Intentional Laggards?

Explaining New Member States' Eurozone Entry Strategies

in the Pre- and Post-Crisis Landscape

By

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Abstract

In this thesis I set out to find the causal explanation for the puzzling variation in euro adoption strategies among the new member states of the European Union, specifically targeting the behaviour of the laggards. Building on the theoretical framework of rational choice institutionalism as utilized in the Europeanization literature, I hypothesize that while the domestic propensity (comprised of economic necessity and the actions of political actors) of a country serves as an independent variable, the country-specific influence of the EU-level institutions, conceptualized as institutional credibility and flexibility, is an important intervening variable affecting outcomes. In a comparative in-depth analysis focused on the cases of Poland and Hungary, with Slovakia as a contrasting case, I find significant evidence for the claim that the role played by international institutions is complex and has direct effects on how pre-euro-accession states come to view the accession process and the rules of EMU. In this way, the thesis represents an advancement upon the "domestic politics" approach which is most common in the theoretical paradigm.

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1 Introduction

After the largest ever enlargement round of the European Union in 2004-2007, the new member states, having no opt-out rights, all made a commitment to eventually participate in the third and final stage of Economic and Monetary Union. A derogation was necessary while the economies of the new member states caught up with those of the EU-15, but the new members, most of them countries of the former Eastern Bloc, expressed an overriding enthusiasm for early euro adoption.

Much of the literature from around the time of accession focuses on economic and technical aspects of the best strategies for swift entry, certain in the underlying assumption that this was the goal of the new members. The benefits of joining, though not without certain adjustment costs, were widely seen as obvious: small, open, trade-dependent economies with their own currencies which are part of the Internal Market are vulnerable to speculative attacks, exchange rate fluctuations and monetary instability – all of which would be remedied by euro adoption. (See: De Grauwe & Schnabl 2004; Breuss, Fink & Haiss 2004; Hochreiter & Tavlas 2004; Eickmeier & Breitung 2005)

However, in the following years it became apparent that some countries would adopt the single currency much later than others. On the face of it, this could be explained by the differences in levels of economic development, but the facts do not quite match up – several of the regional pacesetters of the transition period, such as the Czech Republic, Poland and Hungary were found to be among the countries which have lagged behind (going so far as to eventually dispense with target dates for joining altogether), while the Baltics, although having more catching up to do in terms of indicators such as GDP per capita, soon found themselves ahead in the process. This tendency, if anything, seems to have become even more prominent following the impact of the global economic and the European sovereign debt crises. Initial assumptions seemed to be in agreement about the willingness of the new Member States to become as integrated into the EU as possible (highlighted by the member states' normative rhetorical strategies of holding the EU to their own word in pushing for accession, see Schimmelfennig 2001). This shows us that in terms of the common currency, the real puzzle lies not in the behaviour of those states which acceded quickly but in the strategies of the laggards.

The research question is therefore the following: what factors cause new Member States to delay Eurozone entry?

The above outlined puzzle has already received attention in the literature, with notable contributions by Johnson (2006; 2008), Epstein & Johnson (2010), Haughton (2009), Dandashly (2012) etc. However, no substantive research has been done to examine how the situation has changed after the reforms and new institutions introduced into EMU governance in the wake of the crisis. Since the crisis has had a substantial impact on the attitudes of present eurozone members to EMU on both the supranational and national levels, it is important to examine how the changes may have altered the prospects of Eurozone enlargement. The findings of such research have broader implications for the study of European integration, helping to shed light on a piece of the much larger puzzle about where the EU is heading – especially with regard to the prospects of continued and increasing heterogeneity and differentiation among member states by policy areas, levels of competence etc. (Leuffen et al. 2012), and how this affects the overall cohesion of the Union. Furthermore, the answers to the research question also contribute to an understanding of the broadly understood transition of Central and Eastern European economies.

The main argument of the thesis is that eurozone entry strategies are essentially influenced by two sets of factors: on the one hand, domestic conditions, and on the other, the external influence of the institutional settings and constraints of EMU as mediated through the domestic actor environment, with the interaction of the two bringing about varying outcomes in each particular case. The mechanism is formulated in more detail in the second chapter.

The thesis is structured as follows. The second chapter covers the theoretical considerations which inform the conceptualization and articulation of the hypothesis. The following two chapters constitute the main body of the empirical analysis, each exploring the chosen cases before (up to and including 2008) and during the crisis (since 2009), respectively. Each of the analytical chapters opens with a description of some general features of EMU salient to the entry process during the time frame under scrutiny, then proceeding to the case studies. Each case includes a brief examination of macroeconomic fundamentals and a detailed analysis of the relevant political developments over the period, including, where necessary, references to events prior to accession as well. The final chapter provides some concluding remarks.

2 Theoretical Background

In this chapter I outline the theoretical underpinnings of the study. I begin by briefly examining the variety of theoretical approaches which characterize the field of EU studies and questions of Economic & Monetary Union in particular, sketching the initial justification for my choice to base the analysis in the framework of rational choice institutionalism. I then move on to a discussion of rational choice in general, following up with an overview situating the rational choice literature within the EU studies subfield of Europeanization. I conclude with the concepts and hypothesis informed by these theoretical considerations, as well as a discussion of the chosen cases and data sources.

2.1 General Overview of Theoretical Approaches to the Study of EMU

It is widely acknowledged by students of European integration that the creation of EMU was a milestone which had significant impacts on the overall development of the Union. All mainstream theories of integration have been employed to explain the origins and formation of EMU – while neo-functionalist approaches view monetary integration as inevitable and irreversible spill-over from the common market and the next logical step on the way to full political union, highlighting the importance of supranational actors such as the Commission in initiating and facilitating the creation of EMU, intergovernmentalists stress the primacy of interstate bargaining and the prevalence of the largest member states. (Jabko 1999; Moravcsik 1998)

The literature on the enlargement of an already established eurozone proceeds broadly along the same lines but some unique characteristics ought to be noted. Taking a bird's eye view, two overarching categories can be discerned: the first being studies of a primarily economic nature, theorizing questions about the single currency in terms of economic models and concepts such as Optimum Currency Area theory, exchange rate regime theories, business cycle synchronization and other quantitatively measurable factors. (See: Ben 2009; De Grauwe & Schnabl 2004; Breuss, Fink & Haiss 2004; Hochreiter & Tavlas 2004; Eickmeier & Breitung 2005; Mongelli 2005; 2008; Rinaldi-Larribe 2008; Rozmahel & Najman 2011 etc.) These economic theories tend to attribute the differences in possible euro adoption patterns to straightforward divergence of economic factors like presence of OCA properties, adherence to the officially prescribed nominal (i.e. debt, deficit, inflation, interest rates and exchange rates) or presumed real convergence criteria of EMU accession etc. However, as noted, propositions and predictions based on these theories do not match up with empirical evidence – there is hardly any correlation between various indicators of real convergence and the thrust of euro accession in the new member states. (Kostadinova 2009) Furthermore, these approaches do not take into account the political motivations that influence whether and how actors strive to change the levels of such criteria.

The second broad category entails studies in comparative political economy which take into account not only the technical details but also the effects of factors such as institutional structure, conditionality, actor interests and perceptions in shaping outcomes. This second category of theories is what is relevant for the present study.

So far, the literature on different strategies of EMU accession has emphasized the following main theoretical frameworks of explanation. First, there are theories that locate the causes in varying mass and elite attitudes to market economies and to the currency union itself. (Allam & Goerres 2008; Allam & Goerres 2011) While the empirical evidence gathered on the basis of such works gives us important information, its applicability as an explanatory factor in the case of Central and Eastern European countries acceding to the currency union is doubtful. In post-communist transition countries, it is typically the political elites which shape public discourse, which in turn sets the agenda for public opinion and not vice versa. The often insular procedures of joining the EU and post-accession integration processes have typically remained the domain of governments, which have tended to instrumentalize these so as to improve their own domestic strategic position vis-à-vis both international and subnational actors. (Moravcsik 1998) Since it is mainly governments which then go on to thematize the national discourse about the EU, it is more promising to focus on them instead.

Another large subfield in which we may situate the questions of euro accession in the CEECs is the so-called Europeanization literature. Simply put, Europeanization refers to the influence of the EU upon domestic processes, policies and institutions. It is especially relevant to this study since, after initial works dealing mostly with impact on old member states, a burgeoning offshoot within this field has focused on the Europeanization of candidates and newly acceded states. (Sedelmeier 2011) EMU accession is not a straightforward case (see elaboration in section 2.3), and in general we should be wary of according some sort of mystical salience to the concept of Europeanization, but it is a framework which emphasizes some key features of eurozone enlargement and has an apt toolkit for fruitful theorizing about this particular phenomenon.

Within the Europeanization literature, two main strands are commonly delineated, with markedly different ontological foundations. The first is the sociological institutionalist theoretical lens, which advances that countries committing to euro adoption do so because of a complex socialization process founded on the logic of appropriateness, with implications for national and European identity and a focus on ideational paradigms. (Risse 2003; Dyson 2007; Hempson III 2009; Pechova 2012) In contrast, the other strain has developed from a basis in rational choice institutionalism, locating the causes in material incentives, rational cost-benefit analysis and strategic action on the part of the member states. (country studies in Dyson 2006; Johnson 2008; Dandashly 2012)

In my research I pursue the latter approach as it lends itself best to empirical testing and has the most promising outlook for a nuanced understanding. The causes proposed by the sociological institutionalist literature include the use of euro adoption as an identity marker for a state to distance itself from its past position, e.g. the Baltic states would be eager to move away from their Soviet past. (Dyson 2007) However, there is already some work addressing why this theory is inconsistent (Johnson 2008: 830), and the factors behind a state's keenness to use not only EU membership but also the added bonus of the common currency as an identity marker are difficult to systematically operationalize at this juncture. Sociological institutionalist problematizations of the issue of the common currency are certainly not superfluous to an overall understanding: Dyson (2000) successfully demonstrates the influence of transnational epistemic communities (notably, central bankers and finance ministers adhering to the monetarist paradigm) in the properties enshrined in the initial setup of EMU institutions, especially the European Central Bank. He locates the factors behind different member state responses to EMU in the extent to which the status quo in a certain state fits with the “sound money” paradigm, domestic support for technocratic modes of governance, and the presence or absence of legitimizing discourses, often framed in the aforementioned terms of identities and historical legacies. (Dyson 2000: 653) When it comes to CEECs, the evidence does not provide significant backing for these ideas. The approach notably has difficulty accounting for differences in outcome among the states which share a similar dedication to ideational paradigms. In contrast, rational choice institutionalism has been noted as being remarkably apt for explaining the variation between member states in policy adoption and change through the scrutiny of material rewards and domestic preferences. (Sedelmeier 2011: 7)

Since it is precisely this variation that I have set out to explain, the theoretical grounding is in rational choice institutionalism, emphasizing the actors' decision making so as to maximize their economic as well as political benefit based on considerations of their interests and among the constraints of existing institutional conditions. Since the outcomes are known – countries either prioritize Eurozone entry (to varying degrees) or they choose not to do so, the aim is to discern the causes of these outcomes. The conceptualization used in the thesis is outlined at the end of the chapter.

2.2 The New Institutionalisms and Rational Choice Institutionalism

In this section I briefly look at the field of institutionalist theories, then examine the basic tenets and methodological characteristics of rational choice institutionalism in particular, contrasting it with the other approaches.

The central claim and manifesto of new institutionalists within (and, indeed, outside of) integration theory is that "institutions matter" and are therefore worthy subjects for analysis. As to how and under what circumstances they matter, the diverse schools grouped under this label give different answers. Jupille & Caporaso differentiate between institutionalisms based on two dimensions: whether, firrst, institutions, and second, actor preferences are exogenous or endogenous to the theory, charting four subfields. (1999: 432) Here I only focus on the most commonly recognized three strains of new institutionalist thought that have emerged since the late 1980s: these are Rational Choice Institutionalism, Historical Institutionalism and Sociological Institutionalism.[1] (Hall & Taylor 1996)

[1] Jupille & Caporaso's fourth, Structurationism, which endogenizes both institutions and preferences, is not widely used and can be subsumed under sociological institutionalism. (Jupille & Caporaso 1999: 436) Meanwhile Schmitter, who seems rather disparaging of new institutionalism in general, also considers legal, epistemic and political strands beside the above three as parts of a vague, "amorphous" set of ideas. (2003: 48)

Institutionalisms are typically not grand theories but rather mid-range ones – however, their smaller scope means that they are first-order theories of integration itself, unlike broad paradigms such as the meta-theory of rational choice. (Pollack 2008 :16; 2007: 32) I shall thus provide a very brief summary of rational choice as a second-order theory. RC is essentially lifted wholesale from the world of neoclassical economics, and is characterized by the following main assumptions: first, methodological individualism (in contrast with the methodological collectivism of constructivists); second, the assumption of utility-maximizing behaviour; and third, the existence of strategic constraints on individual choice. (Shepsle 2006: 31; Pollack 2007: 32) It is the third element which has received more attention and elaboration in rational choice institutionalism. Scholarly work has included studies on how institutional structure helps create equilibrium in previously unstable, cycling political systems, and the application of the principal-agent problem to institutional operation. (Pollack 2008: 2)

The fundamental assumptions of sociological institutionalism stand in stark contrast with those of RCI, while historical institutionalism analyses how institutions develop *over time*, and occupies a middle ground between the other two inasmuch as it includes scholars closer to the rationalism camp, emphasizing actor intentionality and drift, as well as those who place greater weight on culture and meaning-making in accordance with the sociological strain (Aspinwall & Schneider 2000: 17).

