

A new EU arrangement for the United Kingdom: European lessons from the February 19th agreement

By [Catherine Mathieu](#) and [Henri Sterdyniak](#)

Following the demand made by David Cameron on 10 November 2015 for a new arrangement for the United Kingdom in the European Union, the European Council came to an agreement at its meeting of 18 and 19 February. On the basis of this text, the British people will be called to the polls on 23 June to decide whether to stay in the EU. This episode raises a number of questions about the functioning of the EU.

– The United Kingdom has challenged European policy on matters that it deems crucial for itself and largely got what it wanted. Its firmness paid off. This has given rise to regrets on this side of the Channel. Why didn't France (and Italy) adopt a similar attitude in 2012, for instance, when Europe imposed the signing of the fiscal treaty and the implementation of austerity policies? This is a cause for concern: will what has been accepted for a big country be tolerated for a smaller one? The UK's threat to leave is credible because the EU has become very unpopular among the population (especially in England), and because the UK is independent financially (it borrows easily on the capital markets) and economically (it is a net contributor to the EU budget). A country that is more dependent on Europe would have little choice. This raises worries: won't we see other countries follow suit in the future? Will Europe be able to avoid becoming a Europe à la carte (each country taking part in the activities that interest it)? But is a model based on forced participation preferable? Europe must allow a country

to abstain from policies that it deems harmful.

– The United Kingdom will therefore organize a referendum, which is satisfactory from a democratic perspective. The most recent referendums have hardly yielded favourable results for European construction (France and the Netherlands in 2005, Greece in July 2015, Denmark in December 2015). The British will be limited to choosing between leaving the EU (the February agreement clearly rejects the possibility of new renegotiations if the referendum results in a majority in favour of an EU exit) or staying with a reduced status; the possibility of the UK remaining in the EU and seeking to strengthen its social dimensions, as advocated by some of the Labour Party and the Scottish Nationalists, will not be offered. Too bad.

– The United Kingdom is explicitly exempted from the need to deepen the EMU or from an “ever closer union” or “deeper integration”, all formulas contained in the treaties. The proposed arrangement clarifies that these notions are not a legal basis to extend the competences of the EU. States that are not members of the euro zone retain the right to take part or not in further integration. This clarification is, in our opinion, welcome. It would not be legitimate for the Union’s powers to be extended continuously without the consent of the people. In the recent period, the five presidents and the EU Commission have proposed new steps towards European federalism: creating a European Fiscal Committee; establishing independent Competitiveness Councils; conditioning the granting of Structural Funds on fiscal discipline; implementing structural reforms; creating a European Treasury department; moving towards a financial union; and partially unifying the unemployment insurance systems. These moves would strengthen the technocratic bodies to the detriment of democratically elected governments. Wouldn’t it be necessary to explicitly request and obtain the agreement of the peoples before embarking on such a path?

– The exit of the United Kingdom, a certain distancing by some Central and Eastern Europe countries (Poland, Hungary), plus the reluctance of Denmark and Sweden could push towards an explicit move to a two-tier Union, or even, to take David Cameron's formulation, to an EU in which countries are heading to different destinations. The countries of the euro zone would for their part accept new transfers of sovereignty and would build a stronger fiscal and political union. In our opinion this proposal should be submitted to the people.

– At the same time, the draft agreement provides that the Eurogroup has no legislative power, which remains in the hands of the Council as a whole. The UK has had it clarified that a non-member state of the euro zone could ask the European Council to take up a decision on the euro zone or the banking union that it believes harms its interests. The principle of the euro zone's autonomy has thus not been proclaimed.

– The United Kingdom has had it clarified that it is not required to contribute financially to bail out the euro zone or the financial institutions of the banking union. This may be considered discomfoting vis-à-vis the European principle of solidarity, but it is understandable. This is because the establishment of the euro zone has abolished the principle: "Every sovereign country is fully backed by a central bank, a lender of last resort", which is posed by the bailout problem. The UK (and its banks) are backed by the Bank of England.

– The United Kingdom has had the principles of subsidiarity reviewed. A new provision states that parliaments representing 55% of the Member States may challenge a law that does not respect this principle. The UK has had it noted that the issues of justice, security, and liberty remain under national competence. It is a pity that countries devoted to their specific social systems and their wage bargaining systems have not done the same.

– It is understandable that countries concerned about national

sovereignty are annoyed (if not more) by the EU's relentless intrusions into areas under national jurisdiction, where Europe's intervention does not bring added value. It is understandable that these countries are refusing to have to incessantly justify to Brussels their economic policies or their economic, social or legal regulations when these have no impact on other Member States. Europe must undoubtedly take these feelings of exasperation into account.

