

THE EUROIZATION OF LITHUANIA AND POLAND: A COMPARISON

Jaroslaw Czaja*

University of Economy in Wroclaw, Poland

Arūnas Dulkys

Vilnius University, Lithuania

Abstract. Usually, euroization is connected with the necessity of passing through not easy to fulfil and to maintain the Maastricht Treaty criteria and to accept (à priori) a definite course of resigning from the national currency. Upon fulfilling the required adjustment periods of euro adoption, the European law forces a total departure from the national currency. This process is subjected to a solid supervision and control of the EU organs. Additionally, the Maastricht Treaty obliges to introduce the euro when a country is in a good economic condition, confirmed by the fulfilment of nominal convergence criteria. In such a situation, the common currency adoption must be (or should be) always interpreted as a proof of a stable economic development and abilities of keeping such parameters in the future. However, in case of euroization accomplished with omission (or even with infringing) the Treaty, there is no necessity of complementing any European law duties, and especially there is no obligation of totally resigning the national currency. Such kind of euro adoption means not a full but a partial euroization, which can appear in a very difficult situation in country's economy or when currency independence is not safe and profitable. Resignation from the national currency is like an act of desperation, or at least it is forced by the lack of the abilities to manage the economic problems. The purpose of this publication is to show euroization as state (partly also as process), particularly on the examples of Lithuania and Poland. It obviously it does not seem new, but many changes in the world economy (with special regard to the crisis hurting the European Union) and the lower enthusiasm for joining the Euroland (euro zone) show the need to consider such a problem.

Key words: euroization, euro currency, economic and monetary integration, European Union

In the Lithuanian film, branded as classical by now, the judge is repeatedly asking one of the eye-witnesses of the crime:

- *Where were you when the man was killed?*
- *I was standing under a tree.*
- *Why were you standing under a tree when the man was killed?*

* *Corresponding author.*

Department of Economic Policy, Faculty of Economics, University of Economy in Wroclaw; Komandorska 118/120, Wroclaw, Poland;
e-mail: jcz.ekon@op.pl

– *Because it was raining.*
– *I am asking you again why were you standing under a tree when the man was killed?*¹.

The behavioural pattern whereby “I stand under a tree because it is raining, i.e. I do nothing because I pretend not to see”, which is tolerated and even promoted by the official establishment of the EU and institutions of a member state (MS) and results in the circulation of the euro introduced in a MS economy against the provisions of the Treaty on the European Union (EU Treaty), does not differ in its essence and implications from unilateral euroization. Therefore, the proposal is to call it the **euroization eyes shut**. So, there is a need to show the developing process, because it expresses part of monetary integration before the full Maastricht Treaty change of the national currency by the euro. The purpose of this article is to compare the euroization of Lithuania and Poland, because both countries are interested in euro adoption, but nobody can indicate the date.

The analysis is a contribution to the study of partial or complete unilateral euroization. The largest experience have six European countries. Some of them, in agreement with the European Union, decided to euroize: Vatican City, San Marino, and Monaco. Three other states, Andorra, Montenegro and Kosovo, have introduced euro without consulting the European Union. Unfortunately, their experience in changing the national currency to euro of these six countries is not sufficient for other countries. For this reason, the euroization considerations are more important in the case of Poland, because it is the largest accession country to the euro area after 2004 (in 2005, the Polish government was debating the euroization idea). However, Lithuania belongs to group of small countries, but has a very important experience in the euroization process as a neighbour of Poland.

1. INTRODUCTION

In the European monetary history, far from all of its phenomena have been fairly assessed. It was as early as the Lublin Union that laid the basis for one of the first monetary unions on the European territory: the 1580 reform unified the Lithuanian and Polish monetary systems and introduced common coins as a legal tender. Public surveys were not carried out at the time, and the preferences and expectations of the residents remained unknown.

Now, nearly five hundred years later, half (51%) of respondents in the non-euro area new Member States (NMS8) thought that using the euro would make people feel more European².

¹ Film “*Vienos dienos kronika*” [One Day Chronicle] (1963) by the Lithuanian director Vytautas Žalakevičius (1930–1996).

² Introduction of the euro in the new Member States. Analytical report. Flash Eurobarometer. December 2010. Flash EB Series #307.

The surveys showed that for society, the expression “European currency” had association with freedom the “single currency” is related to economic rationality, and the “common currency” to social values³. In reality, only the euro area MSs represent a currency union; however, in fact, responsibilities are shared by all European Union MSs. All EU MSs shall adopt the common currency, but the EU Treaty does require them to join the euro area at an undefined date in future.

The EMU represents four main public benefits: the free movement of goods, people, services, and capital. The EU Treaty contains a number of provisions which may be accounted for by holistic thinking: social market economy, social justice, social protection, social cohesion, and solidarity⁴. The euro currency provides protection from the effects of the global financial crisis, but discussion on the euro-integration issues is torn between the euroapologetics and euroscepticism.

How will the euro area be affected by the euro introduced unilaterally through euroization? There are opinions that it could be beneficial for some countries to aim at the consensual unilateral euroization, which would be implemented with the approval of the European Union institutions⁵.

Euroization finds the medium more easily in small MSs because they more readily accept the loss of sovereignty in monetary policy matters. Euroization, however, has no impact on the fiscal discipline. Euroization may be encouraged mainly for political reasons, these being either political dependencies or countries closely connected to any of the euro area MSs. The catalyst for euroization may be both the geographical closeness to the euro area⁶ and the lack of confidence in the national financial sector and / or the developed tourism sector. Still, euroization is highly correlated with the quality of the past economic governance⁷. In the first decade of its independence, Lithuania experienced the wave of banking sector problems. There are opinions that such events and confidence in a banking system could have affected the portfolio decisions of the individuals and thus promote euroization⁸.

It should be noted that there are no legal limits of how long MSs can stay outside the euro area. The greatest paradox of political economy is that both Poland and Lithuania, the official EMU members, will hold the EU presidency but will stay outside the euro area.

³ Summary of experts' reports compiled for the euro working group. European Commission, Directorate General XXIV, Consumer Policy and Consumer Health Protection, Euro Papers, No. 29, November 1998.

⁴ P. Gylys. *Ekonomika, antiekonomika ir globalizacija* [Economics, Anti-economics and Globalisation]. Vilniaus universiteto leidykla, Vilnius, 2008.

⁵ J. Rostowski. Why unilateral euroization makes sense for (some) applicant countries. Konferencja NBP “Polska droga do Euro”, Falenty, 2001.

⁶ W. Winkler, F. Mazzaferro, C. Nerlich, Ch. Thimann. Official dollarisation / euroisation. Motives, features and policy implications of current cases. Occasional Paper Series, No. 11, February 2004. European Central Bank.

⁷ T. Scheiber, vStix, Euroization in Central, Eastern and Southeastern Europe – new evidence on its extent and some evidence on its causes. Working Paper No 159. Oesterreichische Nationalbank, 2009.

⁸ H. Stix, Euroization: What factors drive its persistence? Household data evidence for Croatia, Slovenia. and Slovakia. forthcoming Applied Economics. 2009.

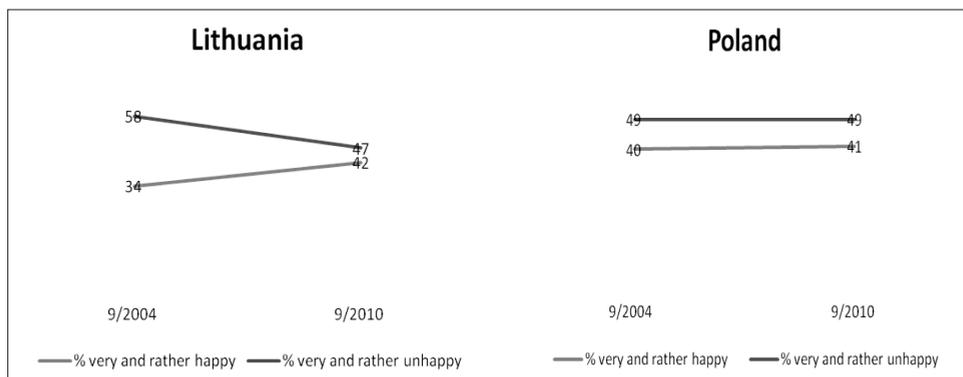


FIG. 1. Support for replacing the national currency by the euro

Source: Introduction of the euro in the new Member States. Analytical report. Flash Eurobarometer. December 2010, Flash EB Series #307. Survey conducted by The Gallup Organization, Hungary upon the request of the European Commission. P. 42.

2. Research

Currently, the discussions center on the most appropriate time to join the euro area. The ranks of skeptics are growing, but there are many who are still thinking that the best strategy of joining the euro area is the strategy “as soon as possible”⁹. Anyway, the 2010 data on the most desired timeframe for euro adoption show that a relative majority (38%) of NMS8 citizens (with the same number of supporters in Lithuania) would like to see the euro introduced as late as possible. The proportions of respondents who wanted the euro to be introduced as late as possible were among the highest in Poland (47%). The proportions of respondents who wanted the euro to be introduced as soon as possible were only 20% in Lithuania and 12% in Poland¹⁰. Figure 1 shows the descending acceptance of euro adoption in Lithuania. Neither in Poland there is enough support for resigning the national currency.

In contrast to Denmark and Sweden at leisure with the euro area, Lithuania and Poland still belong to developing market economies with their moneys outside the club of the main world currencies. Thus, they have a slim chance of successfully following the example of Great Britain which ignores the euro in principle¹¹. The recommendation

⁹ R. Kurach, Stelmach J. monetary union accession and the severity of potential asymmetric shocks—the case of Lithuania and Poland. *Ekonomika* No. 83. VU, 2008.

¹⁰ Introduction of the euro in the new Member States. Analytical report. Flash Eurobarometer . December 2010, Flash EB Series #307.

¹¹ R. Kurach, Stelmach J. Monetary Union Accession and the Severity of Potential Asymmetric Shocks – the Case of Lithuania and Poland, *Ekonomika* Nr.83, VU, 2008.

to join the euro area early could turn into a self-fulfilling prophecy: the government would embark on sound economic reforms and plausibly receive the public support.