Sociological institutionalism usually looks at institutions as the independent variables, aiming to show how they socialize and empower groups of actors in different ways. In contrast, rational choice institutionalism regards institutions as the intervening variables which influence outcomes, starting from fixed actor preferences instead. (Aspinwall & Schneider 2000: 12) In terms of methodology, sociological and historical institutionalists have typically tended to place great emphasis on a rich, “thick” description of what they study, coupled with inductive explanations for the observed phenomenon. (Aspinwall & Schneider 2000: 22) Rational choice institutionalists, as befits the game-theoretic legacy of the approach, have instead focused on elaborate models and have often succumbed to the pitfall of simply ignoring whatever issues cannot be modelled adequately. (Aspinwall & Schneider 2000: 12) This “method-driven” rather than “problem-driven” approach (Fearon & Wendt in Pollack 2007: 44) is not, however, an inevitability of RCI. Neither is another feature which has been typical of many studies in the field: while much energy is expended upon the creation of models, their empirical testing is often cursory, with the description of evidence remaining “thin” and illustrative only. (Aspinwall & Schneider 2000: 25) Shepsle defends the early, standard-issue limitations of RCI by pointing out that newly developing theories need to set „protective boundaries in order to permit normal science to progress” but this need not constrain future endeavours. (Shepsle 2006: 32) In the current study I aim to alleviate these stark characteristics of “stereotypical” RCI research by pursuing a rich description of my chosen cases and not shying away from inductive theorizing where the state of the field does not provide clear, established ideas for variables to be included in certain elements of the model. (I return to this problem in the next section.)

Further criticism of RCI in light of its application to EU integration has been advanced in two main ways: first, RCI is found to be problematic (especially by those sympathetic to the sociological approach) in that it appears to ignore the socializing impact of the EU. (Pollack 2007: 46) Checkel sketches three different mechanisms of socialization in the EU: strategic calculation, role playing, and normative suasion; he concludes that RCI is only apt at protraying behavioural adaptation which occurs under the first mechanism, omitting the deeper and less conscious effects which may develop thanks to instances of cognitive and institutional lock-in. (2005: 809; 815) The second criticism which must be mentioned is the issue of change: RCI is limited to modelling the changes in preferences, institutional settings and outcomes which occur due to exogenous alterations in material factors. (Pollack 2007: 47-48) These limitations have to be acknowledged in the present study as well.

2.3 Rational Choice Institutionalism and Europeanization

Europeanization can be an elusive concept, as on its surface it simply denotes the influence of the EU upon a variety of actors from old member states through candidate countries to outsiders which voluntarily adapt due to negative externalities created by the EU. However, the study of Europeanization most commonly understood is mainly concerned with the deliberate efforts on the part of EU institutions to exert pressure on the domestic level through a set of formal and informal tools. (Sedelmeier 2011: 5)

The reason why this is relevant for the study of EMU is clear: monetary unification includes a number of new rules to which member states must submit. However, there is a marked difference as well. Much of the literature on Europeanization grew from the study of how member states implement Community legislation (directives, regulations) in areas ranging from competition policy to environmental and equal opportunity issues. But while the transposition of these requirements usually entails fixed deadlines and penalties for missing them, there is no set deadline for joining EMU and it is not in the interest of supranational monetary institutions or extant members of the eurozone to force the accession of countries which are not adequately prepared. This means that governments retain significant discretionary power over the timing and nature of their implementation strategy. (Sedelmeier 2011: 23)

Europeanization (and the rational choice strand within it) is also of particular interest due to the fact that it has a legacy of focusing on Central and Eastern European states in particular. Some of the most accomplished literature has arisen on the subject of how the EU applied pressure on post-communist candidate countries through the instrument of conditionality, promising the prospect of rewarding compliance with the prize of membership. (Schimmelfennig & Sedelmeier 2004) This particular angle has revealed much about the particularities of CEECs within the integration context, and while the post-accession influence of the EU is different (notably: far less effective), RCI studies in Europeanization are also noted for being well-suited to explain these limitations as well. (Sedelmeier 2011: 29)

The main hypothesis of early Europeanization studies is the "goodness of fit" – the assumption being that the EU will only have discernible impact and change will only occur where there is a misfit between the *acquis* and domestic legislation. The greater the misfit, the more problematic the adaptation process is likely to be. The sufficient condition for the occurrence of adaptation is the presence of facilitating factors on the domestic level. These factors are conceptualized differently in the RCI and sociological strands of the literature, with the most prominent elements proposed by RCI being the question of veto players, power dispersion and the existence of formal institutions. The more dispersed power is in a domestic political system, the more veto points we find, which means more stages at which the adaptation process might falter or fail, so for the purposes of Europeanization, the fewer veto players the better. Meanwhile, the existence of institutional capacity on the state level enables domestic actors to utilize the resources and opportunity structures made available by the EU institutional setup. (Börzel & Risse 2000: 5-7)

Mastenbroek & Kaeding point out, however, that the "goodness of fit" hypothesis suffers from a number of weaknesses. First of all, empirical results show that a misfit is not in fact a necessary condition for change influenced by the European level. Member states are not inherently averse to changing the domestic status quo, and even if they already exhibit a good fit with Community legislation, they might instrumentalize regulations to push for reform over and above what is required (which, if problematic at home, can then be blamed on the EU), resulting in overcompliance. (Mastenbroek & Kaeding 2006: 339) Furthermore, empirical evidence on the assumption that the greater the misfit, the more problematic the adaptation process, is shaky at best. The authors suggest that there is an inherent logical flaw in the hypothesis inasmuch as the connection between the "goodness of fit" and outcomes is spurious: both are in fact dependent upon domestic preferences, and these should be brought to the forefront. This resolves the problem of an overly deterministic (bordering on functionalist) hypothesis and brings it closer to the core characteristics of RCI theories. (2006: 339-344)

Taking these factors into consideration, it emerges that Europeanization outfits the present study with the following theoretical points of departure. First, we have the preferences and consequent actions of domestic governments, informed by various domestic material considerations. Second, we have the intervening influence of the EU institutions, transmitted through domestic mediating factors. Finally, we have the policy outcomes – in this case, euro adoption strategies.

2.4 Conclusion: Conceptualization, Measurement, Hypothesis and Case Selection

Taking into account all of the above, I go on to formulate the hypothesis for the study.

I distinguish between two main sets of causal factors, named, for convenience reasons, internal and external ones. Internal factors here mean the broad economic conditions and domestic preferences of a member state, on the basis of which the chief agents influencing domestic policy then negotiate their way to euro adoption. Of course, domestic factors are manifested as they relate to external circumstances, so the name "internal" is not strictly literal.

To describe economic conditions in each member state, I will present indicators relating to year-on-year GDP growth as well as the nominal convergence criteria enshrined in the Maastricht Treaty. These are showcased as illustration so that political factors influencing their development can be elaborated in the sections that follow. More importantly, I include economic fundamentals which point toward the actual *necessity* of (rather than simply official readiness for) euro adoption. Such factors may include a variety of real convergence measures as stipulated by Optimum Currency Area theories (see Mongelli 2005), but to maintain a parsimonious causal explanation I choose to measure the domestic factors shaping preferences through the following measures: foreign trade dependence and exchange rate regime.

Foreign trade dependence can be measured as exports and imports as a share of GDP. I examine the yearly figures for overall foreign trade dependence as well as dependence on trade with the eurozone in particular for each case over the period under investigation.

Exchange rate regimes signal how much a country can afford to conduct an independent monetary policy – with floating exchange rates at one end signaling that the economy is robust enough that the national central bank is able to handle its goals without resorting to the exchange rate instrument, while at the other end, a hard peg regime could signal that the country cannot afford to let its currency fluctuate. I therefore also take a look at the variety of exchange rate regimes present in the cases over the time frame.

The figures on these two related measures give us a summary account of necessity. As it is a vastly simplified measure compared to the number of possible causal factors out there, validity is fragile at best, but the trade-off may be acceptable considering time and resource restrictions, the need for parsimony, and the availability of reliable data on the indicators.

As the agents of domestic policy, I highlight the goals, activities and interactions of governments, parliamentary parties and central banks over the time period.

These factors, combined, constitute what we may regard in a streamlined fashion as the independent variable, which I label as domestic propensity. To obtain criteria for the interplay between these actors, an inductive discernment following from the case studies may be necessary as the extant theoretical literature provides little coherent guidance as to concrete propositions about mechanisms.

External factors constitute the intervening variable and are defined as the conditions of the supranational institutions as mediated by domestic circumstances. They can affect the initial domestically informed cost-benefit analysis of the agents by constraining or enhancing the process of euro entry in various ways. Here I delineate two aspects: institutional flexibility and institutional credibility.

Institutional flexibility denotes the level of possibility of adapting the existing EMU institutional framework to suit the needs of individual member states, or, to put it differently, the amount of policy discretion that is available in the governance of the institution. This will be assessed qualitatively through an analysis of how the requirements of primary and secondary community legislation on EMU, as well as intergovernmental treaties not embedded in the community framework but closely related to EMU governance (such as the Fiscal Compact of 2012) have interacted with the considerations of domestic actors. The mechanism of this aspect is stipulated to be the following: specific aspects of the EMU institutional architecture may present constraints in specific ways, based on the domestic circumstances in each case. The agents then choose whether or not to adapt to these constraints.

Institutional credibility is a measure to assess the consistency of the EU's practical application of the legislation on EMU, also qualitatively, by looking at the way enforcement and (in the second time interval) crisis management practices have impacted upon the outlook of the member states under review. The mechanism here is one of instrumentalization: member states may use inconsistencies that occur in enforcement to justify their own stance if domestic propensity is otherwise not conducive to swift entry.

In my hypothesis I argue the following:

If domestic propensity is high, institutional credibility & flexibility have an interaction effect on the outcome in the following way: high institutional credibility & flexibility create a straightforward incentive for early adoption – the complete opposite of laggard behaviour. To further differentiate, if institutional flexibility is low but credibility is high, the incentive for early adoption will persist. If credibility is low, however, the approach will be more cautious, and while entry will be pursued, changes may be observed as a result of decreased commitment. If both institutional factors score low, the entry attempt may again be vulnerable to changes.

If domestic propensity is low, institutional credibility & flexibility have an interaction effect on the outcome in the following way: if both credibility and flexibility are low, it is a straightforward case of delayed entry and de-prioritization, possibly a de facto opt-out (as is currently the case of old member state Sweden). If institutional flexibility and credibility are high, the country will maintain its commitment with a changeable roadmap indicating planned entry dates. If either of the institutional factors is in doubt, the member state will maintain a commitment but with only meagre practical indications of this and most likely no official entry date.

For easier understanding, the basic causal claim can be illustrated in a simplified way in Table 1 below:

		External/Institutional credibility & flexibility (Z)	
		Low	High
Domestic propensity (X)	Low	If both external aspects low: entry delayed practically indefinitely If one is high but the other is low: delayed entry with some concrete features	Fragile, changeable entry attempt
	High	If flexibility low but credibility high: country strives for early entry If credibility low and flexibility high: fragile entry attempt If both low: delayed entry attempt	Country strives for early entry

Table 1: Hypothesis

The hypotheses can be falsified through evidence where values on X and Z do not match up to the predicted outcomes, e.g. findings where internal necessity is high and the institutional component also scores high, and yet the member state does not pursue a clear commitment to entry.

With this conceptualization I advance upon previous work focusing primarily on domestic developments (see Greskovits 2006; Zubek 2008 etc.) by explicitly including the EMU institutional setup as a factor which interacts with domestic considerations in specific and varied ways rather than treating it as a constant. This also allows me to highlight the changes which occurred as a result of the sovereign debt crisis.

Regarding case selection, the main unit of analysis is the state, so the universe is limited to the 12 new member countries. It is the aim of the research to provide in-depth analysis rather than let the cases remain on the level of examples, which prompts me to opt for a small-n study, separated over two periods: before and during the crisis. I rule out Cyprus, Malta, Slovenia and the Baltic states on the grounds of size: there is evidence to suggest that the minuscule economies of these states mean that they are governed by vastly different incentives compared to the economies of Central and Eastern Europe, which are still small in absolute terms but belong in the middle range among EU member states. (Johnson 2008: 828; 830; Alouini 2009) I further rule out the two states which acceded in 2007 as they are not commonly regarded as part of the puzzle: their distant time horizon for euro entry is seen as normal due to their circumstances, and they did not entertain initial notions of immediate accession. This essentially leaves the Visegrád Four, but due to the limitations of the thesis I choose to omit the Czech Republic. Thus, Poland, Hungary and Slovakia as the three member states to be studied. The three states share many commonalities in their economic and political structures: their post-communist legacies and predominantly parliamentary systems provide a chance of studying variation on similar cases which are often compared against each other in the literature. The inclusion of Slovakia provides variation on the dependent variable, allowing for a proper test of my argument. Clearly, in the case of Slovakia there is no longer an "entry strategy" following the adoption of the common currency, which occurred in 2009, but a look at Slovak economic developments and attitudes to EMU in flux during the crisis will nevertheless be instructive.

Each of the cases is examined once before the crisis, up until 2008, and again between 2009-2013, yielding six observations in total. While the global financial crisis already made itself felt in 2008, I choose 2009 as the cut-off point between the two periods because that is when the macroeconomic effects and policy implications of the crisis began to appear in earnest.

A major limitation of the research is that its scope conditions are necessarily restricted to a very small set of cases – implications and generalization of any findings may hypothetically become possible only as and when other roughly similar Eastern European states, such as those of the Western Balkans join the EU.

For the analysis I use statistical data from Eurostat, the convergence reports published jointly by the European Commission and the European Central Bank, as well as narrative accounts of the domestic political developments of the three countries from academia and the press.

