reduces foreign exchange risk, opens possibilities of investment and unites economies. As there already are means to unify the market, with the movement goods, labor force capital, there is the Schengen zone of free movement of citizens, that does not include the island nations of the EU, and therefore a common currency is a huge improvement to that arrangement, and the way to expand the Eurozone is the countries with high potential of GDP growth and have an abundance of labor force, and of course open markets for investors to come and make business. Furthermore Eurozone joined by would create an unified area of common currency countries, as of 2019 as scheduled, Romania will be "landlocked" by other currencies, which is a potential for them, Hungary and Bulgaria to join and to adopt the currency for their benefit and for the benefit of the Euro Area as a whole. For a country like the United Kingdom, there is a different situation as their currency is one of the 5 mostly used currencies in the World, but countries like Romania and Czech Republic do not serve as a reasonable comparison to that example, as the United Kingdom is in the trade and economic wealth a very different case. The expansion of the Eurozone to the east, however, turns out to attract investors, to make the transition between countries less costly and convenient, also with locals being able to travel and use their currency with more convenience and transparency.

In the World we have examples of currency unions on different stages of formality, many of them are informal, a country adopting a currency without the possibility to have any say in the monetary policy, but that arrangement is more favorable than maintaining its own currency. Countries like Kosovo, Montenegro or Panama. Countries where the barriers for integration are already lifted and the formal introduction to the Eurozone would make little difference for the users in those countries. And in these example of Kosovo and Montenegro, there is shown another way as a currency union may take the direction of being put into practice, as not only the formal introduction to the EU and the adoption of the Euro is an end to the compliance to the convergence criteria, but that it may work the other way, a country where the Euro is already in place, to approximate its economy into the European Union with the joining of the country to the EU, when the economic criteria may serve as means for the country to join.

Some may argue that the common currency cannot work, as the Latin Monetary Union failed, but this is a different case from which the lessons were learned. The currencies around the World have already dropped from the gold standard, and there are voices heard that it was a bad move, I would argue that the gold standard was already an unsustainable system. Placing a trust in a metal is a bad idea from the start, as the progress that the industrialized world experienced is that the value of the gold can change very quickly, making the currency pegged to its value very vulnerable. What was more, the silver value dropped quicker and made the gold standard more prone to speculation, not just to apply the Gresham's "bad weeds out good" when the coins produced would be of less value because of using less silver, but the system as a whole where the currency is devalued by an increase of the supply of the metals. It was not the authorities, but the market that made the LMU obsolete. Today, in the era of fiat currency, speculations like these are not possible, or an abundance of a commodity would not distort its value, as the procedures of production are under highest scrutiny and the supply and maintenance of the currency is under multilateral control. Any system that was based on gold standard was not long-term oriented, it is not accountable for the changes in technology, economy, demographics etc.

What is an issue is that the World is changing very rapidly, and the frames of reference of the yesteryear are diminishing, it is a situation where the economy has to be given way before conservatism. Conservatism is out dated, as its name implies, as the sole concept of it is to keep things as they used to be, which is futile, because change always comes and conservatism is denying change. Let us remind ourselves, that the people who created the Latin Monetary Union, their opinions on the World and the economy are dated and irrelevant, as the post-war borders and spheres of influence are too, which is illustrated by the European Union and the Eurozone that it expands to countries not by force, but by the economy and its rights. Because when contemplating rationally, pictures on the currency do not matter, as long as the currency is doing its purpose, to facilitate the exchange of goods and services and to hold value, which are actions that are free from exclusionary behavior like xenophobia and nationalism, because the idea of trade is to be above those emotions, for the benefit of both parties. If it was not the Euro, and the European Union was using another currency, that would connect it to the world and between each other, I would make the same argument as above.

This is the place where I finally conclude my thesis, which I would like to finish with the quote, that "MONEY does not make the world go around, TRUST is" which is something we are hearing much more often, and although money itself is indifferent to human preferences, trust is a human attribute, which is in this way expressed by the exchange of a particular currency.