Regarding the expected date of euro adoption, 66% of Lithuanians and 57% of Poles think the euro will be introduced in their country in the coming 2 to 5 years¹². In the opinion of Sławomir Stanisław Skrzypek (1963–2010), the late president of the National Bank of Poland, there was “the decade-long story of peripheral euro members drastically losing competitiveness”¹³. The decision to delay the target date should be associated with the deterioration of competitive position in relation to the MSs that would adopt the euro at an earlier target date. Lithuania and Poland are currently not only actors of the common trade area, but also competitors to other MS. Some economists think, however, that the convergence between the economies of the new EU-10 and the old EU-15 may take even 30 years (13 years for Lithuania and 26 for Poland)¹⁴.

It is then natural to ask why the euro is not driving out the national currencies of Great Britain, Denmark and Sweden which, like Lithuania or Poland, are outside the euro zone, but are much deeper integrated into the economy of the euro area? The supposition is that a moderate euroization reflects integration of the markets, whereas an extensive euroization (first, the tendency towards keeping assets in foreign currency in order to reduce risks; second, increase in foreign currency circulating in the form of cash) may cause an instability of the MS economic policy. Thus, the unofficial euroization materialises under the pressure of market forces, spontaneous euroization results from business concerns, whereas the **euroization eyes shut** is born by a direct or indirect governmental action or omission¹⁵.

For example, in 2010, the official position expressed publicly by the people in the Government, showed even the promotion of euroization; it was officially aimed at an increasingly wider use of the euro for different financial operations conducted in Lithuania. Moreover, the Vilnius Stock Exchange accepts euros as a means of payment already. Without a clear euro introduction strategy in Lithuania, this means *de facto* euroization at the cost of the stability of the national currency.

At least once a year, the EC announces its regular Report on the practical preparations for the enlargement of the euro area. The last one was drafted at the end of 2010¹⁶. It is based solely on publicly available information as of the beginning of October 2010. This

¹² Introduction of the euro in the new Member States, Analytical report, Flash Eurobarometer. December 2010. Flash EB Series #307.

¹³ S. Skrzypek. Poland should not rush to sign up to the euro. The Financial Times, 2010.04.12.

¹⁴ R. Rapacki, Próchniak M. The EU enlargement and economic growth in the CEE new member countries. Economic Papers No. 367, March 2009.

¹⁵ Euro Cash Changeover and Euroisation. Euroisation in Estonia and its impact on the economy. Kroon & Economy, No 1, 2002.

¹⁶ Communication from the Commission. Eleventh Report on the practical preparations for the enlargement of the euro area. {SEC(2010) 1373}, Brussels, 12.11.2010, COM(2010) 667.

TABLE 1. Participation in the ERMII and the dates of planned euro adoption by the Member States

EU member state	National target date for euro adoption (2004–2010)	Participation in the ERM II	National target date for euro adoption (2011)
Lithuania	1 January 2007 (cancelled as of June 2006)	As of 28 June 2004 (unilateral commitment to the Exchange Rate Mechanism)	The specific target date has not been set, but Lithuania aims to join the euro area at the earliest possible date
Poland	2009; 2012 (cancelled as of November 2009)		The specific target date has not been set, but Poland aims to join the euro area as soon as possible after fulfilling the entry conditions

Source: EC reports on the PRACTICAL PREPARATIONS FOR THE ENLARGEMENT OF THE EURO AREA. <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:DKEY=531155:EN:NOT>

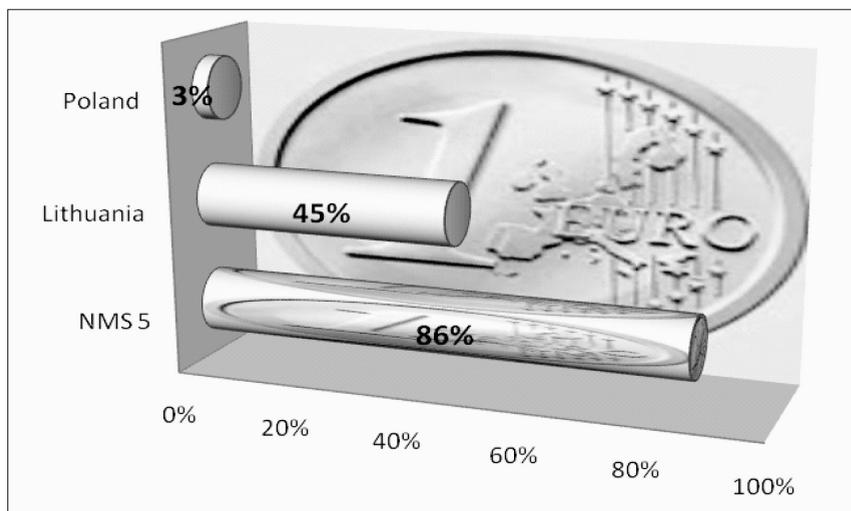


FIG. 2. State of practical preparations for the changeover (% of actual practical preparations for the changeover as provided officially by the national changeover plan)

Source: Central Bank of the Republic of Lithuania, 2011.

Report and the attached Commission Staff Working Document give a synoptic overview of the state of play of the national changeover preparations and provides details on the preparation for the introduction of the euro in the remaining EU MSs that have not yet adopted the single currency not have no legal opt-out¹⁷. It summarises the situation and provides an overview on how the MSs respect the provisions of the Commission

¹⁷ Commission Staff Working Document. Eleventh Report on the practical preparations for the enlargement of the euro area, {COM(2010) 667 final}, Brussels, 12.11.2010, SEC(2010) 1373.

Recommendation¹⁸ on measures to facilitate future changeovers to the euro, built on the experience acquired in the course of the introduction of the euro cash in 2002–2008. **Table 1** shows how Lithuania and Poland have postponed euro adoption.

Figure 2 provides information on the state of practical preparations for the changeover in Lithuania, Poland and NMS⁵¹⁹ respecting the provisions of the EC recommendations on measures to facilitate future changeovers to the euro.

3. Types of euroization and its measuring²⁰

The authors of this publication assume that euroization is the usage of euro (or aiming to) in order to not use other currencies (i.e. the relation of euro usage to national currency usage). Such operation should be separated from the known “euro adoption” according to the Maastricht Treaty, because euroization has a much broader meaning.

Types of euroization:

1. Partial euro adoption:

- can be self-dependent (unilateral) euroization (with the Maastricht Treaty omission), when a country uses the euro in transactions or for thesaurization;
- can be from the first day of the formal transitory period supervised by the European Commission until the complete takeout of the domestic currency.

2. Complete euro adoption:

- according to the Maastricht Treaty, the euro adoption is generally controlled by the European Commission, if a country has passed the phase of progressive euro adoption and ultimately has resigned its domestic currency;
- with omission of the Maastricht Treaty, it can be when a country makes a full conversion to euro independently (self-dependent (unilateral) euroization). The so-called one-sided euro adoption is treated as an act of the country's enmity by the EU administration, but it should be noted that a full self-dependent euroization has not been done by any big country. The European Central Bank adds: “Euroization is not compatible with the economic conception of a monetary union, which means that euro adoption is the realization of the partial process of convergence in the very complicated process. One-sided euroization cannot be the way of bypassing the Maastricht Treaty criteria”²¹.

¹⁸ Commission Recommendation 2008/78/EC of 10 January 2008 on measures to facilitate the mature changeovers to the euro. OJ L23 of 26 January 2008, p. 30–32.

¹⁹ The figure shows the average implementation (%) of recommendations by five new MSs before the EU institutions approved the adoption of the euro in these states (Slovenia by November 2006, Cyprus and Malta by November 2007, Slovakia by December 2008, and Estonia by December 2009).

²⁰ Euroizacja polskiej gospodarki. In: red. M. Klamut. Spójność w rozwoju regionalnym w Polsce obecnie i w przyszłości. Prace naukowe Uniwersytetu Ekonomicznego we Wrocławiu. No 143. P. 276–290.

²¹ Rozszerzenie UE a uczestnictwo w Unii Gospodarczej i Walutowej. ECB 2009. www.ecb.int/ecb/enlargement/html/faqenlarge.pl.html

3. Direct euroization takes place when the assets or debts are denominated in euro in a country which is a member of the EMU or uses the common currency in the general use. Indirect euroization means the situation when we converse the national currency to another and in this way create different costs to manage now or later; in other words, euro assets and debts are transferred to a non-euro country and converted to its currency. This is indirect euroization.
4. For the first two mentioned cases, from the third 3rd point, euroization consists of “euroization from below”. It means preferring or accepting the euro instead of domestic currency by corporations and individuals. It also can be treated as the market channel of euro introduction into the domestic money circulation system (in the countries that want to join the EMU and the countries that do not want to join it). Euroization from below is generally determined by the geographic distance from the EMU and by the weakening US dollar.
5. Euroization in Europe and beyond. The first one means conversion to the euro according to Maastricht Treaty, which is popular in our continent. The second one happens mostly all over the world when central banks reduce the USD versus the EUR because of the constant weakening of the US dollar and the risk of accelera this process.

In this publication, euroization is defined as a multi-dimensional process happening in different ways. Its measuring²² (accepted in this publication) is the analysis of euro usage in selected parts of the Polish economy. This measure can also help to assess how strongly the country’s economy is connected to the currency circulation system in the eurozone.

3.1. Self-dependent (unilateral) euroization advantages²³

1. Gradual euroization makes easier the preparations for the full euro adoption without accordance with the Maastricht criteria.

2. The ease of stopping the further euroization and changing its tempo. An important difference between euro adoption without and with accordance to the Maastricht criteria

²² **Other measures of euroization (also used to measure the dollarization level):** 1. Financial (asset) euroization / dollarization. When a portion of financial assets held by the private sector as a store of value is denominated in a foreign currency. 2. Currency substitution. When a portion of financial assets held by the private sector for transaction purposes is denominated in foreign currency. 3. Liability euroization / dollarization. Currency substitution of liabilities generally refers to an extensive use of foreign currency denominated bank loans. 4. Real euroization / dollarization occurs when the key prices such as wages, but also those of goods, are indexed to a foreign currency, but actual payments take place in the local currency. Everyday transactions take place mostly in the local currency. Real estate and durable goods are usually quoted in foreign denominated currency. E. Luci, *Euroization in Albania: from Spontaneous to Consensual*. Global Development Network Southeast Europe 2006, p. 8.