3 The Pre-Crisis Years

3.1 An Overview of EMU Institutions and Policy

I begin with a survey of the institutional settings and policy practice which have relevance for the accession experience during the period under discussion. I deal with three broad issue areas: the accession criteria, economic policy coordination, and monetary policy.

The treaty basis for the criteria for entry into the third stage of EMU is found in Article 140(1) of the Treaty on the Functioning of the European Union (TFEU), further elaborated in Protocol 13 annexed thereto. The criteria, targeting nominal convergence between member states, are the following:

– Firstly, price stability, meaning that nominal inflation is within 1.5 percentage points of the three EU member states with the lowest inflation rates.

– Secondly, price stability as manifested via long-term interest rates on government bonds, which must be within two percentage points of the three best-performing EU member states in terms of price stability.

– Thirdly, a sustainable government budgetary position, meaning that yearly budget deficits must not exceed three per cent of GDP and sovereign debt levels are below or rapidly decreasing towards 60 per cent of GDP.

– Fourthly, convergence of exchange rates demonstrated through participation in the Exchange Rate Mechanism, and, after 1999, the ERM II.

All EU members with a perspective on joining EMU must fulfil the convergence criteria, enter ERM II, and keep their national currencies within the set margins of ±15 per cent against the euro based on an agreed-upon central parity for at least two years without "severe tensions" or bilateral devaluation against the currency of any other member state. The fluctuation margin can be narrower if the country sets itself a more serious target, but failing to meet this self-imposed stricter criterion carries no risk of punishment as long as the 15 per cent limit is not breached.

ERM II is supposed to act as a "training room" preparing states for irrevocably pegging their currencies to the euro. Markets scrutinize closely how well a country manages when it makes a public commitment to enter ERM II, so once the decision has been made, failure to comply with the criteria is punished not only by the EU, but also by the markets. While the fulfilment of the exchange rate requirement may be assessed retrospectively (as it is possible to achieve without explicit prior commitment by a member state as well), it is not without its risks. As Johnson & Epstein note, there is notable discrepancy between the policy demanding a peg and the widespread wisdom that inflation targeting represents best practice, which may present an inconsistency for a number of member states. (2010: 1250)

The rest of the Maastricht criteria have also received their share of criticism, with accusations of having no roots in any coherent economic theory. (Kowalski et al. 2007: 59-60) While this may not be problematic at all, the practical enforcement of the criteria has proved to be a thorny issue. In the case of the 12 original member states, the rules were not enforced very strictly – Greece was notable for having missed the debt criterion by a spectacularly wide margin, while other states such as Finland and Italy were able to spend less than two years in the exchange rate peg training room. (Kowalski et al. 2007: 63) In sharp contrast to this, the new member states would soon find out that in their case the Commission and the ECB were intent on strict enforcement. As the oft-bemoaned case of Lithuania's 2006 rejection over the inflation criterion which it missed by a hair's breadth illustrated (ECB 2006a; see also Indruchová 2013: 66-67), the time for political concessions seemed to be over.[2] However, while this was supposed to help uphold the principle of equal

2 In retrospect, this was the right decision to make, considering the country's dismal performance on price stability over the following years. Had Lithuania joined EMU then, the low interest rates would have exacerbated its already present boom-bust tendencies even further.

treatment, it was difficult to ignore the examples showing that in the past some member states had been more equal than others. The Lithuanian incident, despite being justified economically, would often be brought up as representing another crack in EMU credibility. (see Kropienė et al 2008; Darvas 2010; Czaja & Dulkys 2012)

Additionally, the evidence of states remaining permanently outside the Eurozone has weakened the legitimacy and allure of EMU as well, seeing as these countries seem to be doing fine economically while also retaining all of their monetary policy instruments. Consequently, a high percentage of populations in Central European new member states believes that joining EMU is not, in fact, required of their country but rather just an option. (Johnson 2008: 836)

No less problematic was the application of EMU's economic coordination mechanism, the Stability and Growth Pact. The SGP was meant to ensure fiscal diligence and continued convergence among the member states, with possible sanctions in place for states with excessive deficits. But as sanctioning power rested with the Ecofin Council, an intergovernmental body, it was in fact relegated to the status of “soft law.” Enforcement was far from stringent due to self-interest – ministers in the Council would let off an errant member country in hopes that they would return the “favour” if it came to that. (de Haan et al 2004) After the 2002-03 drama of non-compliance with the rules by none other than France and Germany, a reform attempt followed in 2005. While well-intentioned and focusing on the right thing by prioritizing long-term debt sustainability over deficits, the measures only weakened enforceability further due to the numerous exemptions and loopholes which were introduced. (Eichengreen 2005: 434)

In contrast, the core structure of EMU, the European Central Bank performed very well in terms of maintaining price stability. (Csaba 2012a: 77-78) However, many old member states without the kind of legacy which Germany had thanks to the Bundesbank found it hard to adapt to the day-to-day realities of an independent central bank. In 2007 French president Sarkozy expressed frustration with the ECB's policies, saying they were too inflexible to accommodate the individual needs of member states, and famously called for greater political influence to help boost growth. (The Economist 2007) While the independence of the ECB was never in real danger, such episodes, once again, painted a picture of EMU as a less-than-coherent institution.

Depending on the domestic political context, all of the above provides plenty of reason to believe that the three new member states in question may not find their own EMU experience to be one of straightforward compliance.

3.2 Poland

3.2.1 Macroeconomic Fundamentals

indicator\time	2002	2003	2004	2005	2006	2007	2008
Real GDP growth rate – volume – percentage change over previous year	1.4	3.9	5.3	3.6	6.2	6.8	5.1
HICP - inflation rate – annual average rate of change (%)	1.9	0.7	3.6	2.2	1.3	2.6	4.2
*Reference value for HICP - inflation rate – annual average rate of change (%)**	*:*	*:*	*2.40*	*:*	*2.80*	*3.20*	*:*
EMU convergence criterion bond yields	:	:	6.90	5.22	5.23	5.48	6.07
*Reference value for EMU convergence criterion bond yields**	*:*	*:*	*6.40*	*:*	*6.20*	*6.50*	*:*
General government debt (% of GDP)	42.2	47.1	45.7	47.1	47.7	45	47.1
General government deficit/surplus (% of GDP)	-5.0	-6.2	-5.4	-4.1	-3.6	-1.9	-3.7
Exports of goods and services to members of the european union (% of GDP)	:	:	29.8	28.9	31.6	31.8	30.7
Imports of goods and services from members of the european union (% of GDP)	:	:	30.6	28.5	30.9	32.1	31.8
Total trade (exports & imports) with members of the EU (% of GDP)	:	:	60.4	57.4	62.5	63.9	62.5
Exports of goods and services (% of GDP)	:	:	37.5	37.1	40.4	40.8	39.9
Imports of goods and services (% of GDP)	:	:	39.8	37.8	42.2	43.6	43.9
Total trade (exports & imports) (% of GDP)	:	:	77.3	74.9	82.6	84.4	83.8

Table 2: Year-on-year GDP growth, indicators on Maastricht convergence criteria and openness of the economy for Poland.

* From the ECB Convergence Reports of 2004, 2006, 2008, and 2012, based on a 12-month period not corresponding to a given calendar year.
: no data available
Source: Eurostat.[3]

As seen in Table 2 above, Poland performed reasonably well on a number of Maastricht criteria: its inflation rates were at historic lows just prior to EU accession and remained generally low, its long-term interest rates stabilized over the period, and general government debt remained under the reference value. The glaringly obvious exception is the general government deficit.

Regarding the indicators for economic openness, while it is clear that Poland's most important trading partners are in the EU, its economy is not as open as those of most other Central and Eastern European states. Based on this, the necessity of acceding to the common

3 As no data on Poland's trade with the eurozone is available from Eurostat, I use trade with the EU as an admittedly imprecise proxy.

currency zone to guard against market forces does not seem immediately obvious.

The Polish central bank (NBP) officially switched to a float in April 2000, abandoning an exchange rate target entirely and letting the złoty float freely according to market forces. (Darvas & Kostyleva 2011: 24) There is evidence to suggest that even in the previous period, when an eclectic approach featuring a crawling band was followed, the exchange rate was not patrolled very strictly at all. (Petreski 2013: 17) This gives us an impression of a country whose central bank can exercise enough influence over its monetary policy even without the exchange rate instrument and whilst being exposed to the global financial markets.

Overall, the data suggests that the economic necessity of euro adoption in this period is not high, although, as we shall see, there are a number of domestic political considerations which play a role here.

3.2.2 Political Developments

When Poland entered the European Union on 1 May 2004, its government was in the midst of political turmoil. The Democratic Left Alliance (SLD), at the centre of the coalition government since 2001, was disintegrating, giving way to a caretaker government. During its time in power, it had gone through a variety of policy attempts which targeted the country's competing concerns as a catching-up transitional economy and as a prospective member of the eurozone.

The NBP had been the main driving force behind plans for speedy euro adoption. In the 1990s, the central bank's leadership, then unsure about the correct path to take in monetary matters, benefited from copious international guidance and training programmes. While the first governor, Hanna Gronkiewicz-Waltz was not initially persuaded of the merits of inflation targeting as best practice, the strenuous efforts of the transnational epistemic community of central bankers, IMF, OECD and EU officials eventually convinced her that there was no alternative to an independent central bank acting on the basis of monetarist teaching. An early attempt by the SLD-PSL coalition in 1994 to interfere with the bank was rebuffed by an effective campaign of transnational actors, helping to normalize central bank independence among the Polish public and elites. (Epstein & Johnson 2010: 1243-4) The efforts were so successful that the independence of the NBP was enshrined in the 1997 constitution of the country. (ECB 2012: 248) Gronkiewicz-Waltz's successor, Leszek Balcerowicz was also an inflation hawk, and an ardent proponent of speedy euro adoption. In 2002 he recommended that Poland join the currency area as early as 2006-7, and the bank prioritized monetary convergence in its policy statements as well. (Zubek 2006: 198-9) The primary rationale behind this was that euro accession would provide the impetus for much-needed but painful structural reforms in fiscal policy and the labour market. The faster the entry procedure, the shorter the negative ramifications would last, and it was also argued that the costs of convergence would not be significantly diminished if the process were more drawn out. (Kowalski et al. 2007: 68) Furthermore, the euro would eliminate against fluctuating domestic interest rates, which, if high, carried with themselves the danger of speculative "hot money" investments, while if low, contributed to inflationary pressures. (Zubek 2006: 200) In a country where the disinflation process in the wake of transition had been so slow and laborious, this was no small matter.

However, the EU itself was not keen on this idea, and in fact tried to warn the larger member states against hasty entry. (Epstein & Johnson 2010: 1249; Zubek 2006: 200) This is something which fed into the stance of the government. The deficit was a chronic problem in Poland but the cabinet was none to eager to be the one which finally tackled it. However, the fiscal situation led the NBP to pursue a tight monetary policy, which was likely to stifle growth in the medium term. The coalition partners, the Workers' Party (UP) and the agrarian Polish People's Party (PSL) tried to compromise the NBP's independence through a legislative proposal in the spring of 2002. The act passed but was later ruled unconstitutional, thereby demonstrating the importance of institutional embeddedness for the central bank. Further meddling was successfully shut down by threats from the ECB and the European Commission. (Zubek 2006: 202-3) Instead, the then finance minister of the ruling coalition. Marek Belka initiated an agreement between the government and the central bank which would have introduced spending caps in exchange for more favourable monetary conduct. However, while Belka won the support of Prime Minister Leszek Miller, he could not win over the rest of the cabinets, who were content to continue in their spendthrift ways. (Zubek 2006: 204-6) Belka's sucessor, Grzegorz Kolodko, who was an avowed supporter of euro adoption, devised an ambitious fiscal consolidation plan with the 2007 entry target date in mind. However, faced with enmity in the cabinet, doubts from NBP itself due to the plans for shoring un finances through extraordinary revenues, and the discouraging position of the ECB, this plan ultimately failed as well. Deputy Prime Minister Jerzy Hausner had an alternative proposal, which moved prospective entry to 2009 and promised reasonable cuts only, but implementation proved, once again, infeasible. (Dandashly & Verdun 2011: 32)

This is how Poland arrived at membership. Amid the effective collapse of SLD, Belka took over as Prime Minister, but he needed to sacrifice any ambitious fiscal adjustment plans to be able to secure his position in the first place (Zubek 2006: 211) The mounting deficit was justified by appeals to the EU structural funds, which required matching contributions from member states. (Zubek 2008: 294) However, the European Commission was quick to put a stop to this by threatening to withdraw funds unless credible steps towards fiscal convergence were taken. Poland is at an advantage regarding general government finances in the sense that it has a constitutionally enshrined debt rule: if the general government debt exceeds 55% of GDP, the budget needs to be in surplus, and no government deals may be struck which would raise the debt over the 60% mark. (Borowski et al. 2003: 7) However, its deficit is characteristically inflexible and structural reform affecting welfare provisions and other state expenditures is the only way it can be substantively modified over the long term.

Still an opportunity at the EU level arose to achieve a cosmetic improvement in the budgetary position as debates over the impending reform of the SGP intensified in 2004. The general government deficit depends, to a large extent, on what Eurostat treats as being part of the general government balance. Poland's situation deteriorated in the wake of the decision to treat the costs of capital-based pension schemes as part of the balance. (Kowalski et al. 2007: 74) However, Poland successfully lobbied for these expenses to be included among the many exceptions which did not count toward the deficit as considered in the framework of the renegotiated SGP. (Zubek 2008: 301)

The general elections in 2005 brought about a significant shift. The signficiant results of new parties at the 2001 elections was already a sign of a previously unrepresented eurosceptic electorate. (Markowski & Tucker 2010) In 2005, with the euro-pragmatist, conservative Law and Justice party (PiS) forming a coalition with the decidedly eurosceptic Leagure of Polish Families (LPR) and Polish Self-Defense Party (SRP), saw these voices come to the fore.