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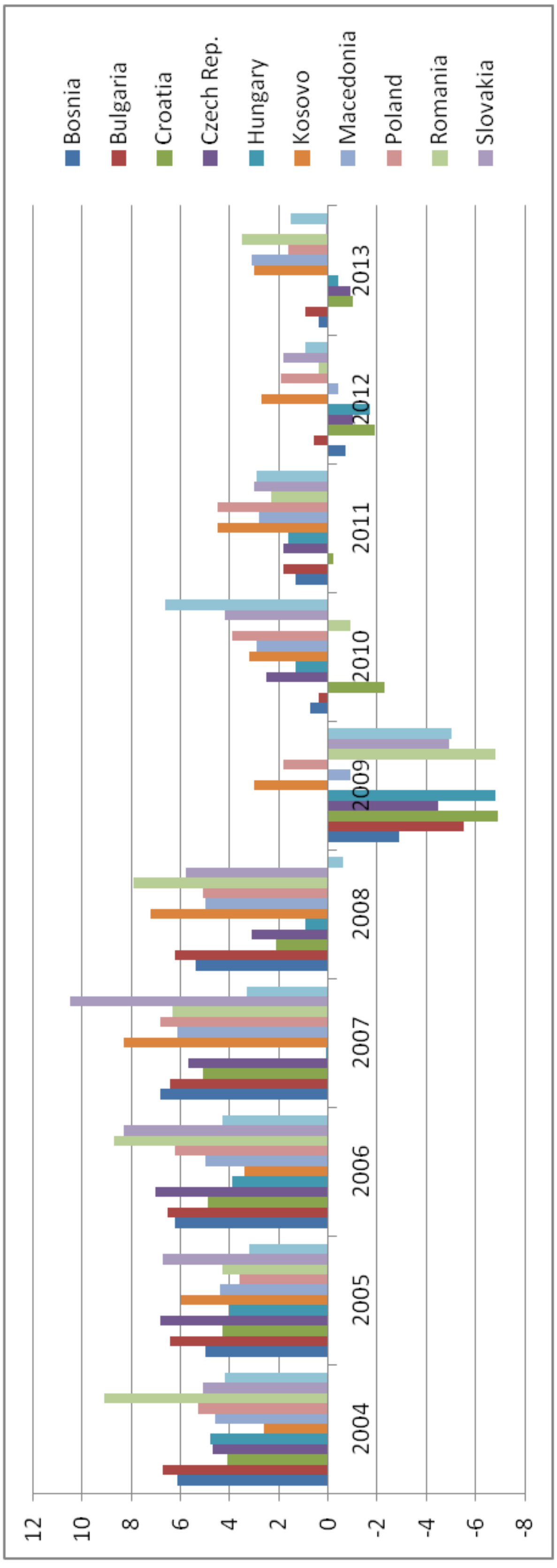
Appendix 1: Potential Eurozone countries GDP growth chart



Appendix 2: Potential Eurozone countries International Trade Table

Romania		Poland		Bulgaria		Hungary		Czech Rep.	
Country	Export	Country	Export	Country	Export	Country	Export	Country	Export
Germany	18,9%	Germany	26,0%	Germany	10,4%	Germany	25,6%	Germany	31,8%
Italy	12,3%	UK	7,0%	Turkey	9,1%	Romania	6,2%	Slovakia	9,1%
France	7,1%	Czech Rep.	6,5%	Italy	8,7%	Slovakia	6,1%	Poland	6,1%
Turkey	5,5%	France	6,0%	Romania	8,2%	Austria	6,0%	France	5,1%
Other	56,2%	Russia	5,2%	Greece	7,3%	Italy	4,8%	UK	4,9%
		Italy	5,0%	France	4,0%	France	4,8%	Austria	4,7%
		Netherlands	4,6%	Other	52,3%	UK	4,2%	Other	38,3%
		Other	39,7%			Other	42,3%		