²³ Euroizacja polskiej gospodarki, In: red. M. Klamut. *Spójność w rozwoju regionalnym w Polsce obecnie i w przyszłość*. Prace naukowe Uniwersytetu Ekonomicznego we Wrocławiu. No. 143. 276–290.

is the multiphase plan of abandoning the national currency. The European law does not allow the future euro zone member euro adoption without forced phases and periods. After these periods, it is necessary to completely abandon the national currency (but it should be mentioned that partial euroization lasted from January to June 2002 for the first EMU), although euroization without accordance to the Maastricht criteria means the lack of the absolute abandoning of the national currency and allows much elasticity in the conversion process. In this way, a country has more possibilities to perform the adoption without any restrictions of the European Commission. This means that the country can be really independent and is more able to manage the speculative attacks on the domestic currency. Finally, the self-dependent euroization allows to jump over the Maastricht criteria by a country with a strong economy, which can shorten the euro adoption period.

3. The lack of strictly obeying the orders of the European Commission in case of public finance problems. The self-dependent euroization for a country outside the European Union allows avoiding the EC supervision if the Maastricht criteria are not fulfilled. There are no duties like preparing and sending reports about the economic situation and the progress of convergence.

4. Self-dependent euroization can improve conditions for economic integration.

Avoiding the duty of fulfilling the Maastricht criteria can stimulate many real processes of economic accommodations. It is known that nominal and real convergence made by the powers of the domestic economy give much more stability in the future than convergence stimulated by the country and European administration. Another significant fact of euro adoption is connected with decreasing the number of currencies which can lower many kinds of economic risks.

5. Fast and full euroization improves the stability of domestic currency reserves, strongly reduces speculative attacks and limits the number of currency rates. The advantages of such possibilities allow to remove some part of the volatility of currency rates. Although it should be underlined that euro adoption under the regime of the Maastricht Treaty, especially if confirmed by the ERM II phase, can allow to check the stability of the national currency rate and nominal convergence criteria. This means that euro adoption should be an effect of good economic conditions but not the tool of generating them.

3.2. Problems of complete and incomplete euroization²⁴

1. Absorption of the problems from the EMU. The so called “Baltic tigers” (Estonia, Lithuania, Latvia) are examples of the countries that too rapidly subjected their economies to the EMU. Because of the last world crisis, these countries have been strongly affected

²⁴ Euroizacja polskiej gospodarki. In: red. M. Klamut. Spójność w rozwoju regionalnym w Polsce obecnie i w przyszłość. Prace naukowe Uniwersytetu Ekonomicznego we Wrocławiu No 143. P. 276–290.

by problems caused by the EMU in conditions of a too strict budgetary and monetary policy without a full resignation of domestic currencies (Estonian kroon, Latvian lat, Lithuanian litas). It should be also mentioned that euro adoption means stronger shocks of the USD influence.

2. Self-dependent euroization removes such a country's problems from the policy of the European Central Bank. For instance, if Greece has not joined the EMU officially and formally, this could strongly limit any EU institution help.

3. Negative effects of euro appreciation. A too strong euro can significantly limit export growth and increase unemployment. Also, some changes in domestic currency supply and demand can often be valued improperly, thus decreasing the profits of euroization.

4. The possibility of the growing risk of losing control over euro in the long run and the necessity of taking into account that some euro members can leave the EMU. The Euro as the second international currency can experience the USD influence, so this means sudden, longterm or strong changes of euro currency rates.

5. Self-dependent euroization can be interpreted as a strong signal of the actual or future weakness of the domestic economy. It concerns especially small countries, so it is not the best indication to make conclusions of every domestic currency resignation in the EU.

6. Partial euroization limits the certainty of budget plans and the credibility of government policies, decreases the stability of domestic currency reserves, and increases the risks of speculative attacks. This problem can be driven strongly by currency exchange made in different periods of time and in different conditions. Partial euroization also means more intensive speculative attacks driven by, e.g., aggressive investors like JP Morgan or Goldman Sachs. It is also known that during the ERM II phase there is a great risk of jumping out of the domestic currency corridor of accepted volatility. The Polish currency is one of those most preferable for speculations; it this means a high risk for, e.g., export. The self-dependent full euroization in Polish conditions would allow to effectively remove the risk of ERM II phase speculations. It is known that, e.g., Goldman Sachs is able to appreciate PLN despite huge problems with public finance and the lack of fulfilment of any of the Maastricht criteria.

4. The euroization process

It should be realized that euroization in non-euro countries has begun before the resignation from national currencies. To show this process, it is necessary to describe the most important indicators and structures of economy. The official institutions usually lack exact data on euroization in the domestic economy, but the level of euroization can be estimated indirectly, e.g., by surveys.

4.1. The cash market

Surveys of the familiarity with the design of euro banknotes show that a slim majority (51%) of respondents in NMS8 are aware of the features of euro banknotes. Lithuanians (66%) are among those most knowledgeable in this respect. In Poland (39%), on the other hand, less than half of respondents are familiar with the design of euro banknotes. Lithuanian and Polish citizens prove to be more familiar with the design of euro coins as well: 44% and 42% respondents in Lithuania and Poland, respectively, know how euro coins look like²⁵.

Moreover, one feature of euroization has been present in Lithuania *de jure* since 2002: the use of the euro as well as euro banknotes and coins in the domestic economy was legally established by the law²⁶, and this means that it is just the matter of time when the euro will start dominating the cash aggregate as well. It would practically mean *de facto* euroization in Lithuania; in Poland, on 24 January 2009, the Act amending the Civil Code (Kodeks cywilny, Dz. U. Nr 16, poz. 93) and the Foreign Exchange Act (Prawo dewizowe, Dz. U. Nr 141, poz. 1178) came into fore. The amendment abolished the Polish foreign-exchange principle (whereby all kinds of obligations should be expressed only in the Polish currency) specified in Article 358 of the Civil Code and changes in the Foreign Exchange Act.

Usually, in emerging economies, the euro is a major component of cash in circulation and indicates the level of euroization. Real euroization occurs when prices are indexed to the euro, but everyday operations take place in the national currency²⁷. Figure 3 below shows the experience with euro cash tendencies. Both Lithuania and Poland demonstrate a visible increase in the usage of euro banknotes and coins.

According to the economist Vladas Trukšinas, the period from 2008 to 2009 saw an intensive “removal” of the national currency from the cash market. On the basis of banking statistics on cash, he calculated that at the end of 2008 foreign currency made up 28% of all cash in circulation, the euro being clearly predominant. In the period as short as one year, till the end of 2009, the amount of foreign cash surged to 37%²⁸.

On the domestic scale, the double circulation of banknotes and coins of national and foreign currency causes lots of organisational difficulties and consumes unreasonable human, material and immaterial resources. The national central bank is not responsible

²⁵ Introduction of the euro in the new Member States. Analytical report. Flash Eurobarometer. December 2010. Flash EB Series #307.

²⁶ Lietuvos Respublikos užsienio valiutos Lietuvos Respublikoje įstatymo 2 ir 3 straipsnių pakeitimo ir 8 straipsnio 2 dalies pripažinimo netekusia galios įstatymas. Vilnius, 22 10 2002, http://www3.lrs.lt/pls/inter3/dokpaieska.showdoc_l?p_id=191569.

²⁷ E. Luçi, M. Muço, E. Sojli. Euroisation in Albania: From Spontaneous to Consensual. The wiiw Balkan Observatory. Working Papers, 071, August 2006.

²⁸ Trukšinas Vl. 2011 m. II ketvirčio ir I pusmečio bankų ir kredito unijų veikimo apžvalga <http://banku-naujienos.lt/wp-content/uploads/2011/08/2011-m.-I-pusmecio-ir-II-ketvircio-banku-veikimas-1.pdf>.

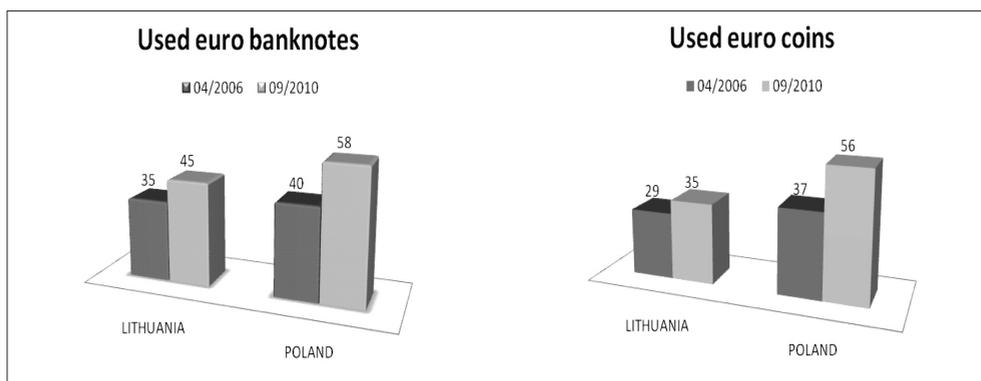


FIG. 3. Euro banknotes and coins in use (Lithuania and Poland)

Source: Introduction of the euro in the new Member States. Analytical report. Flash Eurobarometer. December 2010. Flash EB Series #307. Survey conducted by The Gallup Organization, Hungary upon the request of the European Commission.

for the smooth circulation, sorting, checking and disposal of foreign cash, while assurance of double circulation, programming of different devices, information, maintenance of accounting and handling systems and effective response to the need for banknotes and coins result in even greater transportation and other costs for all players in the domestic market. An extensive increase of deposits in euro also augments the costs of covering market risks which arise in the banking sector and in the changeability of monetary aggregates. All in all, the use of foreign currency increases social costs and financial system risks²⁹.