Although PiS, unlike its coalition partners, was not completely against the common currency, a precise roadmap for joining the eurozone were off the agenda. Meanwhile, an investigative committee into the NBP's role in certain privatization matters was launched, which was, for all practical purposes, a veiled attack on its president, Balcerowicz. (Dandashly & Verdun 2011: 32) In one of its convergence reports the ECB notes that a constitutional court decision successfully defended the central bank and the personal independence of the president. (ECB 2006: 227-8) Furthermore, in 2006 the newly inaugurated President of Poland, Lech Kaczyński floated the idea of a referendum on the euro, calling it an “experiment.” This is a particularly disingenuous move since it falsely implies that joining the third stage of EMU is optional. (Epstein & Johnson 2010: 1252)

While the above steps were unprecedented, Prime Minister Jaroslaw Kaczyński's contemporaneous voicing of concerns over ERM II was not. In fact, Polish analysts from the central bank and elsewhere had been considering the problematic nature of the “training room” for some time. Over the previous half a decade, the Polish złoty had proved to be a great asset, providing a shock absorption mechanism via the free float. In contrast, the peg could have detrimental effects, which is why some economists had even advocated unilateral euroization (Polanski 2004: 285), a practice frowned upon by the European Commission.

It is important to stress that here the common currency (which also floats freely) is less of a problem than the preceding minimum two-year period spent in limbo: pegs with bands around the central parity are notoriously vulnerable to currency speculation, and any external shocks could only be dealth with through internal devaluation or decreased output.

Other technical issues are also present which make Polish policy-makers in particular averse to entering ERM II. Firstly, there is the question of setting the central parity – if the złoty entered into ERM II at an undervalued rate, the resulting demand pressure and positive output gap would lead to an inflationary atmosphere, which could compromise the fulfillment of the nominal Maastricht criteria. If the national currency were overvalued, however, the attendant tensions could sabotage the maintenance of the exchange rate itself. (Borowski et al. 2005: 17) Furthermore, the ECB and the Commission have been “enigmatic” about the precise application of the fluctuation bands, which acts as a further deterrent from risking involvement in the currency union. (Borowski et al. 2003: 13)

During the era of the PiS coalition, even the new NBP President, Sławomir Skrzypek expressed doubts regarding Poland's foray into ERM II.

PiS and its even more outlandish coalition partners did not make many friends on the international scene, and in early elections called in November 2007, the tide turned again, bringing the liberal-conservative and decidedly euro-friendly Civic Platform (PO) to victory, in coalition with PSL. (Zubek 2008: 304) While maintaining commitment to the euro in words and with a strongly pro-EMU finance minister, Jacek Rostowski in tow, PO did not discontinue the deficit spending. (Epstein & Johnson 2010: 1252) In October 2008 the idea of joining by 2012 was floated along with the announcement of a detailed plan, but the next month, after Prime Minister Donald Tusk's meetings with ECB head Jean-Claude Trichet, rumours began to gather about yet another delay. (Dandashly & Verdun 2011: 25)

3.3 Hungary

3.3.1 Macroeconomic Fundamentals

indicator\time	2002	2003	2004	2005	2006	2007	2008
Real GDP growth rate – volume – percentage change over previous year	4.5	3.9	4.8	4	3.9	0.1	0.9
HICP - inflation rate – annual average rate of change (%)	5.2	4.7	6.8	3.5	4	7.9	6
*Reference value for HICP - inflation rate – annual average rate of change (%)**	*:*	*:*	*2.40*	*:*	*2.80*	*3.20*	*:*
EMU convergence criterion bond yields	:	:	8.19	6.60	7.12	6.74	8.24
*Reference value for EMU convergence criterion bond yields**	*:*	*:*	*6.40*	*:*	*6.20*	*6.50*	*:*
General government debt (% of GDP)	55.9	58.6	59.5	61.7	65.9	67	73
General government deficit/surplus (% of GDP)	-9.0	-7.3	-6.5	-7.9	-9.4	-5.1	-3.7
Exports of goods and services to members of the monetary union (% of GDP)	:	:	38.5	38.0	42.1	43.8	42.7
Imports of goods and services from members of the monetary union (% of GDP)	:	:	35.6	36.6	40.7	41.4	41.1
Total trade (exports & imports) with euro area (% of GDP)	:	:	74.1	74.6	82.8	85.2	83.8
Exports of goods and services (% of GDP)	:	:	63.3	65.9	77.7	81.3	81.7
Imports of goods and services (% of GDP)	:	:	66.9	68.1	78.7	80.4	81.2
Total trade (exports & imports) (% of GDP)	:	:	130.2	134	156.4	161.7	162.9

Table 3: Year-on-year GDP growth, indicators on Maastricht convergence criteria and openness of the economy for Hungary.

* From the ECB Convergence Reports of 2004, 2006, and 2008, based on a 12-month period not corresponding to a given calendar year.
: no data available
Source: Eurostat

As Table 3 shows, Hungary did not satisfy any of the nominal criteria during the period. Staggeringly high budget deficits pushed sovereign debt over the 60 per cent threshold, while inflation remained relatively high and fluctuating. Long-term interest rates fared little better, clearly overshooting the reference values. Also notable is the fact that growth already slowed to a halt during the last unambiguous boom year of the world economy.

The above is especially puzzling once we take a look at the indicators for the openness of the Hungarian economy: there is a clear trend toward increasing export and import activity, and at all times, around half of this occurs with eurozone member states, suggesting that Hungary is very likely to be affected by the comings and going in the euro area. A small and open economy faces numerous risks on the international financial markets, and conventional economic wisdom suggests that such a state is better off inside than outside a stability club.

The National Bank of Hungary operated a soft peg with a ±15 per cent band around the euro from 2001, supplanting the earlier system of a crawling band of ±2.25 per cent. In 2008, the EUR band was replaced by a free float.

The relatively recent abandonment of exchange rate management also points to a country which ought not simply disregard international pressures, and one where the security provided by the common currency is a necessity.

3.3.2 Political Developments

The era surrounding accession to the European Union was one in which no significant structural adjustments or reforms in economic policy had taken place. (Csaba 2011: 239) External economic conditions were favourable, and the strenuous process of alignment with the EU had just been completed successfully. Yet, instead of any policy activity to address existing problems such as the oversized state sector or the persistent fiscal deficit, we only see the persistence and ever greater prevalence of such imbalances. The centre-left Socialist-Free Democrat governing coalition and the opposition, led by the conservative Fidesz, were only concerned with short-term considerations and the the piling on of promises to give ever more handouts to various societal groups, and thus trying to buy their votes in the next election. Indeed, there is statistical evidence for the infamous political business cycle phenomenon through election-year government spending. (Lami & Imami 2013)

How did this state of affairs come about? In order to understand the policy drift which characterized Hungary during this time period, an understanding of the long-term effects of socialist-era changes and the experience of transformation.

In the socialist period, following the bitter defeat of the 1956 revolution, Hungary enjoyed some of the most generous social benefits and freedoms among the countries of the bloc. The authoritarian leadership purchased the acquiescence of the populace through social transfers. With the inefficiencies of the system, this resulted in a number of macroeconomic imbalances which also necessitated some degree of liberalization in various areas of economic activity. This paved the way for a smooth, negotiated transformation process in political terms. The inevitable economic costs were nevertheless severe, and they elicited immediate resistance from people who were reluctant to compromise on previously attained living standards. This, in turn, led the democratically elected governments in the 1990s to pursue the familiar course of compensating hard-hit groups through the welfare state. It proved to be a difficult habit to shake, with successive governments continuing to rely on deficit spending to keep afloat instead of embarking on a fundamentally challenging reform course. The hardening budget constraint in the private sector came at the price of the softening budget constraint of the state. (Benczes 2011) This does not mean that changes did not occur, of course. When the threat of impending bankruptcy loomed up in front of a background of external currency crises in 1995, a collection of radical cuts and liberalizing steps, known collectively as the Bokros package, averted the danger. However, these measures were short-lived as the ruling Socialists soon backtracked, and most of them were comprised of cuts and freezes on spending rather than structural changes. (Győrffy 2009: 159-60) Toward the end of the first decade of transition there was a general expectation that the seemingly constant conforming to various constraints would finally end, and the reward could be reaped. As this coincided with the completion of EU accession, many, including the political elites involved in the process, considered that the work had been done and further steps would not be necessary. The benefits of EU accession were seen to accrue almost automatically, including the adoption of the common currency, which was viewed as “a done deal.” (Csaba 2011: 243)

One might then ask: what about the central bank, the champion of price stability and euro accession, which surely had a much more sober account of the facts? The MNB was, before and after accession alike, embroiled in bitter conflict with the government.

As was the case with Poland, the leadership of the MNB shared similar concerns regarding optimal policies. In August 2001 Zsigmond Járai, who acceded to the presidency of the MNB after fulfilling the post of finance minister in the centre-right Fidesz-FKgP-MDF government at the turn of the millennium, advocated for joining the eurozone at the earliest possible date, in 2006. The pre-accession program published a year later foresaw the fulfilment of the Maastricht criteria by 2005 and completion of EMU by 2007. (Johnson 2006: 370-1) However, once again, the aspirations of the central banker were foiled from both directions: the ECB was averse to letting the Central and Eastern European member states join quickly, promoting instead the sustainability of convergence. Furthermore, while the central bankers of CEE would have welcomed some flexibility on criteria such as inflation to facilitate faster entry, the ECB remained resolute in enforcing them to the letter. (Johnson 2006: 373) At home, the Socialists, led by prime minister Péter Medgyessy and elected in Spring 2002, were more concerned with propagating their new concept of “transformation through welfare.” What they hoped for from the MNB was a decrease of the interest rate to boost growth, in exchange for which they would pledge fiscal restraint. The MNB, in turn, demanded credible commitment to tackling the deficit first, and set this as a condition for monetary easing. (Greskovits 2006: 184-5) Járai had already put himself on the wrong side of the government when he raised interest rates immediately after their election, even through the budget deficit had already started to widen under the previous government.

The MNB head had made the switch to inflation targeting in 2001, and was enforcing a tight policy as a result, which made the Hungarian forint appreciate, hurting industrial interests. (Várhegyi 2008: 139) He was accused of partisanship and regarded as a political opponent, which led to especially sour relations between the central bank and the executive.

In summer 2002, the independence of the MNB was called into question as the government demanded a say in the exchange rate policy, and attempted to exercise influence through placing a supervisory board over the bank. Járai tried to secure the backing of the European Central Bank, but while his position was definitely bolstered compared to that of his predecessors, it was a rather minimal victory. (Greskovits 2006: 1987)

Due to the high interest rate, during 2003 the forint had to endure several attacks on the financial markets – speculators wrongly believed that they could push the MNB to change the flotation bands, which, however, would have needed the approval of the executive as well. (Greskovits 2006: 189-90) The lack of coordination between the two institutions, as well as the oftentimes confusing communication towards the public caused a major disturbance.

In the end, a deal was struck, although no comprehensive reforms followed from the government's side. The announcement, made together by the finance minister, the prime minister and the head of the central bank in July 2003, included postponing the eurozone entry date to 2008. However, after the pro-euro finance minister was replaced in early 2004, another delay soon followed, and in May 2004, when Hungary entered the European Union, the target date was 2010. (Johnson 2006: 376)

A minor political crisis in the summer of 2004 saw the prime minister step down, and his successor, Ferenc Gyurcsány launched the most invasive attack yet on the MNB. Previously, Járai (though subject to a veto) had been legally empowered to choose all eight members of the Monetary Council himself – now the prime minister introduced a bench-packing scheme, personally appointing four additional members. (Greskovits 2006: 193) Gyurcsány was the first Hungarian political leader, who, in a statement made in October 2005, openly questioned the benefits of eurozone entry. (Carroll 2005: 71)

In general we can observe that since central bank independence was not anchored by constitutional provisions, the government had much more room to test the limit to which it could encroach upon the institution's powers and freedoms. EU membership did not properly facilitate a proactive role for the MNB. (Csaba 2007: 418-9)

The conflict only abated as Járai's term came to an end in 2007, and he was replaced by the government's preferred choice, András Simor. While he finally pulled the rug out from under speculators by introducing the freely floating forint in February 2008, by this time the years of irresponsible policies had caught up with the government. (Várhegyi 2008: 147) The 2006 general elections had been preceded by the usual promises of ever increasing welfare but immediately after the Socialists secured a re-election, it became clear that adjustment could not be put off any longer, so drastic austerity measures were soon announced. (Greskovits 2008: 288-9) A revised euro convergence plan was also submitted to the European Commission, without specifying an entry date. Unofficially, 2011 or 2012 were seen as likely dates. (EurActiv 2006) Unfortunately, efforts of adjustment were hampered by the subprime crisis which began to unfold and raise interest rates on a global scale. (Várhegyi 2008: 150) The government was disgraced and lost legitimacy after the leaking of Gyurcsány's much-maligned "lie speech" but even barring that, their mandate for introducing severe cuts after campaigning with more welfare during the elections was missing. (Greskovits 2008: 289) The opposition, which had been supportive of Járai during his term as MNB president, launched attacks both against the government and Simor. (Várhegyi 2008: 151) In 2008, as the subprime crisis gave way to the global credit crunch, Hungary was cut adrift among partisan enmities, saddled by the fruits of bad policies introduced by a succession of governments, and with no legitimate hope of convergence in sight.