– As regards the banking union, the draft text is deliberately confusing. It is recalled that the “single rule book” managed by the European Banking Agency (EBA) applies to all banks in the EU, and that financial stability and equal competitive conditions must be guaranteed. But at the same time, it says that Member States that do not participate in the banking union retain responsibility for their banking systems and can apply special provisions. Moreover, countries that are not members of the euro zone have a right of veto on the EBA. This raises the question of the very content of the banking union. Will it make it possible to take the measures needed to reduce the scale of speculative financial activity in Europe and steer the banks towards financing the real economy? Or is the objective to liberalize the markets for the development of financial activity in Europe so as to compete with London and non-European financial centres? In the first case, what was needed was to clearly take in hand the market in London, telling it that membership in the EU requires close monitoring of financial activities. And that its departure would allow the EU to take capital control measures to limit speculative activities and encourage banks in the euro zone to repatriate their activities.

– Likewise, Belgium, Luxembourg, the Netherlands and Ireland would have needed to be told that EU membership means the end of tax avoidance schemes for the multinationals.

– The United Kingdom has had a declaration passed affirming the need both to improve regulations and repeal unnecessary

provisions to improve competitiveness while at the same time maintaining high standards of protection for consumers, labour, health and the environment. This compatibility undoubtedly amounts to wishful thinking.

– The text recognizes that the disparity in wage levels and social protection in European countries is hardly compatible with the principle of the free movement of persons in Europe. This has long been an unspoken part of European construction. The United Kingdom, which was one of the only countries not to take interim measures to restrict the entry of foreign workers at the time of the accession of central and eastern European countries in 2004, is now demanding that such measures be provided for in any future accessions. The draft agreement states that a European person's stay in a country other than his or her own is not the responsibility of the host country, meaning that the person either must have sufficient resources or must work.

– The question of the right to family benefits when children are not living in the same country as their parents is a tangled web. In most countries, family benefits are universal (not dependent on parental contributions). Both principles cannot be met at the same time: that all children living in a country are entitled to the same benefit; and that everyone working in a given country is entitled to the same benefits. The United Kingdom has won the right to be able to reduce these allowances based on the standard of living and family benefits in the child's country of residence. But fortunately this right cannot be extended to pension benefits.

– Most European countries currently have mechanisms to promote the employment of unskilled workers. Thanks to exemptions on social contribution, to tax credits and to specific benefits (like in-work credits or housing benefits in France), the income that they receive is largely disconnected from their wage costs. The British example shows that these programmes can become problematic in case of the free movement of

workers. How does a country encourage its own citizens to work without attracting too many foreign workers? Here is another of the unspoken issues of open borders. It is paradoxical that it is the United Kingdom that is raising the question, while it is near full employment and is claiming that the flexibility of its labour market allows it to easily take in foreign workers. In any case, the UK was granted that a country facing an exceptional influx of workers from other EU Member States can obtain the right from the Council, for seven years, to grant non-contributory aid to new workers from other member countries in a graduated process over a period of up to four years from the start of their employment. The UK has also had it clarified that it can use this right immediately. This is a challenge to European citizenship, but this concept had already been chipped away for the inactive and unemployed.

The European Union, as currently constructed, poses many problems. The Member States have divergent interests and views. Because of differences in their national situations (the single monetary policy, freedom of movement of capital and people), many arrangements are problematic. Rules without an economic foundation have been introduced into fiscal policy. In many countries, the ruling classes, the political leaders, and the top officials have chosen to minimize these problems so as not to upset European construction. Crucial issues concerning the harmonization of taxes, social conditions, wages and regulations have been deliberately forgotten.

The UK has always chosen to keep its distance from European integration, safeguarding its sovereignty. Today it is putting its finger on sensitive points. To rejoice at its departure would be irrelevant. To use this to move mindlessly towards an "ever closer union" would be dangerous. Europe should seize this crisis to acknowledge that it has to live with a contradiction: national sovereignty must be respected as much as possible; Europe has no meaning in and of itself, but only

if it implements a project that supports a specific model of society, adapting it to integrate the ecological transition, to eradicate poverty and mass unemployment, and to solve European imbalances in a concerted and united manner. If the agreement negotiated by the British could contribute to this, it would be a good thing – but will Europe's countries have the courage to do so?