4.1.1. Polish and Lithuanian currency market euroization³⁰

After Poland's EU accession in May 2004, currency dealers decided to make the EURPLN the prior currency pair. In the next months, Polish banks, which are market makers, directed their market activity to the EURPLN. From the beginning of 2005, all Polish banks started to quote PLN to EUR and PLN to USD. The PLN has been stopped being treated as the only basket currency.

From April 2007, finance operations among the most active finance institutions belonged to EURPLN (average day turn 978 million USD, 90% of transactions in the Polish currency market). The part of total USDPLN transactions decreased from 76% in April 2004 to 7.5% in April 2007. The National Bank of Poland reported that the value of transactions made by 18 Polish banks with their local offices created 95% of

²⁹ Euro Cash Changeover and Euroisation. Euroisation in Estonia and its impact on the economy. Kroon & Economy, No 1, 2002.

³⁰ Euroizacja polskiej gospodarki. Red. M. Klamut. Spójność w rozwoju regionalnym w Polsce obecnie i w przyszłości. Prace naukowe Uniwersytetu Ekonomicznego we Wrocławiu, No 143, p. 276–290.

the total domestic currency market turn and 97% of domestic derivatives. The average day net turn of the Polish currency market in April 2007 was 8813 million USD, i.e. the turn was by about 39% higher, and by 39% higher if compared to 2004. The Polish currency market's turn was mostly generated by transactions of PLN conversion. An average day turn made by such operations reached 6510 million USD (increase by about 37%)³¹.

There is a visible majority of EUR/PLN turns. A significant change in the currency composition of spot transactions has been observed. The share of EUR / PLN transactions increased to almost 60%. This currency pair is the prevailing one in the interbank market, and it conveys most information on the Polish zloty's intrinsic value. The average daily net turnover in the EUR/USD market amounted to USD 366 mln, which constituted 19% of transactions in the domestic spot market. The EUR/PLN currency pair prevailed in operations among financial institutions (average daily net turnover in April amounted to USD 869 mln, i.e. approx. 90% of the spot transactions that involved the Polish zloty). The share of USD/PLN transactions in this market segment amounted to 6.3%. The currency structure of the turnover in the customer market changed slightly as compared to April 2007 and was similar to the structure of payments in Poland's international trade. The tight economic links of the EU economy, and of the euro area countries in particular, were the most likely reason behind the EUR/PLN currency pair prevalence (approx. 62% of the Polish zloty spot transactions in the customer market). The USD/PLN transactions' share in the customer market amounted to approx. 28%.³²

The above data indicate the very high level of Polish currency market euroization, but the market of derivatives is more dollarized than euroized. This can be seen if to compare Tables 3 and 4, but data also show a higher euroization of the Lithuanian currency turnover.

³¹ Every 3 years the Bank for International Settlements with national central banks analyzes the level of currency market development and other markets (OTC derivatives market). The purpose of the Project, called Triennial Central Bank Survey of Foreign Exchange and OTC Derivatives Market Activity, is collecting comprehensive and comparable data on the world scale about the liquidity and structure of currency and the future markets. The Bank for International Settlements sets the extent and methods of data collection. In different countries, the central banks are appointed to be coordinators of data. In 2007, central banks from 54 countries took part in the data collection and provided data from 1280 currency and derivative market actors. In 2007, Poland took part for the second time in the project called the Triennial Central Bank Survey of Foreign Exchange and OTC Derivatives Market Activity. Wyniki badania obrotów w kwietniu 2007 r. na rynku walutowym i rynku pozagieldowych instrumentów pochodnych w Polsce. National Bank of Poland 2007, p. 1.

³² Turnover in the Polish Foreign Exchange and OTC Derivatives Markets in April 2010. National Bank of Poland 2010, p. 4.

TABEL 3. Turnover in the Polish Foreign Exchange and OTC Derivatives Markets in Poland, PLN (Polish zloty) against other currencies (April 2004, 2007, 2010 in mln USD)

	USD	EUR	JPY	GBP	CHF	CAD	AUD	SEK
2004	99 129	14 012	37	205	277	8	11	-
2007	103 536	44 861	87	848	1 226	9	3	77
2010	77 765	58 341	134	670	1 351	63	7	65

Source: National Bank of Poland 2010. <http://www.nbp.pl/homen.aspx?f=/en/systemfinansowy/obroty.html>

A comparison of turnover in the currencies of the region clearly shows the advantage of the Polish zloty (Tables 3 and 4 show the monthly turnover of PLN and LTL against the major international currencies). It is visible for all the currencies quoted against the currencies of Central Europe. Analyzing the available data to the fullest extent, showing changes in the PLN and LTL we can see a significant drop in the turnover in 2010 to PLN, which is associated with changes in the international currency market participants. A similar change occurred in the case of Lithuania. As shown in Table 3, the total turnover of PLN against major currencies in April 2010 was less by about 9% as compared with IV 2007, which is particularly evident in relation to the USD and GBP. At the same time, 3 years later the reduced turnover did not include two currencies such as EUR and CHF, gaining in importance in the Polish economy.

TABEL 4. Turnover in the Lithuanian foreign exchange and OTC derivatives markets in Lithuania, LTL (Lithuanian litas) against other currencies (April 2004, 2007, 2010 in mln USD)

	USD	EUR	GBP
2004	17,92	42,53	1,63
2007	23,54	78,13	4,38
2010	15,85	60,53	5,58
2011	27,12	79,65	7,65

Source: Central Bank of the Republic of Lithuania 2010 (1 LTL = 0.3978 USD) <http://www.lb.lt/int/htm.aspx>

The situation is similar to the LTL market. Table 4 shows a significant increase of the turnover, as evidenced by the 50% of percentage changes in April 2004, 2007, 2010 against the euro. Against the USD in 2010, we have a decrease in turnover as compared with 2004. Despite the large differences in the level of trade between Poland and Lithuania, one can see a similar course of changes in the rates tested.

4.2. Foreign reserves

Each year from 2004 to 2011, the average of about 76% of foreign reserves was invested into highly liquid and safe euro-area government bonds and backed securities. Nearly all investments of foreign reserves unrelated to liabilities in foreign currency, except for gold, were made in euros³³.

In March 2010, the currency reserves of the National Bank of Poland in euro reached 63 380 000 000 and in USD 85 200 000 000³⁴. The majority of currency reserves is in USD and EUR (both about 40%) invested in different finance assets³⁵. Table 5 shows the Polish currency reserves as compared with reserves of other countries. We can see that Poland's reserve euroization is quite high, but it looks lower than in some other European countries.

Figure 4 shows that euro currency participation in the EU members' public debt is 100% for Finland, Ireland and Luxembourg, and 94% for 11 countries: Austria, Belgium, Estonia, Spain, Malta, Germany, Slovakia, Slovenia, Poland, Portugal, Italy. In the case of Czechia, Poland and Sweden, it was less than 20%.

TABLE 5. The structure of currency reserves of selected central banks in 2007 (%)³⁶

	Euro	USD
Algeria	60	40
Australia	22	55
Bulgaria	100	0
Chile	26	67
Iceland	40	40
Canada	51	47
Colombia	12	83
Lithuania	100	0
Latvia	46	44
Norway	54	38
POLAND*	40	40
Romania	68	28
Switzerland	47	33
United Kingdom	58	33

Source: E. Papaioannou, R. Portes, The euro as an international currency vis-à-vis the dollar, CEPR 2007, p. 37.

*Data the National Bank of Poland 2007.

³³ More in: Pranešimas Apie Lietuvos Banko Pagrindinio Tikslų Įgyvendinimą, Funkcijų Vykdyimą Ir Banko Sistemos Būklę Lietuvos Bankas 2011, http://www.lb.lt/pranesimas_teikiamas_lietuvos_respublikos_seimui

³⁴ Statystyka bilansu płatniczego. Oficjalne aktywa rezerwowe, National Bank of Poland 2010. www.nbp.pl/home.aspx?f=/statystyka/aktywa_rezerwowe.html

³⁵ Rezerwy dewizowe są bezpieczne. NBPnews.pl 2008.

³⁶ The following countries possess at least 60% of the world currency reserves (USD billions): China 2400, Japan 1019, Eurozone 716, Russia 441, Taiwan 348, India 278, South Korea 270, Brasilia 240, Hongkong 240, Germany 184, Singapur 182. International Monetary Fund, Data Template on International Reserves and Foreign Currency Liquidity, IMF 2009. www.imf.org/external/np/sta/ir/IRProcessWeb/colist.aspx

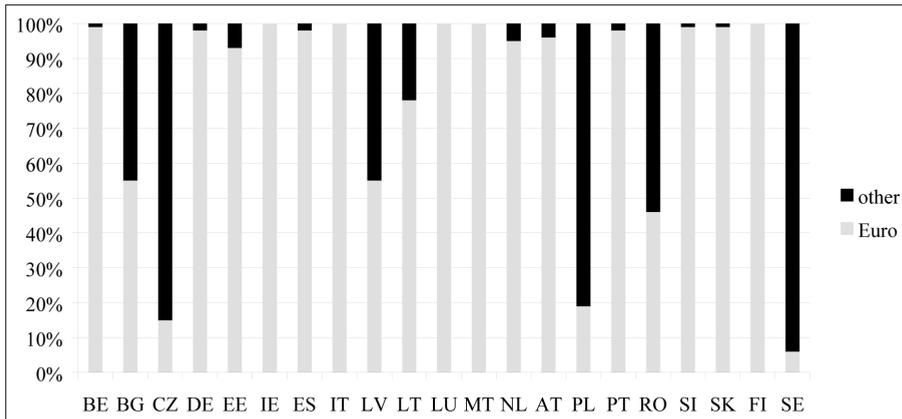


FIG. 4. The EU members debt with euro as issuing currency

Source: Economy and Finance. Structure of Government Debt in Europe in 2009. Eurostat Statistics in focus 3/2011. P. 5.