3.4 Slovakia

3.4.1 Macroeconomic Fundamentals

indicator\time	2002	2003	2004	2005	2006	2007	2008
Real GDP growth rate – volume – percentage change over previous year	4.6	4.8	5.1	6.7	8.3	10.5	5.8
HICP - inflation rate – annual average rate of change (%)	3.5	8.4	7.5	2.8	4.3	1.9	3.9
*Reference value for HICP - inflation rate – annual average rate of change (%)**	*:*	*:*	*2.40*	*:*	*2.80*	*3.20*	*:*
EMU convergence criterion bond yields	:	:	5.03	3.52	4.41	4.49	4.72
*Reference value for EMU convergence criterion bond yields**	*:*	*:*	*6.40*	*:*	*6.20*	*6.50*	*:*
General government debt (% of GDP)	43.4	42.4	41.5	34.2	30.5	29.6	27.9
General government deficit/surplus (% of GDP)	-8.2	-2.8	-2.4	-2.8	-3.2	-1.8	-2.1
Exports of goods and services to members of the monetary union (% of GDP)	:	:	41.7	36.5	42.0	43.4	39.5
Imports of goods and services from members of the monetary union (% of GDP)	:	:	39.2	38.2	33.1	30.7	32.3
Total trade (exports & imports) with euro area (% of GDP)	:	:	80.9	74.7	75.1	74.1	71.8
Exports of goods and services (% of GDP)	:	:	74.5	76.3	84.5	86.9	83.5
Imports of goods and services (% of GDP)	:	:	77.3	80.9	88.5	88.0	85.9
Total trade (exports & imports) (% of GDP)	:	:	151.8	157.2	173	174.9	169.4

Table 4: Year-on-year GDP growth, indicators on Maastricht convergence criteria and openness of the economy for Slovakia.

* From the ECB Convergence Reports of 2004, 2006, and 2008, based on a 12-month period not corresponding to a given calendar year.
: no data available
Source: Eurostat

Table 4 displays Slovakia's standing during the period which in their case was the one immediately preceding the successful introduction of the common currency. Effective deficit reduction was coupled with impressive growth rates.

Surveying indicators for the openness of the economy, we find export and import rates to the eurozone which are quite similar to those of Hungary, and an overall significant reliance on international trade. This shows a clear sign as to why Slovakia saw it as necessary to introduce the common currency.

During the period, the Slovak central bank (NBS) initially maintained a managed float pegged to the euro, which made the transition to ERM II in January 2006 fairly straightforward when compared to other exchange rate regimes.

3.4.2 Political Developments

The origins of the coalition which eventually piloted Slovakia to fast-track eurozone entry stretch back all the way to the country's independence. Always the junior partner in the Czechoslovak entity, the country was pushed to seek independence through the “velvet divoerce” after it turned out that the leader of the Movement for a Democratic Slovakia (HZDS), Vladimír Mečiar could not broker a favourable deal echoing Gustáv Husák's socialist-era system of with the central government in Prague. (Greskovits 2008: 278) HZDS was to remain popular with the electorate throughout the 1990s, mobilizing along nationalistic lines. When it came to economic policy, Slovakia was in a favourable position, with no inherited sovereign debt.

Monetary policy was in the hands of the newly established NBS. As with Poland and Hungary, the inexperienced Slovak staff received international assistance to help establish its credibility and secure its independence. (Epstein & Johnson 2010: 1246) The new national currency, the koruna became an important emblem of national sovereignty – significantly, its stability was regarded as an important value, which was helpful to the goals of the NBS. (Greskovits 2008: 281) For this reason, Mečiar could be dissuaded from undue interference rather easily. His attempt to amend the legal status of the NBS was foiled by central bank president Vladimír Masár's reminders that the country was dependent on IMF loans and other international pressures. (Epstein & Johnson 2010: 1246)

But while on this front the government proved itself to be cooperative, the general political situation was far more problematic. The authoritarian tendencies and unsavoury coalition partners of HZDS made it unacceptable on the international scene, with several Western European leaders never paying a single diplomatic visit to Mečiar. (Carroll 2011: 73) This was compounded by the EU's refusal to include Slovakia among the frontrunners for EU accession (which collectively became known as the Luxembourg Six) due to violations of the Copenhagen criteria regarding democracy. NATO similarly refused to offer membership to Slovakia at the same time that it did so for the other three states of the Visegrád Four. (Greskovits 2008: 279) The loss of international credibility and the threat of exclusion from the Western Club led to the demise of HZDS. While still gaining a plurality of the votes at the 1998 general elections, the party became a pariah among the other political forces and was seen as “uncoalitionable.” (Epstein & Johnson 2010: 1255)

Therefore, a loose coalition headed by Mikulás Dzurinda and including his Christian Democrats, reform-socialists and the Hungarian ethnic party took over, successfully restoring relations with the EU and NATO, and introducing changes to make the country more appealing to foreign investors. (Győrffy 2009: 166) While the macroeconomic situation had not been bad under Mečiar, there were serious microeconomic problems, compounded by the outmoded sectoral structure of the economy. (Győrffy 2009: 165) The reforms of the coalition between 1998-2002 incurred painful adjustment costs, as well as exposing the numbers hidden through rampant cheating and “creative” account during the preceding period. While a coalition partner, the Party of the Democratic Left (SDL') disagreed with the neoliberal thrust of the changes, party member Ivan Mikloš exhibited a reformist spirit in his role as finance minister, ensuring successful implementation. (Pechova 2012: 789) The 2002 elections earned a second term for Dzurinda, this time with a more ideologically cohesive coalition.

The political landscape at the time ensured that this government had the ability to carry out its programme – the opposition consisted of the disgraced HZDS and the radical right-wing Slovak National Party (SNS), as well as a new and inexperienced social democratic unit, Smer-SD. (Pechova 2012: 790)

The reforms undertaken by the second Dzurinda cabinet were extensive and radical. The SNB and the government were in agreement about the prospective benefits of euro adoption for the country, seeing it as integral to growth thanks to the low interest rate and inflation, as well as acting as a safeguard against short-termist policies and backsliding. (Pechova 2012: 786) The measures introduced to facilitate convergence included a radical restructuring of the welfare state and social policy, pension and health care reform, as well as a flat tax rate. (Győrffy 2009: 167-8) Slovaks were, in general, fairly tolerant towards decreases in welfare in favour of stability. (Greskovits 2008: 280) However, while the reforms helped kickstart the economy, they also severely harmed the most vulnerable in society, and led to massive disaffection among the populace. The government did not face good prospects for the next election, so it relied on making the commitment to ERM II final in November 2005, thereby increasing international and market pressure against backtracking on the achievements. (Epstein & Johnson 2010: 1255; Pechova 2012: 791)

Slovakia's relationship to the EU was formed to a large extent by experiences which showed that it had no choice but to adhere to constraints. Already at a 2004 high-level meeting about what would eventually become the Lisbon Treaty, Slovak politicians found that their suggestions and contributions mostly went ignored. (Haughton 2010: 15.) With no other choice but to conform, Slovak leaders instead chose to use this to their advantage. While the ambiguous attitude of the EU in terms of euro adoption by the CEECs was present, Slovakia as a new member chose to focus on the completion of integration to drive home its position as a “good European,” strategically obtaining approval through essentially dissolving its preferences into what was required by accession. (Haughton 2010: 17)

The 2006 general election saw euro adoption emerge as a valence issue, i.e. while all were in agreement about its necessity, party competition centered around who was most competent to achieve it. (Haughton & Rybár 2009: 552-4) The victory of Robert Fico's Smer-SD was not without controversy. Immediately after the election, Fico claimed that the euro should only be introduced if it was genuinely advantageous. Markets reacted to this potential breach of commitment immediately, putting the koruna in danger, so the prime minister and his finance minister backtracked on the previous statements, trying to provide reassurance that the country would stay on course. (Pechova 2012: 792; Kirk 2006) Indeed, Fico ended up maintaining his predecessor's stance on the EU level as well, continuing to oppose tax harmonization. (Haughton 2010: 11-12) Smer-SD faced political pressure due to its choice of coalition partners, SNS and HZDS. The combined constraints of business interests and political forces made sure that Slovakia stuck to its goal of adopting the euro in 2009. President Šramko of the NBS was also able to exercise a proactive role. (Pechova 2012: 794)

While there were some doubts about the appropriateness of the exchange rate level at which the central parity was set, finance minister Jan Počiatek expressed that he was “maximally comfortable” with the way Slovakia's ERM II membership and impending eurozone accession were unfolding. (EurActiv 2008)

3.5 Conclusion

I now turn to analyzing whether the case studies in this period confirm the assumptions made in the hypothesis.

Poland, the largest of the newly acceded EU members, was in no obvious need of joining the currency union, judging by its macroeconomic standing. As a country with a large domestic market and hopes of rapid catch-up with the West, it would not lightly sacrifice the highly liquid złoty or the focus on growth instead of stability. However, the common currency still held favourable prospects thanks to a potential contribution to growth through low interest rates and the curbing of deficit spending tendencies, so there was not a straightforward case for Poland to reject the euro out of hand. However, the role played by EU-level institutions did little to facilitate matters. The inflexibility of the criteria and their enforcement was to be expected, for sure. The rigid ERM II and the specific way in which it could affect the Polish economy was a prime concern, but this alone may not have discouraged Poland from seeking rapid accession. However, the continued sending of mixed signals by EU institutions proved to be a major liability. While the EU was keen and ready to defend central bank independence and to spur Poland towards enforcing nominal convergence with the tools it had, its continued expression of discouragement from speedy entry amounted to a hopelessly inconsistent position. This inconsistency was utilized by Polish political leaders to legitimize their preference for putting off adjustments and treating euro adoption as an area where they had free rein to do as they pleased. Of course, the institutional effect transmitted differently through different governments due to their ideological positions. The NBP was able to exercise agency thanks to its embedded independence, but this did not amount to unwavering support for the euro, as the central bank faced competing concerns as well.

Therefore, in the case of Poland, a country with low to middling domestic propensity faced with low flexibility and credibility on the EU's part, I find the hypothesis vindicated.

Hungary during the period exhibited paradoxical features. While the economic case for euro adoption was quite clear, this did not translate into any credible entry strategies. While target dates were serially adopted and then discarded, they were hardly backed up by feasible plans. On the EU's part, the familiar ambiguity toward quick (and presumably superficial) convergence and accession and the overall signs of a less-than-credible structure were present. Former central bank chief György Surányi's assertion about the SGP as an unnecesary straightjacket which was likely to be abandoned by the eurozone itself anyway is a pertinent illustration. (Greskovits 2006: 187) But aside from this, the EU gave little specific cause for concern to Hungarian leaders. This, however, was mainly because there was no serious engagement with the euro accession process at any point. The gradually strengthening but still definitely fragile position of the central bank further stifled the voices in favour of stability. The domestic intermediary context of political actors was burdened by inertia inherited from the socialist past, and allowed for a large degree of complacency thanks to Hungary's continued reputation as a gradualist and frontrunner of the transition proces. In this barren soil, no seeds of resolve to embark on a radical reform path could take root. Furthermore, the extreme partisanship characterizing the period was not conducive to the transmission of incentives towards a consensus on euro adoption, either.

The fact that a country with high necessity and faced with an inflexible and easily dismissed EU kept setting optimistic dates and then delaying entry seems to be a confirmation of the hypothesis, but an in-depth look at the case reveals that necessity does not automatically equal domestic propensity, and while successive governments were committed to euro accession in words, their attempts at entry were so feeble so as to be more similar to *de facto* indefinite postponement. Therefore, the findings in Hungary's case do not confirm hypothesis.

Slovakia clearly stood to benefit from euro adoption. Its economic openness made joining the currency bloc an important concern and lessened possible objections to the inflexible entry criteria. While the EU institutions had their problems, their status in the eyes of Slovak politicians as the external anchor and only hope of Slovak development meant they continued to be relatively credible. Combined with a favourable domestic mediating context where the central bank's independence was respected by all political factions and the memory of international isolation provided impetus for serious reform, accession was successfully secured.

Slovakia had had to learn early on that it needed the EU more than the EU needed Slovakia, and this traumatic experience contributed to the committed and ambitious path it eventually followed into the EU. If we contrast this with Hungary, what we find is that the latter had been the darling of international organizations since before the transformation. Hungary never experienced a serious crisis situation with regard to its relationship to the EU, so, as we have been able to observe there, it had taken EU integration, the euro adoption process included, for granted. In contrast, Slovakia's leaders were acutely aware of the stain on their country's reputation and thus felt they could not afford any more blunders.

As Slovakia is a case of a country with high necessity, the combination of low flexibility and relatively high credibility of the EU as external anchor were transmitted through the domestic context to result in early adoption, so the hypothesis is confirmed.

4 The Crisis Years

4.1 An Overview of EMU Institutions and Policy

Below I very briefly recapitulate some relevant aspects of the financial and sovereign debt crises, including the most important EMU-related crisis-management measures.

The first ten years of the common currency were remarkable for how unremarkable they were: EMU seemed essentially successful, and none of the major disasters anticipated by early critics presented themselves. The euro proved to be strong and stable, easily holding its own against the dollar and acquiring more and more prominence as a reserve currency. (Tilford 2009: 1-2) It is also significant that eurozone economies initially seemed to handle the financial crisis of 2007-08 quite commendably. When the Icelandic banking crisis broke out in 2008, it was suggested that the dangerous situation and collapse of the country's humongous financial sector were due in large part to its comparably small central bank, which led to distrust and panic on the markets. It was suggested that the same thing would not have happened, had Iceland been a Eurozone member, under the protective umbrella of the formidably capitalized ECB. (Lane 2008)

But all was not well within the currency union. Due to cheap credit over the previous decade and the continuous trespassing against the SGP rules by nearly all member states, public debt levels kept rising and never went below 60% of GDP cumulatively for the euro area as whole. (Hrebenciuc 2010: 57)

The financial crisis necessitated state bailouts of private sector institutions, escalating public debt levels further. While before the crisis the single currency was seen as a safe haven that protected even fiscally lax member states, this sense of security evaporated in the wake of the credit crunch. Markets and rating agencies suddenly awoke and started punishing countries with large debts in a currency they could not control with higher bond yields and severe downgrades.