Give Recovery a Chance

By iAGS team, under the direction of [Xavier Timbeau](#)

The ongoing recovery of the Euro Area (EA) economy is too slow to achieve a prompt return to full employment. Despite apparent improvement in the labour market, the crisis is still developing under the covers, with the risk of leaving long-lasting “scars”, or a “scarification” of the social fabric in the EA. Moreover, the EA is lagging behind other developed economies and regardless of a relatively better performance in terms of public debt and current account, the current low rate of private investment is preparing a future of reduced potential growth and damaged competitiveness. So far, the Juncker Plan has not achieved the promised boost to investment. The internal rebalancing of the EA may fuel deflationary pressure if it is not dealt with through faster wage growth in surplus countries. Failure to use fiscal space where it is available will continue to weigh down on internal demand. Monetary policy may not succeed in the future in avoiding a sharp appreciation of the Euro against our trade partners' currencies. Such an appreciation of the real effective exchange rate of the Euro would lock the EA in a prolonged period of stagnation and low inflation, if not deflation.

A window of opportunity has been opened by monetary policy since 2012. Active demand management aimed at reducing the EA current account combined with internal rebalancing of the EA is needed to avoid a worrying “new normal”. Financial fragmentation has to be limited and compensated by a reduction of sovereign spreads inside the euro area. Active policies against growing inequalities should complement this approach. Public investment and the use of all policy levers to foster a transition toward a zero carbon economy are ways to stimulate demand and respect the golden rules of public finance stability.

For further information, see [iAGS 2016 report](#)

Greece: When history repeats itself

By [Jacques Le Cacheux](#)

The duration of the Greek crisis and the harshness of the series of austerity plans that have been imposed on it to straighten out its public finances and put it in a position to meet its obligations to its creditors have upset European public opinion and attracted great comment. The hard-fought agreement reached on Monday 13 July at the summit of the euro zone heads of state and government, along with the demands made prior to the Greek referendum on 5 July, which were rejected by a majority of voters, contain conditions that are so unusual and so contrary to State sovereignty as we are used

to conceiving of it that they shocked many of Europe's citizens and strengthened the arguments of eurosceptics, who see all this as proof that European governance is being exercised contrary to democracy.

By requiring that the creditors be consulted on any bill affecting the management of the public finances and by requiring that the privatizations, with their lengthy list dictated by the creditors, be managed by a fund that is independent of the Greek government, the euro zone's leaders have in reality put Greece's public finances under supervision. Furthermore, the measures contained in the new austerity plan are likely to further depress the already depressed domestic demand, exacerbating the recession that has racked the Greek economy in 2015, following a brief slight upturn in 2014.