4.3. Deposits and the credit market

One of the most important measures of euroization is the percentage of euro deposits as compared with total deposits. Financial euroization means that part of financial assets held as a store of value are denominated in the euro³⁷. In the opinion of the International Monetary Fund, if financial euroization has not reached a 30% level, it does not “conflict” with monetary policy measures³⁸.

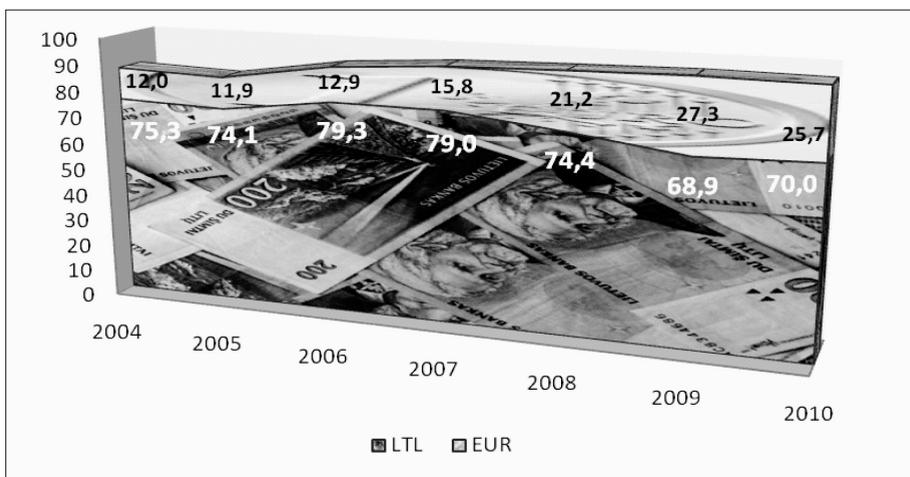


FIG. 5. Deposits Of Residents (December)

Source: Central Bank of the Republic of Lithuania 2011.

³⁷ E. Luçi, M. Muço, E. Sojli. Euroisation in Albania: from spontaneous to consensual. The wiiw Balkan Observatory. Working Papers, 071, August 2006.

³⁸ T. Baliño, A. Bennett, E. Borensztein. Monetary policy in dollarized economies. Occasional Paper 171. Washington DC: International Monetary Fund, 1999.

When a country (like Lithuania) is small, the common monetary area will “absorb” this territory because the very nature of the economy dictates such a scenario. We can already see how the euro *de facto* pushes away, by its quantities, the national currency litas from the internal credit market.

Liability euroization refers to an extensive use of euro denominated bank loans³⁹.

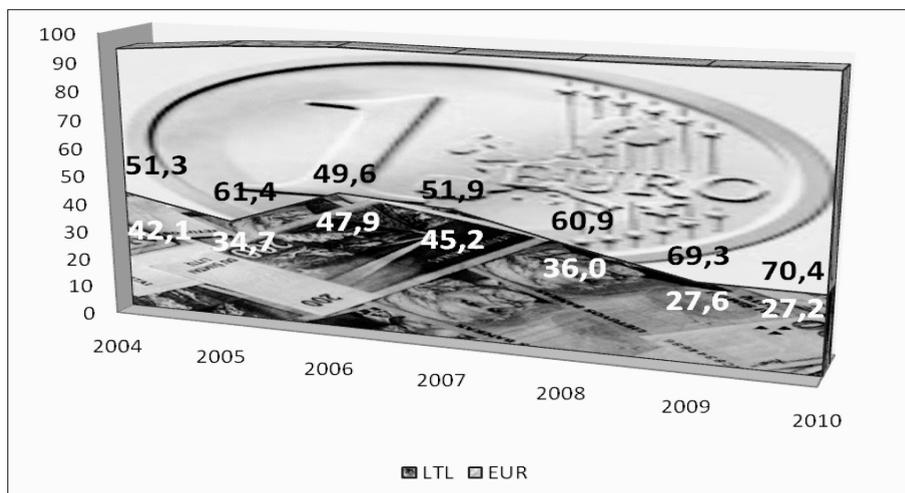


FIG. 6. Loans to residents (December)

Source: Central Bank of the Republic of Lithuania 2011.

The economist Vladas Trukšinas notes that the domestic monetary market has a strange currency structure: over 70% of borrowing is taking place in euros or other foreign currencies while nearly 26% of savings and money turnover are still in the national currency. This results in multiple conversions of currencies: loans in euros or other foreign currencies are often converted into the national currency for practical use while earnings or savings in litas are often converted into euros for loan repayment. Banks stand only to gain from it: for example, during the first quarter of 2011, the net profit earned from operations in foreign currencies increased by 18% as compared with the first quarter of 2010. It is important to identify the instruments whereby the euro pushes away our national currency from the monetary market. In the view of Vladas Trukšinas, the available data allow to assume that euroization was carried out through interest rate cuts, in particular through lending rate cuts⁴⁰. Comparing to Poland the situation is quite different; to see the changes, it is necessary analyse Figs. 7 and 8.

³⁹ E. Luçi, M. Muço, E. Sojli. Euroisation in Albania: From Spontaneous to Consensual. The wiiw Balkan Observatory, Working Papers, 071. August 2006.

⁴⁰ Trukšinas Vl. 2011 m. II ketvirčio ir I pusmečio bankų ir kredito unijų veikimo apžvalga, <http://banku-naujienos.lt/wp-content/uploads/2011/08/2011-m.-I-pusmečio-ir-II-ketvirčio-banku-veikimas-1.pdf>.

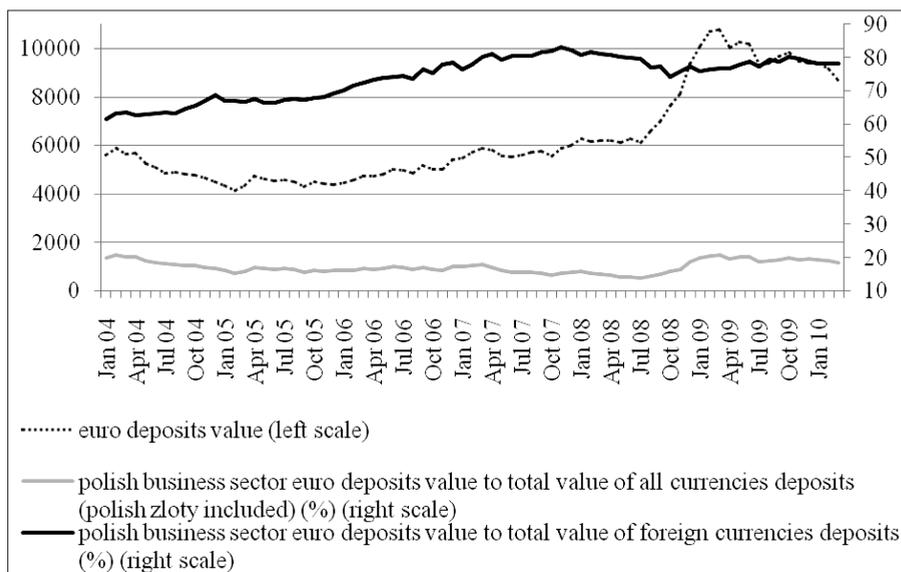


FIG. 7. Euro deposits of Polish companies in Poland (2004–2010)

Source: Authors' calculations, data of National Bank of Poland 2010. Euro deposits in PLN, www.nbp.pl / Statystyka i sprawozdawczość / Statystyka monetarna i finansowa / Należności i zobowiązania monetarnych instytucji finansowych.

The euroization level can also be expressed by data showing the euro kept in deposits in Polish banks. Figure 7 presents the amount of euro currency possessed by the Polish private business. One can see an increase of euro currency amount in 2004–2010, although it is not possible to say that we had a stable trend in Poland, because from the half of the year 2005 and at the beginning of 2009 there was a strong reduction of euro amounts. At the same time, we see that the indicator of the Polish business sector euro deposits' value to all currencies' deposits value (Polish zloty included) and the indicator of the Polish business sector euro deposits' value to the total value of foreign currencies' deposits have not shown a high increase.

Especially the shape of the second indicator should be underlined. The euroization is often thought as a rather stable process, but this indicator shows a random walk. Significant information can be the amount of euro as compared with other foreign currencies' deposits, because the indicator has crossed the 70% level, although, if we compare with the total amount of deposited money, we cannot see any higher level over 20% during the period under analysis.

Figure 8 shows euro deposits of individuals. All analyzed indicators (time series range from Poland's accession day to the European Union until the end of observations) decreased or became stable at the level of 2004. The decrease of euro deposits of individuals looks really significant: from 2,7 billion EUR in 2004 to 0.7 billion EUR by

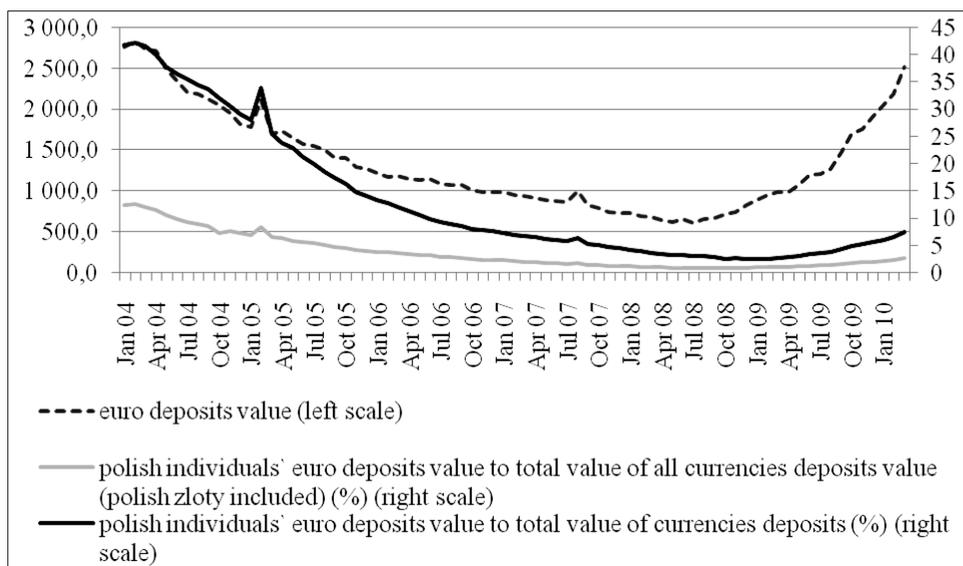


FIG. 8. Euro deposits of individuals in Poland (2004–2010)

Source: Authors calculations, data of National Bank of Poland, 2010. Euro deposits in PLN, www.nbp.pl / Statystyka i sprawozdawczość / Statystyka monetarna i finansowa / Należności i zobowiązania monetarnych instytucji finansowych.

the mid of 2008. This change were not observed in the private business sector. As regards the indicator of euro deposits in the total amount of deposits (Polish zloty included) and the indicator of euro deposits in the total amount of foreign deposits, we can see that from the beginning of 2009 these two indicators started increasing and reached just a few percent the next year. These changes were much smaller as compared with the level of the beginning of 2004.