The greatest casualty was Greece, followed by other economies on the southern periphery of the eurozone. The first eurozone-IMF bailout agreement in May 2010 had to be followed up by several others during 2011, giving birth to the idea of a permanent buffer and rescue fund, as well as the need for stricter enforcement of the debt and deficit rules within the EU. The most significant steps taken were the following:

– The European Financial Stability Facility (EFSF), a temporary bailout fund later succeeded by the permanent European Stabilization Mechanism (ESM). Both funds have operated on the basis of substantial amounts of capital (in the case of ESM: a total of 750 billion euros) raised from the markets and guaranteed by the eurozone member states.

– The Euro Plus Pact of March 2011 was originally only meant for eurozone members and called the Competitiveness Pact but was expanded to include all but four non-eurozone EU members. The agreement was a tool to foster intergovernmental coordination in labour market, taxation and structural reform policies.

– The so-called "Six-Pack," adopted in September 2011, was a legislative effort to bolster the enforceability of the SGP. It included two regulations to amend the original 1997 SGP legislation, as well as three further regulations and a directive. Its most significant elements were the following: the introduction of reverse qualified majority voting (RQMV) on sanctions in the ECOFIN Council, and a lower threshold for the launch of an Excessive Deficit Procedure. RQMV means that sanctions are no longer at the discretion of the Council: they are triggered automatically unless a qualified majority actively decides to vote against them. Furthermore, an EDP is launched not only in the case of excessive deficits but also if a member state's debt-to-GDP ratio is above 60% while its deficit stays below the 3% mark.

– The Treaty on Stability, Coordination and Governance in the EU (TSCG), also called the Fiscal Compact, started out as an EU treaty but became an intergovernmental one after a UK veto. Its chief aim is the adoption of a balanced budget rule in signatory states.

All of these measures, as well as the effects of the crisis itself, would play a signficant role in the politics of the three countries under scrutiny.

4.2 Poland

4.2.1 Macroeconomic Fundamentals

indicator\time	2009	2010	2011	2012	2013
Real GDP growth rate – volume – percentage change over previous year	1.6	3.9	4.5	2	1.6
HICP - inflation rate – annual average rate of change (%)	4	2.7	3.9	3.7	0.8
*Reference value for HICP - inflation rate – annual average rate of change (%)**	*:*	*:*	*3.1*	*:*	*:*
EMU convergence criterion bond yields	6.12	5.78	5.96	5.00	4.03
*Reference value for EMU convergence criterion bond yields**	*:*	*:*	*5.80*	*:*	*:*
General government debt (% of GDP)	50.9	54.9	56.2	55.6	57
General government deficit/surplus (% of GDP)	-7.5	-7.8	-5.1	-3.9	-4.3
Exports of goods and services to members of the european union (% of GDP)	31.0	32.8	34.6	35.0	35.5
Imports of goods and services from members of the european union (% of GDP)	28.8	31.4	32.8	32.1	31.7
Total trade (exports & imports) with members of the EU (% of GDP)	59.8	64.2	67.4	67.1	67.2
Exports of goods and services (% of GDP)	39.4	42.2	45.1	46.7	47.8
Imports of goods and services (% of GDP)	39.4	43.4	46.2	46.4	45.4
Total trade (exports & imports) (% of GDP)	78.8	85.6	91.3	93.1	93.2

Table 5: Year-on-year GDP growth, indicators on Maastricht convergence criteria and openness of the economy for Poland.

* From the ECB Convergence Report of 2012, based on a 12-month period not corresponding to a given calendar year.
: no data available
Source: Eurostat

Poland stands out among the members of the EU as it was one of the few countries which, notwithstanding a nevertheless significant drop in growth, managed to avoid recession. While its debts remained below the critical threshold, budget deficits still soared. This in itself renders the figures dubious, as the numbers do not seem to add up; a definite slowdown in growth during the past couple of years may be a sign that not all is as it seems and there may be hidden components to the debt.

International trade increased strongly and was the main driver of growth. This, however, had a lot to do with the floating exchange rate and does not lead to an immediate conclusion that the country would have become vulnerable enough to make euro entry more vital.

4.2.2 Political Developments

The apparent resilience of the euro area at the start of the crisis was not lost on Polish leaders, as exemplified by the highly ambitious euro entry plan that was adopted in late 2008. Shooting for the introduction of the currency in 2012, it stipulated a truly surprising planned entry into ERM II in mid-2009. Prime Minister Tusk made the motive clear: “It's safer to be with the strong, among the strong and to have influence on the decisions of the strong.” (Runner 2008) Even as late as the end of February 2009, Polish officials still maintained that they intended for Poland to join ERM II in May that year. (Rettman 2009) But as with so many other things at the time, the plan fell by the wayside as the crisis escalated.

A new convergence plan was formulated in early 2010, but without a formal target date, which the country has not officially set ever since. (EurActiv 2010a) According to the document, it was better for the country's credibility not to set an entry date and miss it, but convergence toward the fulfillment of the Maastricht criteria still remained a goal. (Markiewicz 2012: 3)

The government's rhetoric changed markedly in 2011-2012 as the sovereign debt crises unfolded. The euro was still seen as a long-term strategic interest for Poland, but only to be pursued in earnest once EMU had been convincingly stabilized. (EurActiv 2010a) This stance was no accident, as the country was weathering the storm far better than the currency union.

As NBP president Belka (who took over in 2010 after the Smolensk tragedy had claimed the lives of Sławomir Skrzypek and other state dignitaries) himself stated, the good performance of the country during the crisis was a primary reason for remaining cautious. (Belka 2012: 70) The central bank had previously included a line about the need to pursue euro adoption as soon as possible in its statements published after monthly monetary council meetings – these disappeared after September 2011. (Markiewicz 2012: 5)

One of the key features behind the country's relative success was the flexibility of its currency. Between September 2008 and February 2009, the złoty lost 48% of its value in comparison to the euro, a much steeper drop than that experienced by fellow Visegrád floaters Hungary and the Czech Republic. (Bandasz 2012: 147) While such a severe change is precisely what can pose the main disadvantage of a floating regime in contrast to the stability guaranteed by a peg, in Poland's case it proved to be beneficial by significantly altering the country's trade balance.

On the one hand, the depreciation made Polish exports more competitive than those of its rivals. On the other, as imports became much more expensive, domestic products and services came to displace them, thereby creating opportunities both for exporters and for those who produced for the domestic market. This was made possible due to the specificities of the Polish economy: with its large internal market and diversified production, it had the capacity to replace foreign goods and it also had a smaller risk of being highly vulnerable to sector-specific shocks. It is important to note that these same features are not present to an equal degree in the far smaller economies of Central and Eastern Europe, so the Polish phenomenon was inevitably quite unique. (Bandasz 2012: 151-3) Nevertheless, it proved that maintaining its own currency can provide a country with an optimal shock absorber, and the benefits of the euro may pale in comparison.

This phenomenon, however, could once again allow Polish leaders to neglect the task of bringing down the chronic general government deficit. The country even managed to score a small victory against the ever more hawkish Commission when in late 2010 it secured a definitive exemption of the costs of its pension fund from the calculation of its deficit. (EurActiv 2010c) The Commission maintained that it was a one-off and that any such concession would only be made on a case-by-case basis, but it represents a rare instance of hard-won flexibility on the EU's part.

As the crisis proceeded, there arose a new incentive for Poland to keep close to the heart of events. Crisis management was spearheaded by a few core countries of the eurozone, and it increasingly became clear that the future of EU-level economic and monetary policy was being decided at the meetings of the Eurogroup – a council of finance ministers of the euro area only.

The Competitiveness Pact was expanded to welcome non-adopters as well as euro area states largely at Polish insistence. (Markiewicz 2012: 6-7) Polish politicians were acutely aware of the fact that remaining outside a strengthened bloc would cause major difficulties in dealing with all aspects of the EU and would hinder the expression of Polish preferences at the supranational level. Staying at the table on this occasion was another small but important step against this.

When Poland held the rotating presidency of the Council in the second half of 2011, it began to advocate strongly for admittance into other Eurogroup proceedings too, especially as they were focusing intensely on the Six-Pack plans at the time. The Polish reasoning was that the fate of EMU was bound to have ramifications for non-euro states as well. Finance Minister Rostowski was eventually allowed to participate in some of the meetings. (Rettman 2011)

The minister continued to be vocal about the country's wish not to be left out and entered a plea that dividing the Union into separate tiers of euro and non-euro countries would cause long-term harms to the dynamic of the integration. To give weight to the words, even the threat of refusing to sign the TSCG, which would have been a significant political blow, was floated although in the end not acted upon. (Rettman 2012) Rostowski also did not hold back when it came to openly criticizing crisis management methods, especially the restructuring (i.e. an "orderly" default) of the Greek debt. (Pop 2011b)

The governing PO party's position of keeping close and cautiously edging towards euro adoption was, of course, not echoed by all other parties in the Sejm. While the SLD and the newly popular Palikot Movement were generally sympathetic, PiS maintained its belligerent stance. PSL, the party with which the PO had continued its coalition partnership after being reelected in 2011, was wavering at times as well, fearing for the welfare which would have to be sacrificed in exchange for convergence. (EurActiv 2010a; Markiewicz 2012: 5-6)

The recent attitude of political players evokes some old, familiar issues as well. Central bank chief Belka has once again raised the riskiness of ERM II as a problem, highlighting uncertainty over how the EU would apply the criterion of "severe tensions." (Belka 2013: 55)

In the meantime, the prime minister has announced that a decision on when to adopt the euro will most likely only be taken after the 2015 elections. One of Tusk's advisers has once again brought up the idea of bargaining for an exemption from participating in ERM II before euro adoption as well, but even this utterly unlikely scenario would leave the country with a few roadblocks of its own. Firstly, the PiS-led insistence on a referendum now carries enough clout for the government to have to seriously consider it. Such a vote could natually only be a question of "when" rather than a question of "if", if peace with the Commission is to be maintained. Secondly, to this day the Polish constitution names the złoty as the country's legal tender and the NBP as the sole body with the right to issue money, and a (currently lacking) supermajority in the Sejm would be needed to amend it to facilitate introducing the common currency. (ECB 2012; EurActiv 2013; EurActiv 2014)

4.3 Hungary

4.3.1 Macroeconomic Fundamentals

indicator\time	2009	2010	2011	2012	2013
Real GDP growth rate – volume – percentage change over previous year	-6.8	1.1	1.6	-1.7	1.1
HICP - inflation rate – annual average rate of change (%)	4	4.7	3.9	5.7	1.7
*Reference value for HICP - inflation rate – annual average rate of change (%)**	*:*	*:*	*3.1*	*:*	*:*
EMU convergence criterion bond yields	9.12	7.28	7.64	7.89	5.92
*Reference value for EMU convergence criterion bond yields**	*:*	*:*	*5.80*	*:*	*:*
General government debt (% of GDP)	79.8	82.2	82.1	79.8	79.2
General government deficit/surplus (% of GDP)	-4.6	-4.3	4.3	-2.1	-2.2
Exports of goods and services to members of the monetary union (% of GDP)	44.6	48.1	51.1	52.0	52.8
Imports of goods and services from members of the monetary union (% of GDP)	40.1	42.1	46.3	48.4	49.0
Total trade (exports & imports) with euro area (% of GDP)	84.7	90.2	97.4	100.4	101.8
Exports of goods and services (% of GDP)	77.6	85.1	91.6	94.7	96.0
Imports of goods and services (% of GDP)	72.7	79.4	85.2	87.3	88.0
Total trade (exports & imports) (% of GDP)	150.3	164.5	176.8	182	184

Table 6: Year-on-year GDP growth, indicators on Maastricht convergence criteria and openness of the economy for Hungary.

* From the ECB Convergence Report of 2012, based on a 12-month period not corresponding to a given calendar year.
: no data available
Source: Eurostat

In 2009 Hungary suffered the most severe recession in the Central and Eastern European region, and recovery has been tenuous. The tendencies of the Maastricht indicators are somewhat more favourable: the debt level stopped increasing and has even been tempered somewhat, and the deficit is also showing the lowest figures in over a decade. Most recently even inflation is below the reference value.

The country's trade openness has increased tendentiously, meaning that Hungary continues to be highly exposed to international processes. It has maintained its own monetary policy with the floating forint throughout the period.

4.3.2 Political Developments

Hungary's unique slowdown during 2006-07 (which were the last boom years elsewhere) was followed by a period of relative consolidation, but the unreasonable optimism of the Socialist-Free Democrat coalition government thinking the worst was over led to major problems. The initially estimated (or at least hoped-for) 3% growth rate for the year 2009 couldn't have been more off the mark, and when financial markets lost trust in the country near the end of 2008, only a hastily assembled EU-IMF-World Bank credit line of 20 billion euros could forestall bankruptcy. (Csaba 2012b: 55) The coalition broke up and the prime minister resigned amid the turmoil in the spring of 2009, giving way to a caretaker government led by Gordon Bajnai, previously minister for the economy and local government. Facing hostility from the ever more vocal opposition party, Fidesz, and utterly lacking popular legitimacy, the government would be in power for a year until general election time, and therefore could not dream of anything other than attempting to bring about the consolidation required by IMF loan conditionality. (EurActiv 2009) In this quality it performed fairly but the future was already practically written in stone as Viktor Orbán's Fidesz swept to a two-thirds majority in the parliament, come April 2010.