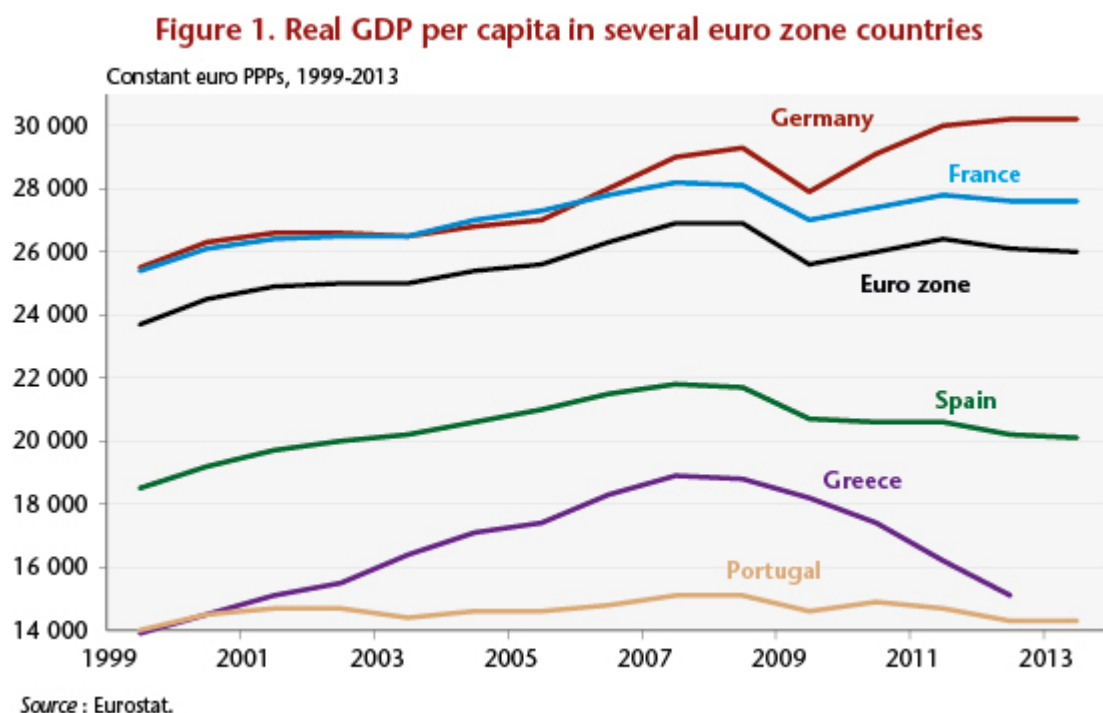
Impoverishment without adjustment

The Greek crisis, which in 2010 triggered the sovereign debt crisis in the euro zone, has seen prolonged agony punctuated by European psycho dramas that always conclude in extremis by an agreement that is supposed to save Greece and the euro zone. From the beginning, it was clear that a method based on the administration of massive doses of austerity without any real support for the modernization of the Greek economy was doomed to failure [\[1\]](#), for reasons that are now well understood [\[2\]](#) but at the time were almost universally ignored by officialdom, whether from European governments, the European Commission or the IMF, the main guarantor and source of inspiration for the successive adjustment plans.

The results, which up to now have been catastrophic, are well known: despite the lengthy austerity cure, consisting of tax hikes, public spending cuts, lower wages and pensions, etc., the Greek economy, far from recovering, is now in a worse state, as is the sustainability of the country's public

finances. Despite the agreement in 2012 of Europe's governments on a partial default, which reduced the debt to private creditors – relief denied by those same governments two years earlier – Greece's public debt now represents a larger percentage of GDP (almost 180%) than at the beginning of the crisis, and new relief – this time probably by rescheduling – seems unavoidable. The third bailout package – roughly 85 billion euros, on the heels of approximately 250 billion over the past five years – will be negotiated over the coming weeks and will be in large part devoted just to meeting debt repayments.

Meanwhile, the average living standard of Greeks has literally collapsed; the difference with the euro zone average, which had tended to decline during the decade before the crisis, has now widened dramatically (Figure 1): the country's GDP per capita is now a little less than half that in Germany. And GDP per capita still only poorly reflects the reality in an economy where inequality has increased and spending on social protection has been drastically reduced.

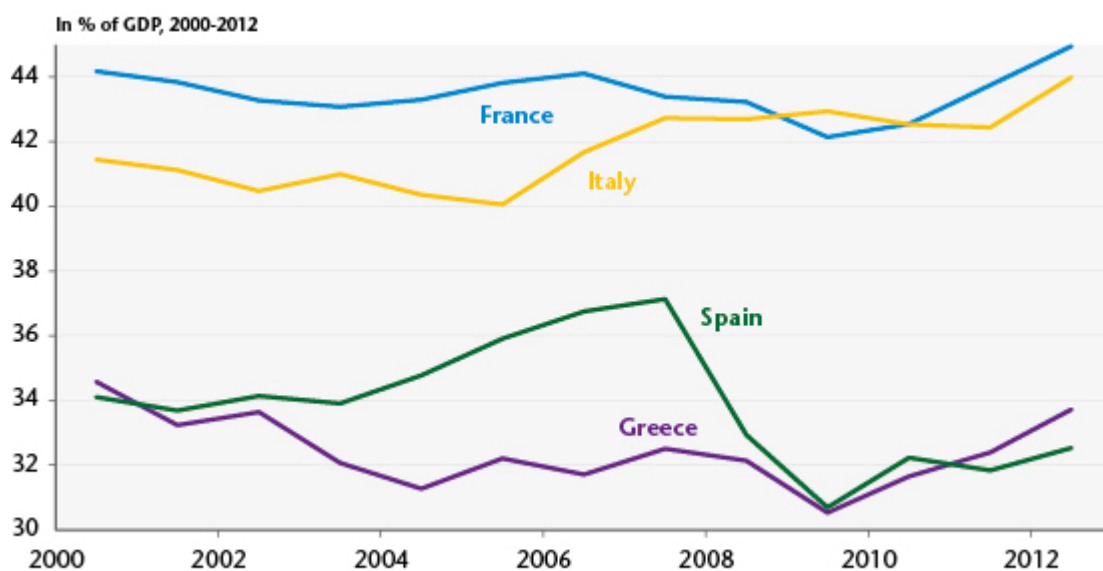


The new austerity plan is similar to the previous ones: it combines tax hikes – in particular on VAT, with the normal

rate of 23% being extended to the Islands and many sectors, including tourism, that were previously subject to the intermediate rate of 13% – with reduced public spending, and will result in budget savings of about 6.5 billion euros over a full year, which will depress domestic demand and exacerbate the current recession.