It should be noted that a larger part of euroized deposites is in Poland than in Lithuania.

In Poland, at the end of 2008, 65% of all credits were in foreign currencies; the value of all foreign currency credits was about 35,6 billion EUR (139 billion PLN⁴¹), but the total value of all housing credits was about 54,8 billion EUR (214 billion PLN). In 2009 the proportions between the issued credits in CHF and EUR equalled. New credits In CHF became 11.3%, in EUR 11.5%. The euro credits for individuals are accessible at least in 15 Polish banks⁴².

⁴¹ It is for exchange rate: 3.90 PLN for 1.00 EUR.

⁴² Przasnyski R. Mieszkania za kredyty hipoteczne w euro coraz bardziej modne. *Gazeta Prawna* 06.04.2010.

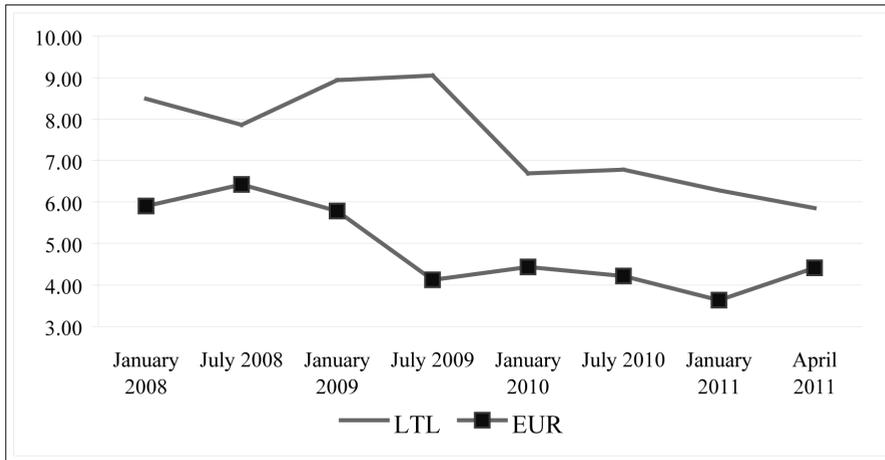


FIG. 9. Mean interest rate cuts of newly granted loans in Lithuania

Source: Central Bank of the Republic of Lithuania 2011.



FIG. 9A. Mean interest rate cuts of newly granted loans in Poland

Source: National Bank of Poland 2011. http://www.nbp.pl/home.aspx?f=/statystyka/pieniezna_i_bankowa/oprocentowanie_n.html

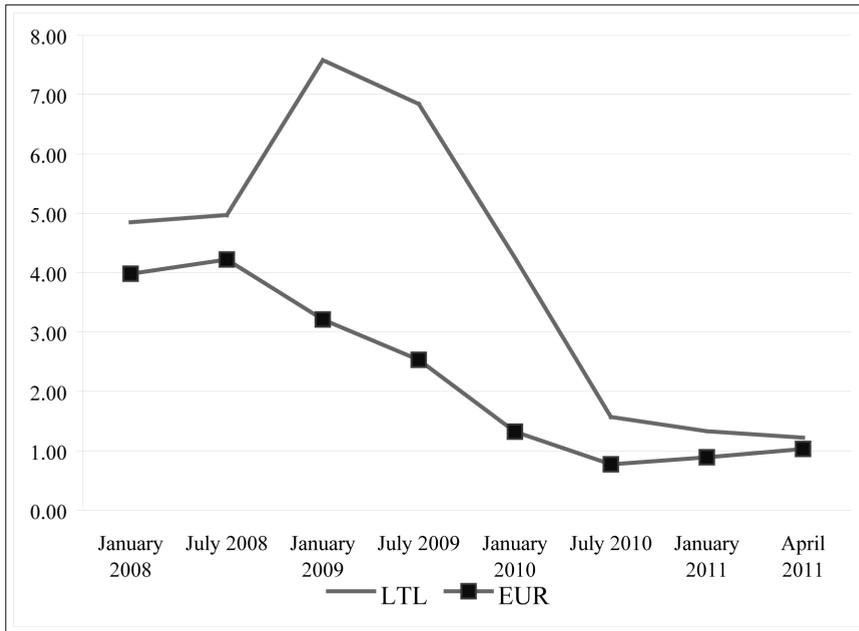


FIG. 10. Mean interest rate cuts of newly accepted deposits in Lithuania

Source: Central Bank of the Republic of Lithuania 2011.

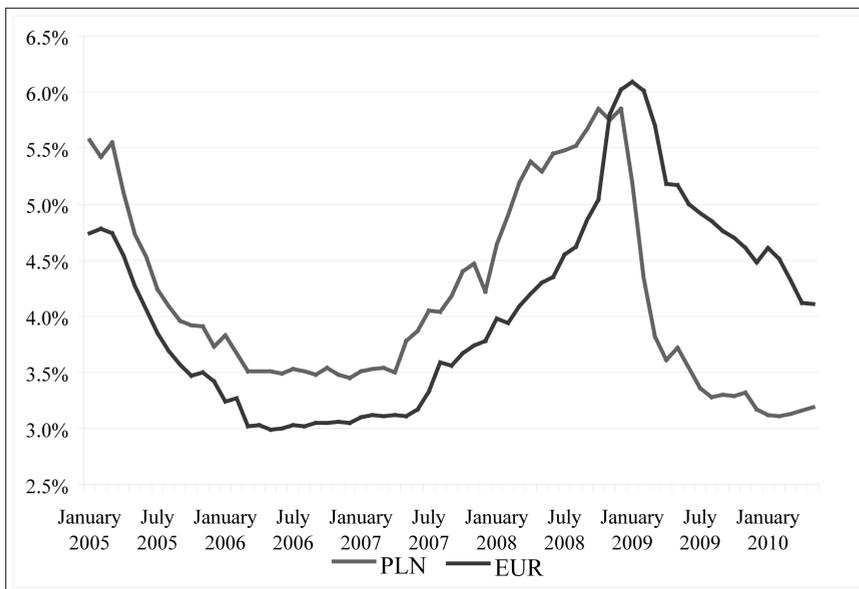


FIG. 10A. Mean interest rate cuts of newly accepted deposits in Poland

Source: National Bank of Poland 2011. http://www.nbp.pl/home.aspx?f=/statystyka/pieniezna_i_bankowa/oprocentowanie_n.html

4.4. Import/export from/to the euro area⁴³ and foreign direct investments

Tables 6 and 7 show a high and quite stable level of the euroization of import and export. These data express deep trade connections between Poland and the EMU; this concerns also Lithuania. Many reports indicate that in the future the full euro currency adoption will stimulate export growth⁴⁴. It should be noted that the geographical distance from EMU is of significance in the import/export euroization. So, Poland's closeness to Germany (common frontier) gives an advantage in comparison with Lithuania.

TABLE 6. Export to the euro area

	2005	2006	2007	2008	2009	2010	2011 1h
Lithuania	-	24.70%	25.50%	24.20%	27.90%	26.90%	31.90%
Poland	52.76%	52.17%	51.18%	55.92%	55.31%	54.11%	-

Source: Authors' calculations, Rocznik Statystyczny Handlu Zagranicznego, GUS 2009. http://www.stat.gov.pl/gus/5840_3327_PLK_HTML.htm

Central Bank of the Republic of Lithuania 2011. http://www.lb.lt/en_index.htm

TABLE 7. Import from the euro area

	2005	2006	2007	2008	2009	2010	2011 1h
Lithuania	-	32%	34.40%	28.60%	29.40%	28.60%	31.10%
Poland	48.17%	48.69%	47.12%	48.47%	46.25%	46.16%	-

Source: Authors' calculations, Rocznik Statystyczny Handlu Zagranicznego, GUS 2009. http://www.stat.gov.pl/gus/5840_3327_PLK_HTML.htm

Central Bank of the Republic of Lithuania 2011. http://www.lb.lt/en_index.htm

⁴³ <http://www.lb.lt/statistika>

TABLE A. Imports/exports from/to the euro area (Lithuania).

% of total	Lithuania's trade with the EMU,%					
	2006	2007	2008	2009	2010	2011 1H
Goods						
Exports to the euro area	24.9	25.3	22.9	26.7	25.9	31.4
Imports from the euro area	33.2	36.1	29.6	30.3	29.3	31.8
Services						
Exports to the euro area	23.9	26.3	30.7	33.3	32.4	34.1
Imports from the euro area	23.4	22.5	21.5	24.2	23.4	24.9
Goods and services						
Exports to the euro area	24.7	25.5	24.2	27.9	26.9	31.9
Imports from the euro area	32.0	34.4	28.6	29.4	28.6	31.1
The number of EMU members	12	13	15	16	16	17

Source: Central Bank of the Republic of Lithuania 2011

⁴⁴ More data: Sytuacja w handlu zagranicznym po 3 kwartałach 2009 r., Ministerstwo Gospodarki, Departament Analiz i Prognoz, Warszawa, 30 listopada 2009 r.