Holding a supermajority and faced only with a weak and divided opposition (the discredited and decimated Socialists plus two newcomers: the right-wing nationalist Jobbik and the green-left LMP), the governing faction had a very strong mandate, which was especially atypical among the legislatures of crisis-ridden Europe.

Fidesz had ambitious plans which entailed running up a large budget deficit to finance their programs. These were shot down ruthlessly by the European Commission, which was bristling with having to handle the upheaval of the Greek crisis and would not be lenient in the face of such an obvious and deliberate flouting of the Maastricht & SGP criteria. (Csaba 2013: 159-60) Orbán's alternative ad-hoc solution was a sudden move to nationalize the private pension funds. (EurActiv 2010c) This step, while providing a good source of short-term revenue and bringing the deficit down to acceptable levels, was no less contentious. Clashes between the government and the European Commission would not end here: while recounting the various political controversies of the period is beyond the scope of this work, the economic factor in itself included plenty of twists and turns.

In early 2012, when a 2013 fiscal forecast value submitted by Fidesz was deemed too high, the Commission threatened to withhold EU funds, though later relented when an updated plan was presented. (Csaba 2012b: 38-9) The emerging new economic governance of the EU also ruffled some feathers, with Hungary being one of the four countries which did not sign the Euro Plus Pact, and later briefly threatening to abandon the TSCG as well.

The IMF, in tandem with the Commission, did not escape the advance of the new, unorthodox attitude of the government, either. After a blow to the forint in the international markets in late 2011, the government tiptoed around negotiating another loan deal for months, only to eventually reject the Fund altogether. (Csaba 2012: 40) The government's rhetoric asserted that the international actors were encroaching upon Hungary's sovereignty and acting against rather than for the country's benefit, and in turn, Fidesz could pose as the defender of the true national interest.

The MNB was also accused of acting against the national interest, with president Simor receiving especially stern charges and demands to aid government policy. Simor resisted, keeping interest rates high in the uncertain and inflation-prone economic climate. As had happened many times before, the government's response was to meddle in the central bank's affairs. Initially, it had wanted to include the MNB among the commercial banks on which it had levied a windfall tax, and though this was eventually averted thanks to EU pressure, further measures were also taken. (Johnson & Barnes 2014: 12-3) Simor received a drastic cut to his salary, which was a highly symbolic gesture, and parliamentary appointees to the monetary council had overturned his decisions on interest rate policy several times. (Johnson & Barnes 2014: 14) The latter action is especially puzzling in light of the fact that rate cuts and similar stimulus measures do not come with a good record of having a substantial effect on the Hungarian economy, where the interest rate is a dependent variable, inflation being the key factor instead. (Csaba 2013: 162) Simor had demanded the inclusion of guarantees for central bank independence in the country's new draft constitution, but what happened instead was more central bank legislation which did the opposite – it planned to merge the MNB with a financial supervision authority, and to actually subsume the central bank's president under the head of that organization. Its most extreme measures were once again foiled by the Commission, but only through the threat of legal action. When Simor's term finally came to an end, the dismantling of central bank independence could still go ahead. Fidesz instilled György Matolcsy, up until then the economy & finance minister of the government, at the head of the bank. (Johnson & Barnes 2014: 14) He was highly unlikely to present any significant opposition to the government's plans, and indeed, the central bank cut interest rates regularly and launched a lending programme to breathe life into the ailing domestic credit markets, and through them, provide funding for SMEs.

Despite the unorthodoxy, the government remained highly popular at home and reasonably well-received in the international credit markets. The fact that it could finance its debts from the market was quite remarkable at a time when so many eurozone members needed bailouts. (Gergely & Gokoluk 2013) Part of Hungary's fairly positive perception can be explained through the fact that in a climate of general uncertainty, when one sovereign bond is as bad as another, the slightly higher yields offered by a country like Hungary may in fact shift investors' attitudes in favour of them.

Part of the irony of the situation is that the highly critical EU and IMF had in fact indirectly helped cement Fidesz by making the Socialists enact highly unpopular austerity policies and thereby delivering the final blow to an already discredited and hated party. (Johnson & Barnes 2014: 18)

Through all this, and in spite of the fact that most recently, Hungary came as close to fulfilling the Maastricht criteria as it ever has been, the government had completely de-prioritized euro adoption, stating that it would not come about at any point before 2020 and having no concrete roadmap. In another symbolic gesture, the government had even enshrined the forint in the new Hungarian Constitution. (EurActiv 2011)

4.4 Slovakia

4.4.1 Macroeconomic Fundamentals

indicator\time	2009	2010	2011	2012	2013
Real GDP growth rate – volume – percentage change over previous year	-4.9	4.4	3	1.8	0.9
HICP - inflation rate – annual average rate of change (%)	0.9	0.7	4.1	3.7	1.5
*Reference value for HICP - inflation rate – annual average rate of change (%)**	*:*	*:*	*3.1*	*:*	*:*
EMU convergence criterion bond yields	4.71	3.87	4.45	4.55	3.19
*Reference value for EMU convergence criterion bond yields**	*:*	*:*	*5.80*	*:*	*:*
General government debt (% of GDP)	35.6	41	43.4	52.4	55.4
General government deficit/surplus (% of GDP)	-8.0	-7.5	-4.8	-4.5	-2.8
Exports of goods and services to members of the monetary union (% of GDP)	33.6	37.6	41.2	43.3	43.1
Imports of goods and services from members of the monetary union (% of GDP)	22.7	25.1	27.3	27.6	27.4
Total trade (exports & imports) with euro area (% of GDP)	56.3	62.7	68.5	70.9	70.5
Exports of goods and services (% of GDP)	70.6	80.4	89.5	96.6	97.6
Imports of goods and services (% of GDP)	71.1	80.6	89.0	91.4	91.3
Total trade (exports & imports) (% of GDP)	141.7	161	178.5	188	188.9

Table 7: Year-on-year GDP growth, indicators on Maastricht convergence criteria and openness of the economy for Slovakia.

* From the ECB Convergence Report of 2012, based on a 12-month period not corresponding to a given calendar year.
: no data available
Source: Eurostat

After acceding to the eurozone, Slovakia immediately ran up a huge deficit, and the kind of diligence seen in the run-up to adoption predictably vanished after it had achieved its main goal. Of course, the crisis also had a lot to do with these figures, as in 2009 Slovakia experienced a deep although short-lived recession.

Slovakia's embeddedness in international trade also increased further, but whether the timing and manner of its adoption of the common currency was truly advantageous during the period is not immediately obvious from the numbers alone.

4.4.2 Political Developments

On the eve of eurozone accession in December 2008, Slovakia's ambassador to the EU Maroš Šefčovič claimed that Slovakia had to work “at least twice as hard” as previous entrants to persuade the EU that it was ready. (Kubosova 2008b) This chimes in with accounts of the ECB's strict position on Central and Eastern European member states.

In economic terms, the euro was both a bane and a boon to Slovakia in the crisis. First, its function as a safety net backed by the robust ECB kept Slovakia sheltered from a lot of the financial market attacks which can befall a small, open economy with its own currency in such a situation. However, it had also become clear that when Slovakia switched to the euro, the koruna had just gone through a period of record-high appreciation, adding to the likelihood of high inflation even further. (Bandasz 2012: 147) During the crisis, Slovakia's currency could not depreciate and consequently, its exports became less competitive in comparison to its regional peers. Furthermore, the country has a rather undifferentiated export structure centered around automobiles and electronics making it inflexible in the face of changing external circumstances. As can be expected, exports fell much more sharply than imports during the crisis. (Bandasz 2012: 151) Meanwhile, since its neighbours could and did engage in competitive devaluation, the real effective exchange rate was even higher in Slovakia's case. (Fidrmuc & Wörgötter 2013: 59) The country still managed to rebound through painful processes of internal devaluation to salvage competitiveness, but this characteristic “jobless recovery” (Fidrmuc & Wörgötter 2013: 63) did little to improve living standards in the poorest member country of the eurozone.

The financial stability of the country was relatively well-protected, thanks in no small part to the fairly cautious lending policies of the banks in the country, and to the fact that private credits were almost exclusively denominated in euros, which, as it had now become the domestic currency, meant that there was no exchange rate risk. (Bandasz 2012: 154) This is in sharp contrast to Hungary, where, especially in the early 2000s, large segments of the population had taken out cheap mortgage loans denominated in euros or Swiss francs with no thought of currency fluctuation risks, as there was an implicit assumption that the euro would soon become Hungary's currency. Instead, the strengthening of these currencies against the forint led to a massive hike in the proportion of non-performing loans in the country. (Bohle 2014)

Overall, Slovakia's commitment certainly paid off in numerous respects, but it is difficult to evaluate how serious the sacrifices were. To pose a counterfactual, while the country's general predilection toward stability might have sheltered it from the capriciousness of market forces even with its own currency, it certainly could not have taken advantage of a flexible exchange rate to the same extent as a larger economy like Poland was able to.

The economic sphere was not the only area where Slovakia was deeply affected by the euro crisis. The question of the Greek rescue package, from spring 2010 onwards, precipitated an ongoing political crisis in the country. In the summer of that year, SDKÚ was back in government again, after Smer-SD had gained a plurality in the elections but had been unable to form a majority coalition. (Phillips 2010) The question of contributing to the Greek loan had already loomed large over Slovakia before the election, and it overshadowed the SDKÚ coalition government's tenure from the very start. One of the coalition partners, the market-oriented liberal Freedom and Solidarity (SaS), was highly critical of the Greek bailout. Finance Minister Mikloš also decried Slovakia's having to pay for the sins of a richer country as unfair. (Rettman 2010) Tension continued when the following year additional funds became necessary. In order for the loan to proceed, all eurozone members had to approve it. Slovakia was the last country which still had not ratified the agreement due to the divisiveness of the issue, and prime minister Iveta Radičová eventually offered to tie the vote on the package to a vote of no confidence in the parliament. Smer-SD, in opposition but leading in the polls, was in a better bargaining position than to accept this, so they abstained from the vote, letting it fail. They instead managed to secure a promise for early elections in exchange for agreeing to support the bailout fund. The resolution passed in October 2011. (Pop 2011a; Phillips 2011) At the elections held in Spring 2012, Smer secured a large victory, being able to form a majority government without a coalition partner. During the campaign, the EU was a fairly minor theme, with only SaS railing against what it saw as irresponsible economic policy decisions on the Union's part, and SNS trying to peddle to the latent eurosceptic sentiment among voters. (Haughton 2014: 79-80)

Since then, the country's trajectory has not been a matter of serious concern at the EU level. The slowdown of growth in the last few years is the current greatest threat to its economy, and it is a symptom of the fact that its old business model may be exhausted.

4.5 Conclusion

The crisis complicated matters for all EU member states, including those outside the troubled eurozone. The emerging new structures and modes governance on the supranational level demand new ways of adaptation from member states.

In the case of Poland, we can witness a lot of strategic maneuvering – while (after the initial, brief mirage of the eurozone as a safe haven) they saw no particularly persuasive new reasons as to why they would benefit economically from eurozone membership, the political game has intensified. Part of this has to do with what we have heard from the politicians themselves – since completion of EMU is still a requirement, it had better be an EMU shaped, at least partly, by Poland as well. As the crisis has turned the governance of the eurozone into a primary concern of the Union as a whole, and as the growing informal decision-making power of eurozone leaders is becoming ever more formalized, the classic tenet of more effective interest representation by acting from within is a strong factor in Polish decision-making regarding euro adoption. It is debatable to what extent politicians have been successful in managing to stay right where the core decisions are being made. On the one hand, it is not quite the greatest achievement to be allowed to sign a voluntary and practically non-enforceable document like the Euro Plus Pact, which essentially came off as just another "treaty of the week" in a series of attempts from the EU's part to show markets that it was doing *something* to battle the crisis. Likewise, the ability to elbow into Eurogroup meetings occasionally is certainly better than what a thoroughly passive member state would have achieved, but Poland will continue to remain a junior partner as long as it does not introduce the euro.

Overall, this paints a very interesting picture: Poland has managed to squeeze some rare concessions out of the European Commission precisely during a time when it was toughening up. It would be foolish to think that this might lead to a future where bargaining over previously stone-set rules is easily possible. Still, the fact that Poland has been able to exercise its will at the EU level several times may in fact act as an incentive for trying harder when it comes to the euro. As politicians have seen that they could upload some of their prefrerences to the EU level, they have kept up their reserved engagement with the possibility of euro adoption, hoping for further concessions to decrease their own adjustment costs. So, even while the economic necessity of accession is insignificant, the increasingly enticing political rewards of being part of the core and a precedent showing that the Commission can be "reasoned with" among certain constraints have kept the question open.

Over the crisis period, I find that domestic propensity for accession in Poland remains low, and the flexibility of the EU level may just have improved marginally. However, the credibility of the suprnanational level, while suffering greatly during times of sometimes inept crisis management, has developed a curious new dimension to incentivize Poland. This facet is not captured by the hypothesis very accurately, but all the same, Poland's lack of an officially specified target date is clearly different from the seemingly identical outcome in Hungary. Thus, if utilizing the originally envisioned interpretation of EU credibility in the hypthesis, I find that the hypothesis is confirmed due to the coexistence of low credibility, slightly higher but still low flexibility, a low propensity for joining, and an outcome of indefinite delay. However, if we take a more nuanced interpretation of both the outcome and the credibility of institutions (incorporating the newly arisen cost of being left out from the latter), it is clear that we cannot speak of a simple, straightfoward case of euro-rejection, and the hypothesis is not confirmed.