Romania		Poland		Bulgaria		Hungary		Czech Rep.	
Country	Import	Country	Import	Country	Import	Country	Import	Country	Import
Germany	17,5%	Germany	27,3%	Russia	20,9%	Germany	25,1%	Germany	29,5%
Italy	11,0%	Russia	12,2%	Germany	11,3%	Russia	8,8%	Poland	7,7%
Hungary	9,1%	Netherlands	5,9%	Italy	6,7%	China	7,4%	Slovakia	7,4%
France	5,7%	China	5,4%	Romania	6,6%	Austria	7,1%	China	6,3%
Russia	4,4%	Italy	5,2%	Greece	6,1%	Slovakia	5,6%	Netherlands	5,8%
Poland	4,3%	Czech Rep.	4,3%	Turkey	4,6%	Poland	4,8%	Russia	5,3%
Austria	4,2%	France	4,2%	Spain	4,5%	Italy	4,5%	Austria	4,3%
Kazakhstan	4,1%	Other	35,5%	Other	39,3%	Netherlands	4,2%	Other	33,7%
Other	39,7%					Other	32,5%		

Sweden		Bosnia		Croatia		Kosovo		Macedonia	
Country	Export	Country	Export	Country	Export	Country	Export	Country	Export
Norway	10,4%	Germany	15,6%	Italy	14,1%	Italy	25,8%	Germany	36,9%
Germany	10,3%	Croatia	14,2%	Bosnia	13,1%	Albania	14,6%	Bulgaria	7,6%
UK	8,1%	Italy	12,1%	Germany	11,1%	Macedonia	9,6%	Italy	6,5%
Finland	6,8%	Serbia	9,1%	Slovenia	10,1%	China	5,5%	Kosovo	6,5%
Denmark	6,7%	Austria	8,2%	Austria	6,3%	Germany	5,4%	Serbia	6,3%
Netherlands	5,5%	Slovenia	8,1%	Other	45,3%	Switzerland	5,4%	Greece	5,0%
USA	5,5%	Other	32,7%			Turkey	4,1%	Other	31,2%
Belgium	5,0%					Other	29,6%		
France	4,8%								
Other	36,9%								

Sweden		Bosnia		Croatia		Kosovo		Macedonia	
Country	Import	Country	Import	Country	Import	Country	Import	Country	Import
Germany	17,4%	Germany	11,4%	Germany	13,7%	Germany	11,9%	UK	11,0%
Denmark	8,5%	Russia	9,9%	Italy	12,5%	Macedonia	11,5%	Greece	10,6%
Norway	8,4%	Serbia	9,8%	Slovenia	11,5%	Serbia	11,1%	Germany	10,5%
UK	6,5%	Italy	9,7%	Austria	9,1%	Italy	8,5%	Serbia	7,9%
Netherlands	6,4%	China	6,0%	Hungary	6,2%	Turkey	9,0%	Italy	6,5%
Russia	5,6%	Slovenia	5,0%	Russia	5,4%	China	6,4%	China	5,8%
Finland	5,1%	Croatia	12,8%	Other	41,6%	Albania	4,4%	Bulgaria	5,5%
China	4,9%	Other	35,4%			Other	37,2%	Turkey	4,8%
France	4,2%							Other	37,4%
Other	33,0%								

Appendix 3: Potential Eurozone countries GDP data table

	Eurozone	Lithuania	Romania	Czech Rep.	Poland	Hungary	Croatia	Bulgaria	Sweden	Macedonia	Kosovo
Population [million]	332,88	9,91	20,02	10,51	38,49	9,91	4,26	7,25	9,56	2,11	1,82
GDP [billions USD]	12749,9	42,25	189,64	198,45	517,54	126	57,54	53,01	557,94	10,22	6,96