As compared with Lithuania, during the study period (2006–2010) one can see a much larger share of Poland’s FDI in the euro area (Table 8). This also applies to the relationship in the opposite direction (Table 8), and these values are several times larger and show a much higher level of FDI for the Polish UE. So, it can be understood as a higher euroization.

Lithuania’s FDI in the euro area had a much smaller share than the euro area FDI in Lithuania. The situation is different in the Polish environment, because both of these indicators in the period 2006–2010 are at similar levels. So, in this channel we see the same level of euroization.

Table 8 also shows important means of FDI. The amount of Lithuania’s Euroarea FDI inflows as a mean make only a half of the Polish FDI which shows a high economic openness, although its part in the structure of Lithuania is only 14:

- Euroarea FDI in Poland (mean of 2006–2010): 9,399 bln USD (80%);
- Lithuania (26.85%): 4355,86 mln USD.

It is also important to underline the higher mean value of Lithuania’s FDI outflows:

- Poland’s FDI to the Ezone (mean of 2006–2010): 115,29 mln USD (81%),
- Lithuania’s (31%) 409,53 mln USD.

If we compare the FDI outflows to the Euroarea, we can see a great difference between Poland and Lithuania. It also shows the importance for Poland of the internal market which support smaller external operations.

TABLE 8. Euro area direct investment (Lithuania (LT) and Poland (PL) 2006–2010) in mln USD

	2006	2007	2008	2009	2010	Mean
World FDI in PL	15 061.10	16 582.10	9 971.60	9 863.10	6 686	11 632.78
Euro area FDI in PL	12 989.10	12 303.90	9 083.10	8 130.70	4 490	9 399.36
	86%	74%	91%	82%	67%	80%
Total FDI out of PL	94.47	119.54	115.7	185.68	201	167.46
PL’s FDI to Euro area	78 648.40	97.43	95.14	152.3	152.94	15 829.24
	83%	81%	82%	82%	76%	81%
World FDI in LT	10914.43	15172.34	13077.6	14039.9	13604.4	13 361.74
Euro area FDI in Lithuania	2936.77	3914.12	4332	4657.85	4519.47	4 072.04
	26.90%	25.80%	33.10%	33.10%	33.20%	30%
Total FDI out of LT	1033.61	1581.97	1990.7	2315.58	2115.78	1 807.53
Lithuanian FDI in Euro area	77.6	157.48	351.52	655.93	805.14	409.53
	7.50%	9.90%	17.60%	28.30%	38%	20%

Source: Authors’ calculations, Inwestycje bezpośrednie – zagraniczne. Cykliczne materiały analityczne NBP 2011. <http://www.nbp.pl/home.aspx?f=/publikacje/zib/zib.html>

Foreign direct investment in Poland 2010. Aneks statystyczny. Warsaw, October 2011. <http://www.nbp.pl/publikacje/zib/zib2010.pdf>

Central Bank of the Republic of Lithuania 2011. http://www.lb.lt/en_index.htm

5. Transfers of remuneration from the euro area

In 2010, transfers from the euro area to Lithuania amounted to LTL 1,256 million, while transfers from Lithuania to the euro area made up LTL 588 million. As compared to the respective quarter of 2010, the data on the first quarter of 2011 show an increase in transfers: transfers from the euro area grew by 24%, while transfers to the euro area surged by 56%⁴⁵.

Hence, the above figures and their analysis show that euroization in Lithuania is a real and intensively evolving process. The economist Gitanas Nausėda points out that the pegging of the litas to the euro means that “Lithuania has already stepped into the euro area with one leg” and thus “it is natural that Lithuania should put the other leg into the same place”⁴⁶.

What risks does such euroization entail for the economy? The first risk is a hardly controllable growth in the mass of money, i.e. uncontrollable transfers of euros through the banking system. Such a rapid euroization, which is in fact pushing the litas away, could be one of the major reasons for economic overheating. The second danger is the exchange rate risk, i.e. a lot of entities have loans in euros despite their national currency earnings; therefore, the fall in the exchange rate of the litas may increase the Lithuanians’ debt in their national currency.

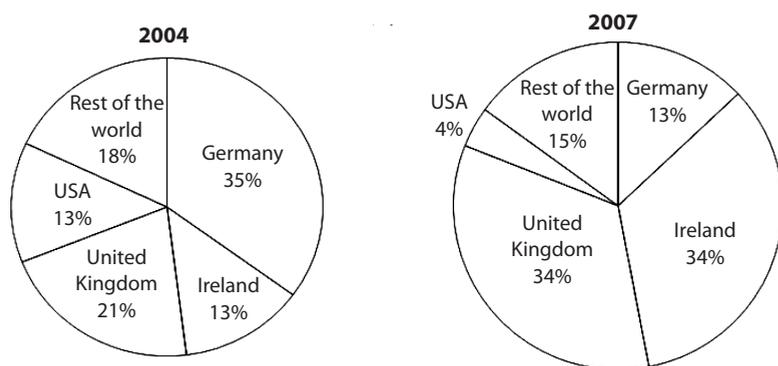


DIAGRAM 1. Wage transfer structure in 2004 and 2007 (Poland)

Source: Nowa metoda szacunku dochodów z pracy Polaków za granicą– bilans płatniczy, National Bank of Poland (Departament statystyki) 07.04.2008, p. 5.

Foreign wage transfers are also an important channel of the Polish economy euroization. Since 2004, Poles working abroad earned over 125 billion euro. During 2004–2008, Poles sent to Poland 20,6 billion euro. In 2007, the record of 5,4 billion

⁴⁵ <http://www.lb.lt/statistika>

⁴⁶ G. Nausėda. Lietuva euro gali tikėtis 2016–2017 metais [Lithuania may expect the euro in 2016–2017], Vilnius, birželio 29 d. (BNS).

euros was reached⁴⁷. **Half of this money came from the EMU.** It is partly showed by the National Bank of Poland (*Nowa... (diagram 1)*), but, alongside Ireland and Germany (as typical Polish emigration countries), also France, Holland, and Italy should be mentioned as the EMU members⁴⁸.

6. Legal collision

Summing up, it should be noted that even if any MS withdrew from the EU and euro area, it would not necessarily mean end of the euro circulation in the territory of this MS. In fact, it is essential to differentiate between the MS institutional membership of the euro area and euroization. On the other hand, all MSs will have to join the euro area in the long term unless they have opt-out clauses. Moreover, MSs cannot unilaterally withdraw from the EU or EMU: it is legally possible only in one way, i.e. by concluding an agreement with other MSs⁴⁹.

With euroization in progress, the legal collision is worsened by Article 140(3) of the Treaty on the European Union⁵⁰, which stipulates that “the Council shall, acting with the unanimity of the Member States whose currency is the euro and the Member State concerned, on a proposal from the Commission and after consulting the European Central Bank, irrevocably fix the rate at which the euro shall be substituted for the currency of the Member State concerned”. When the euro pushes away the national currency by means of both the unilateral euroization or the *euroization eyes shut*, the euro does not become a lawful currency of “the Member State concerned”. Therefore, it is impossible to fix the exchange rate “at which the euro shall be substituted for the currency of the Member State concerned”, i.e. to fulfil the requirements under the EU Treaty. Moreover, according to Article 142 of the EU Treaty⁵¹, each MS outside the euro area must treat its exchange rate policy as a matter of common interest. This means that it is forbidden to avoid any stages of euro introduction provided for in the EU Treaty, because the target is to ensure a smooth functioning of the single market, and euro introduction is the final stage of the convergence process.

At the end of 2009, one of the Lithuanian Seimas parliamentarians came up even with the proposals to introduce the euro as a legal tender alongside the national currency in all cash and non-cash operations and to allow the same procedure of settlements and payments in the euro as in the litas. The Seimas registered the drafts amending the respective articles of the Republic of Lithuania Law on Money, the Republic of Lithuania

⁴⁷ Błaszczak, A. Emigranci zarobili miliardy. Rzeczpospolita 06.11.2009.

⁴⁸ More in: *Nowa metoda szacunku dochodów z pracy Polaków za granicą– bilans płatniczy*, NBP Departament statystyki 2008.04.07, p. 2.

⁴⁹ P. Athanassiou, *Withdrawal and expulsion from the EU and EMU. Some Reflections*. ECB, Legal Working Paper, Series No 10, December 2009, http://ssrn.com/abstract_id=1517760.

⁵⁰ ex Articles 121(1), 122(2), second sentence, and 123(5) TEC.

⁵¹ ex Articles 124(1) TEC.

Law on Issuing Money and the Republic of Lithuania Law on Foreign Currency in the Republic of Lithuania with the view to imposing a duty on all natural and legal entities to accept euros for all settlements and payments without any restrictions. These laws were not adopted, but in the same cases in the future the following aspects should come into focus when assessing the compliance of these proposals with the Lithuanian Constitution and laws as well as with the EU legal acts.

First of all, the provisions on legalisation of euroization must be assessed with respect to their compliance with the principle of proportionality, i.e., it is a must to analyse the potential implications of euroization to business, national currency and the fulfilment of various obligations by the MS. Although the EU legislation does not provide for a direct prohibition of introducing the euro as legal tender alongside the national currency, it specifies that any obligation assumed to use the euro must be in line with the EU legal acts⁵². It is often overlooked, however, that the approximation of the national legal framework with the EU legislation is one of the criteria to be assessed when considering an MS readiness to introduce the single currency. Therefore, consideration should be done whether the national legislation encouraging the *euroization eyes shut* should not be seen the same way as the laws legalising the unilateral euroization.

Second, since the conditions and procedure of the euro introduction in a MS is provided for by the EU Treaty in accordance with the principle of equality, any way of introducing the euro other than that provided for in the EU Treaty may be construed solely as an infringement of this international Treaty. According to Part 2 of the Constitutional Act of the Republic of Lithuania on Membership of the Republic of Lithuania in the European Union, the norms of the European Union law are a constituent part of the legal system of the Republic of Lithuania and are applied directly. In the event of collision of legal norms, the EU legislation has a supremacy over the laws of the Republic of Lithuania. Thus, any euro introduction following the procedure other than that established in the EU Treaty may be deemed a breach of the Lithuanian legislation.