In Hungary we continue to see some old patterns repeated: domestically, the central bank is still prevented from being a proper stronghold of orthodoxy and an advocate of the single currency. International institutions have demonstrated a modicum of influence to stop truly egregious violations at least temporarily, but this does not extend to the ability to truly empower domestic actors.

The Fidesz government's spectacular clashes with the European Commission and its generally dismissive rhetoric toward the euro are new features, but the substance behind the rhetoric (a lack of serious commitment towards the single currency) has not changed much at all. The fact that most recently Hungary has managed to stay afloat on the international markets despite what many expected from the unorthodox policies has added fuel to the claim that Hungary may survive despite not having the euro.

Both Hungary and Poland are now without a specified entry date. However, as stated above, the seemingly identical outcomes derived from official strategy are, in fact, somewhat different in substance. The Polish stance remains wary and dedicated to waiting out what happens, but the possibility of joining is still discussed as a viable and almsot inevitable option. In contrast, Hungarian politicians have simply taken the question off the table, with no ifs ands or buts to signal any circumstances which would make them more hospitable to the idea. This is especially curious once we consider that Fidesz had been (at least for reasons of political expediency) in favour of swift accession when it was still in opposition. This difference between the two countries can be explained partly by domestic considerations, and partly by the different experiences with EU-level decision-makers. Firstly, the current Fidesz government, with no significant political opposition to present viable policy alternatives and with the country's situation on international financial markets more or less sustainable, has no reason to even place the issue of the euro on the agenda and thus no need for a clear stance either way, being able to relegate it to the status of a problem for another day. Secondly, the government's altercations with the Commission have not supplied any reason to suppose that the bumps on the road toward convergence could be smoothed by a more flexible EU. The image, cultivated by the government at home, of the Commission as a hostile force Hungary must contend with lends further support for an indefinite delay. Meanwhile, issues such as the fact that the problem of nonperforming foreign currency loans could have been averted by early euro adoption are absent from the discussion.

To sum up, the still apparent economic necessity as conceptualized by the hypothesis stuggests that Hungary's domestic propensity for joining is high. This, coupled with low credibility and flexibility on the EU's part, is contrasted with a now explicit indefinite delay, and I must once again conclude that the hypothesis therefore does not match the findings. One important consideration might be that while the vulnerability of the Hungarian economy is mostly surveyed through the trade channel in the variables included, the crisis has brought the financial channel to the forefront. And while Hungary is still a very highly exposed country in this regard, the fact that it has been getting by, however tenuously, on the international bond market, may shed light on the reason why *de facto* domestic propensity (not captured by the variables in the hypothesis) may be slightly lower.

As for Slovakia, its post-accession story is an instructive one: it shows that the ECB's worries about the former Socialist states were mostly unfounded. The Eastern periphery did not become a problem area for the EU level during the euro crisis – the troubled countries, with the exception of Cyprus, were all old member states. On the other hand, this has lent credence to the importance of enforcing the convergence criteria strictly (which has been the case for the CEECs but not always for the EU-15), bolstering strict enforcement and thus enhancing the general credibility of EMU institutions over the course of the crisis. Still, the politicial and economic costs Slovakia had to pay also served as cautionary tales for the laggards: while the benefits which accrued to the country thanks to accession were largely ignored, the politicians of non-eurozone states instrumentalized the hardships faced by members of the common currency to justify their own lack of enthusiasm for joining.

5 Conclusions

In this study I attempted to find explanations for the variability with which new EU member states have pursued their paths toward the completion of Economic and Monetary Union. Building on the literature, I drew up a hypothesis on what the main factors influencing outcomes would be. Firstly, domestic necessity combined with the propensity of domestic actors and contexts to respond to international institutions favourably. Secondly, the credibility and flexibility of the international institutions and their leaders in dealing with the specific circumstances and concerns of these countries.

During the first period under observation, I found the hypothesis confirmed in the cases of Poland and Slovakia. While the case of Hungary seemed to fit the postulated mechanisms as well, an in-depth description of the political phenomena and the substance of official strategies revealed that rather than resembling the case of Slovakia, with which it shared many domestic similarities, the Hungarian outcome was much closer to that of Poland, albeit the outcome was clearly less a deliberate choice and more a result of drifting policies and complacency.

During the second period under observation, I found the hypothesis to be confirmed for the Polish case and disconfirmed again for the Hungarian case; however, in both cases, the study of events revealed that the outcomes were best regarded in a more nuanced manner, while the factors which led to them were not entirely captured by the chosen variables.

Surveying the work in total, two sets of related observations regarding the findings and added value of the thesis stand out.

First, the study has made it possible to identify certain elements of domestic contexts which make a favourable approach more or less likely. Firstly, I have found that the level of independence of the central bank has a significant effects on how the question is negotiated domestically. Taken more broadly, this means that the presence of a strong advocate for the stability culture conducive to euro adoption which is separate from possible euro-optimist groups inside the legislature and government seems to be an indispensable catalyst for the process. Furthermore, I also found that the initial transition experience, especially with regard to international organizations, has shaped the proclivities of domestic actors to a large degree. While in Hungary this has been a large factor in the uncharacteristic outcome, and in Poland's case it bolsters existing tendencies for stalling the process but retaining a political foothold, in Slovakia's case the early experience of rejection has been fundamental in forging the conviction necessary for carrying out the necessary adjustments. Meanwhile, party ideology has played a very limited role, while the strategic role of the two-level political game between government and opposition, and between government and EU institutions, has been clearly present.

The latter leads me to the second set of observations. I find significant evidence for the claim that the role played by international institutions is complex and has direct effects on how pre-euro-accession states come to view the accession process and the rules of EMU.

The mechanisms labelled credibility and flexibility have proved to be important in explaining some of the differences between the chosen countries. In this way, the thesis represents an advancement upon the more traditional "domestic politics" approach most commonly exhibited in rational choice explanations of Europeanization. It must be acknowledged as a limitation of the explanation that variation on the two aspects has admittedly been small during the period under observation, with EMU institutions staying mostly inflexible and exhibiting several inconsistencies in their advice and actions toward new member states, the crisis as well as individual incidents have shown that variation does occur. To add to this, there is a complex interaction between these "external" factors and the “internal” ones – with the importance of reputational costs in the eyes of domestic actors indirectly adding to EU-level credibility in the Slovak case, for instance.

An important finding of the study is that the rather simple hypothesized mechanisms do fit the pre-crisis events in the cases under observation, but more complex dimensions and more subtle mechanisms have emerged with the crisis and the changing political clout of euro area leadership. Further work in this area may focus on delineating more detailed and precise mechanisms in which the external institutional aspect interacts with the domestic circumstances and preferences of member states.

Overall, the chosen theoretical background of rational choice institutionalism and the method of in-depth description have shown themselves to be a promising avenue for uncovering the causes behind variation among member states in the policy area of Economic & Monetary Union.

6 Appendix

List of prime ministers, governing parties, finance ministers and central bank presidents in Poland, Hungary and Slovakia during the period under discussion

Dates	Prime Minister / Cabinet	Parties	Dates	Finance Minister	Dates	Central Bank President
31 October 1997 – 8 June 2000	**The First Cabinet of Jerzy Buzek**	AWS, UW	31.10.1997 - 08.06.2000	Leszek Balcerowicz	1992–2001	**Hanna Gronkiewicz -Waltz**
8 June 2000 – 19 October 2001	**The Second Cabinet of Jerzy Buzek**	AWS	08.06.2000 - 28.08.2001	Jarosław Bauc	10 January 2001 – 10 January 2007	**Leszek Balcerowicz**
			28.08.2001 - 19.10.2001	Halina Wasilewska-Trenkner		
19 October 2001 – 2 May 2004	**The Cabinet of Leszek Miller**	SLD, UP, PSL	19 October 2001 – 6 July 2002	Marek Belka		
			6 July 2002 – 16 June 2003	Grzegorz Kołodko		
			16 June 2003 – 2 May 2004	Andrzej Raczko		
2 May 2004 – 11 June 2004	**The First Cabinet of Marek Belka**	SLD, UP	02.05.2004 - 11.06.2004	Andrzej Raczko		
11 June 2004 – 31 October 2005	**The Second Cabinet of Marek Belka**	SLD, UP, SDPL	11.06.2004 - 21.07.2004	Andrzej Raczko		
			21.07.2004 - 31.10.2005	Mirosław Gronicki		
31 October 2005 – 14 July 2006	**The Cabinet of Kazimierz Marcinkiewicz**	PiS	31.10.2005 - 07.01.2006	Teresa Lubińska		
		PiS, SRP, LPR	07.01.2006 - 24.06.2006	Zyta Gilowska		
			24.06.2006 - 14.07.2006	Paweł Wojciechowski		
14 July 2006 – 13 August 2007	**The Cabinet of Jarosław Kaczyński**		14.07.2006 - 22.09.2006	Stanisław Kluza		
			22.09.2006 - 07.09.2007	Zyta Gilowska	10 January 2007 – 10 April 2010	**Sławomir Skrzypek**
13 August 2007 – 16 November 2007	**The Cabinet of Jarosław Kaczyński**	PiS	07.09.2007 - 10.09.2007	Jarosław Kaczyński (acting)		
			10.09.2007 - 16.11.2007	Zyta Gilowska		
16 November 2007 – 18 November 2011	**The First Cabinet of Donald Tusk**	PO, PSL	16.11.2007 - 18.11.2011	Jacek Rostowski	11 June 2010 – present	**Marek Belka**
18 November 2011 – present	**The Second Cabinet of Donald Tusk**	PO, PSL	18 11 2011 – 27 11 2013	Jacek Rostowski		
			27 November 2013 – present	Mateusz Szczurek		

Table 8: Poland: prime ministers, governing parties, finance ministers and central bank presidents

<table>
<tr><th>Dates</th><th>Prime Minister</th><th>Parties</th><th>Dates</th><th>Finance Minister</th><th>Dates</th><th>Central Bank President</th></tr>
<tr><td rowspan="2">1998 – 2002</td><td rowspan="2">Viktor Orbán</td><td rowspan="2">FIDESZ-FKgP-MDF</td><td>8 July 1998 – 31 December 2000</td><td>Zsigmond Járai</td><td>1 March 1995 – 1 March 2001</td><td>György Surányi</td></tr>
<tr><td>31 December 2000 – 26 May 2002</td><td>Mihály Varga</td><td rowspan="4">1 March 2001 – 1 March 2007</td><td rowspan="4">Zsigmond Járai</td></tr>
<tr><td>2002 – 2004</td><td>Péter Medgyessy</td><td>MSZP-SZDSZ</td><td>27 May 2002 – 4 October 2004</td><td>Csaba László</td></tr>
<tr><td rowspan="2">2004 – 2006</td><td rowspan="2">Ferenc Gyurcsány</td><td rowspan="2">MSZP-SZDSZ</td><td>4 October 2004 – 24 April 2005</td><td>Tibor Draskovics</td></tr>
<tr><td>24 April 2005 – 9 June 2006</td><td>János Veres</td></tr>
<tr><td>2006 – 2009</td><td>Ferenc Gyurcsány</td><td>MSZP-SZDSZ</td><td>9 June 2006 – 14 April 2009</td><td>János Veres</td><td rowspan="3">3 March 2007 – 3 March 2013</td><td rowspan="3">András Simor</td></tr>
<tr><td>2009 – 2010</td><td>Gordon Bajnai</td><td>MSZP</td><td>14 April 2009 – 29 May 2010</td><td>Péter Oszkó</td></tr>
<tr><td rowspan="2">2010 – 2014</td><td rowspan="2">Viktor Orbán</td><td rowspan="2">FIDESZ-KDNP</td><td>29 May 2010 – 3 March 2013</td><td>György Matolcsy</td></tr>
<tr><td>7 March 2013 – May 2014</td><td>Mihály Varga</td><td rowspan="2">3 March 2013 – present</td><td rowspan="2">György Matolcsy</td></tr>
<tr><td>2014 – present</td><td>Viktor Orbán</td><td>FIDESZ-KDNP</td><td>May 2014 – present</td><td>Mihály Varga</td></tr>
</table>

Table 9: Hungary: prime ministers, governing parties, finance ministers and central bank presidents

Dates	Prime Minister	Parties	Dates	Finance Minister	Dates	Central Bank President
13 December 1994 - 30 October 1998	Vladimír Mečiar	HZDS – ZRS – SNS – RSS	1994 – 1998	Sergej Kozlík	29.07.1993 – 28.07.1999	Vladimír Masár
			14 January 1998 – 30 October 1998	Miroslav Maxon		
30 October 1998 – 15 October 2002	Mikuláš Dzurinda	SDK – SDĽ – SMK – SOP (SDK later replaced by SDKÚ)	30 October 1998 – 29 January 2002	Brigita Schmögnerová	29.07.1999 – 31.12.2004	Marián Jusko
			29 January 2002 – 15 October 2002	František Hajnovič		
16 October 2002 – 4 July 2006	Mikuláš Dzurinda	SDKÚ – SMK – KDH – ANO	16 October 2002 – 4 July 2006	Ivan Mikloš		
4 July 2006 - 8 July 2010	Robert Fico	SMER-SD – SNS – ĽS-HZDS	4 July 2006 – 8 July 2010	Ján Počiatek	01.01.2005 – 11.01.2010	Ivan Sramko
'8 July 2010 – 4 April 2012	Iveta Radicová	SDKÚ-DS – SaS – MOST-HÍD – KDH	8 July 2010 – 4 April 2012	Ivan Mikloš	11.01.2010 – present	Jozef Makúch
4 April 2012 – present	Robert Fico	SMER-SD	4 April 2012 – present	Peter Kažimír		

Table 10: Slovakia: prime ministers, governing parties, finance ministers and central bank presidents

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