Conclusions

The ongoing *euroization eyes shut* should pose the question by what percentage the euro should push the national currency from the national economy to enforce the unavoidable duty of the EU and MS institutions to look into all potential economic and political implications of the process and carry out an expert review of economic and other aspects of euroization .

Currently, big EU MSs are not interested in the *euroization eyes shut* outside the euro area. Instead, they are busy with creating an “European Economic Government”. It starts coming to light that only the “economic government of the euro area” rather than

⁵² Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro.

that of the whole EU is under development. Such an asymmetric policy is likely to aim at cutting off this government from the common EU structures to avoid the coordination of its decisions among all the EU-27.

Such an open free riding policy results in “standing under the tree” and failing to see that euroization in non-euro area MSs is advantageous for the EU: intangible benefits, such as the status and prestige that go with more extensive cross-border use of the euro accrue to the EU⁵³.

Unilateral euroization cannot be a way of circumventing the stages foreseen by the Treaty for the adoption of the euro. Opting for euroization, such MSs push away themselves from the monetary policy proceedings; this process would not allow the country to influence the decisions of the ECB at all. To adopt the euro through euroization would be inconsistent with the spirit of the Maastricht Treaty and EMU⁵⁴.

Lithuanian economists have already drawn attention to the fact that the unilateral adoption of the foreign currency is often preferred by the countries that significantly inferior to Lithuania as far as indexes measuring democracy, human rights, economic freedom, etc. are concerned. Moreover, all the countries that have already carried out unilateral euroization are outside the EU; therefore, unilateral euroization for Lithuania, Poland and other MSs outside the euro area could bear both legal and economic as well as political consequences⁵⁵.

Therefore, a respectable international policy actor should not carry out unilateral euroization. On the other hand, being denied the participation in the ECB decision-making on monetary policy and unable to delegate their representatives to the ECB governing bodies but implementing the *euroization eyes shut*, such countries as Lithuania and Poland are strengthening the international role of the euro at the cost of the stability of national currency and the limited national resources. Thus, through the *euroization eyes shut*, the EC and ECB are consolidating the foundations of the euro in the world monetary system. This should give rise to the question: is it moral, on the one hand, to enlarge the euro area following the criteria devoid of any economic logic and disregarded by all old euro area MSs by now and, on the other hand, to tolerate (and possibly even promote) simultaneously the international expansion of the euro currency through the *euroization eyes shut*? Is it decent in the case of the countries which are actively modifying their payment systems due to the assumed obligations? Is it justifiable in the case of the countries which have been deprived of independent monetary policy due to their participation in the ERM? Is it fair in the case of the countries which have

⁵³ S. Levasseur. Why not euroisation?, “Revue de l’OFCE” 2004, No. 91, April 2004. Available from internet: <<http://www.cairn.info/revue-de-l-ofce-2004-5-page-121.htm>>.

⁵⁴ Dulkys, A. The euro area enlargement: a paradigmatic view. Research Papers. No 59. Wroclaw University of Economics, 2009.

⁵⁵ March 2009, Lithuanian Macroeconomic Review, SEB.

irrevocably refused their national currencies as a national symbol and an integral part of their national identity in favour of strict provisions of the EU Treaty?

This enables to conclude that *euroization eyes shut* is the manifestation of anti-economics which simply wastes the country's human, material, and financial resources. The following questions remain open: first, when the EMU will become a true monetary union with the single currency, i.e. when will it turn from the public bad to the public good, second, when the euro banknotes with serial numbers prefixed by the letter indicating the euro issued in Lithuania and Poland⁵⁶ will come into circulation; and third, why the EU MS governments are "standing under a tree" when the EU public goods are being "killed"?

REFERENCES

Athanassiou P. (2010). Withdrawal and expulsion from the EU and EMU. Some Reflections. ECB, Legal Working Paper, Series No 10, December; http://ssrn.com/abstract_id=1517760.

Baliño, T.; Bennett, A.; Borensztein, E. (1999). Monetary policy in dollarized economies. Occasional Paper 171. Washington DC: International Monetary Fund.

Błaszczak A. (2009). Emigranci zarobili miliardy. Rzeczpospolita 06.11.

Commission Recommendation 2008/78/EC of 10 January 2008 on measures to facilitate the mature changeovers to the euro, OJ L23 of 26 January 2008, p. 30–32.

Commission Staff Working Document. Eleventh Report on the practical preparations for the enlargement of the euro area {COM(2010) 667 final}, Brussels, 12.11.2010, SEC(2010) 1373.

Communication from the Commission Eleventh Report on the practical preparations for the enlargement of the euro area {SEC(2010) 1373}, Brussels, 12.11.2010, COM(2010) 667.

Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro.

Czaja, J. Euroizacja polskiej gospodarki. In: red. M. Klamut. Spójność w rozwoju regionalnym w Polsce obecnie i w przyszłość. Prace naukowe Uniwersytetu Ekonomicznego we Wrocławiu, No 143, pp. 276–290.

Dulkys, A. (2009). Euro area enlargement: the target date problem. *Ekonomika*, No. 88.

Dulkys, A., (2009). The Euro Area Enlargement: a Paradigmatic View. Research Papers, No. 59, Wrocław University of Economics.

Economy and finance. Structure of Government Debt in Europe in 2009. Eurostat Statistics in focus, 3/2011.

Euroization In Estonia And Its Impact On The Economy, Euro Cash Changeover and Euroization, *KROON&ECONOMY*, No 1, 2002,

Foreign direct investment in Poland 2010, *Anneks statystyczny*, Warsaw, October 2011.

Gyls, P., (2008). *Ekonomika, antiekonomika ir globalizacija* [Economics, Anti-economics and Globalisation], Vilnius universiteto leidykla, Vilnius, 2008.

Foreign Direct Investment in Poland 2010. Warsaw, National Bank of Poland, October 2011, <http://www.nbp.pl/publikacje/zib/zib2010.pdf>

Introduction of the euro in the new Member States. Analytical report. Flash Eurobarometer, December 2010, Flash EB Series #307.

Kurach, R., Stelmach, J. (2008). Monetary Union Accession and the Severity of Potential Asymmetric Shocks – the Case of Lithuania and Poland *Ekonomika*, No. 83.

⁵⁶ Dulkys, A. Euro area enlargement: the target date problem (2009). *Ekonomika* No. 88.

Levasseur, S. (2004). Why not euroization? *Revue de l'OFCE* No. 91, April, <http://www.cairn.info/revue-de-l-ofce-2004-5-page-121.htm>

Lietuvos Respublikos užsienio valiutos Lietuvos Respublikoje įstatymo 2 ir 3 straipsnių pakeitimo ir 8 straipsnio 2 dalies pripažinimo netekusia galios įstatymas. Vilnius, 22.10.2002, http://www3.lrs.lt/pls/inter3/dokpaieska.showdoc_l?p_id=191569

Lithuanian Macroeconomic Review (35), March, SEB, 2009.

Luçi, E., Muço, M., Sojli, E. (2006). Euroization in Albania: from spontaneous to consensual. The wiiw Balkan Observatory, Working Papers, 071, August.

Nausėda, G. Lietuva euro gali tikėtis 2016–2017 metais [Lithuania may expect the euro in 2016–2017], Vilnius, birželio 29 d. (BNS).

Nowa metoda szacunku dochodów z pracy Polaków za granicą– bilans płatniczy. National Bank of Poland (Departament statystyki) 07.04.2008.

Papaioannou, E., Portes, R. (2007). The euro as an international currency vis-à-vis the dollar. CEPR.

Przasnyski, R. (2010). Mieszkania za kredyty hipoteczne w euro coraz bardziej modne. *Gazeta Prawna*, 06.04.

Rapacki, R., Próchniak, M. (2009). The EU enlargement and economic growth in the CEE new member countries. *Economic Papers* No. 367, March.

Rezerwy dewizowe są bezpieczne. *NBPnews.pl* 2008.

Rocznik Statystyczny Handlu Zagranicznego. GUS 2009; http://www.stat.gov.pl/gus/5840_3327_PLK_HTML.htm

Rostowski, J. (2001). Why unilateral euroization makes sense for (some) applicant countries. Konferencja NBP “Polska droga do Euro”, Falenty.

Rozszerzenie UE a uczestnictwo w Unii Gospodarczej i Walutowej, ECB 2009, www.ecb.int/ecb/enlargement/html/faqenlarge.pl.html

Scheiber T., Stix, H., Euroization in Central, Eastern and Southeastern Europe – new evidence on its extent and some evidence on its causes. Working Paper 159, Oesterreichische Nationalbank 2009.

Skrzypek, S. (2010). Poland should not rush to sign up to the euro. *The Financial Times*, 12.04.

Stix, H. (2009). Euroization: what factors drive its persistence? Household Data Evidence for Croatia, Slovenia and Slovakia. *Applied Economics*, pp. 1–16.

Summary of experts' reports compiled for the euro working group. European Commission. Directorate General XXIV, Consumer Policy and Consumer Health Protection. Euro Papers, No. 29, November 1998.

Sytuacja w handlu zagranicznym po 3 kwartałach 2009 r. Ministerstwo Gospodarki, Departament Analiz i Prognoz, Warszawa, 30 listopada 2009 r.

Triennial Central Bank Survey of Foreign Exchange and OTC Derivatives Market Activity. Wyniki badania obrotów w kwietniu 2007 r. na rynku walutowym i rynku pozagiełdowych instrumentów pochodnych w Polsce, NBP 2007.

Trukšinas, 2011 m. II ketvirčio ir I pusmečio bankų ir kredito unijų veikimo apžvalga, <http://banku-naujienos.lt/wp-content/uploads/2011/08/2011-m.-I-pusmecio-ir-II-ketvircio-banku-veikimas-1.pdf>.

Turnover in the Polish Foreign Exchange and OTC Derivatives Markets in April 2010. NBP 2010.

Winkler, W., Mazzaferro, F., Nerlich, C., Thimann, Ch. (2004). Official dollarisation/euroization, motives, features and policy implications of current cases. Occasional Paper Series, No. 11 / February 2004, European Central Bank.