The previous adjustment plans also featured “structural” reforms, such as lowering the minimum wage and pensions, deregulation of the labour market, etc. But it is clear that the fiscal component of these plans did not have a very visible impact on government revenue: after having declined significantly until 2009, the Greek tax burden – measured by the ratio of total tax revenue to GDP – has definitely increased, but not much more than in France (Figure 2). This does not mean, of course, that an even stronger dose of the same medicine will lead to better healing.

**Figure 2. Level of overall fiscal pressure
in several euro zone countries**



Source : Eurostat.

Does history shed light on the future?

The ills afflicting the Greek economy are well known: weak industrial and export sectors – apart from tourism, which could undoubtedly do better, but performs honourably –

numerous regulated sectors and rentier situations, overstaffed and inefficient administration and tax services, burdensome military expenditure, etc.

None of this is new, and no doubt it was the responsibility of the European authorities to sound the alarm sooner and help Greece to renovate, as was done for the Central and Eastern Europe countries in the early 2000s in the years before they joined the European Union. Will the way it has been decided to do this now, through a forced march with the Greek government under virtual guardianship, be more effective?

If we rely simply on history, the temptation is to say yes. There are many similarities between the situation today and a Greek default back in 1893. At that time Greece was a relatively new state, having won its independence from the Ottoman Empire in 1830 following a long struggle supported by the European powers (England and France), which put the country under a Bavarian king. Greece was significantly poorer than the countries of Western Europe: despite an effort at modernization undertaken after independence that was led by the Bavarian officials assembled around the Greek King Otto, in 1890 the country's GDP per capita was, according to data assembled by Angus Maddison[\[3\]](#), about 50% of the level of France, and a little less than one-third that of the UK. The analysis of Greece at that time was little better than that today:

“ ... Greece has been characterized throughout the 19th century by structurally weak finances, which has led it to default repeatedly on its public debt. According to the *Statesman's Yearbook*, in addition to significant military spending, Greece faces high expenditures on a disproportionately large number of officials for a small undeveloped state. Moreover, since part of Greece's debt is guaranteed by France and Great Britain, Greece could suspend debt service without the creditors having to suffer the consequences. The French and

British budgets would be compelled to pay the coupons.

“By 1890, however, the situation had become critical. At the end of 1892, the Greek Government could continue paying interest only by resorting to new borrowing. In 1893, it obtained parliamentary approval for negotiating a rescheduling with its international creditors (British, German, French). Discussions were drawn out until 1898, with no real solution. It was Greece’s defeat in the country’s war with Turkey that served as a catalyst for resolving the public finances. The foreign powers intervened, including with support for raising the funds claimed by Turkey for the evacuation of Thessaly, and Greece’s finances were put under supervision. A private company under international control was commissioned to collect taxes and to settle Greek spending based on a seniority rule designed to ensure the payment of a minimal interest. Fiscal surpluses were then allocated based on 60% to the creditors and 40% for the government.”[\[4\]](#)

Between 1890 and 1900, Greek per capita income rose by 15% and went on to increase by 18% over the next decade; in 1913, it came to 46% of French per capita income and 30% of the British level, which was then at the height of its prosperity. So this was a success.

Of course, the context was very different then, and the conditions that favoured the guardianship and the recovery are not the same as today: there was no real democratic government in Greece; there was a monetary regime (the gold standard) in which suspensions of convertibility – the equivalent of a “temporary Grexit” – were relatively common and clearly perceived by creditors as temporary; and in particular there was a context of strong economic growth throughout Western Europe – what the French called the “Belle Epoque” – thanks to the second industrial revolution. One cannot help thinking, nevertheless, that the conditions dictated to Greece back then inspired the current decisions of Europe’s officials[\[5\]](#).

Will the new plan finally yield the desired results? Perhaps, if other conditions are met: substantial relief of the Greek public debt, as the IMF is now demanding, and financial support for the modernization of the Greek economy. A Marshall Plan for Greece, a “green new deal”? All this can succeed only if the rest of the euro zone is also experiencing sustained growth.

[1] See Eloi Laurent and Jacques Le Cacheux, “Zone euro: *no future?*”, *Lettre de l’OFCE*, no. 320, 14 June 2010, <http://www.ofce.sciences-po.fr/pdf/lettres/320.pdf> .

[2] See in particular the work of the OFCE on the recessionary effects of austerity policies: <http://www.ofce.sciences-po.fr/pdf/revue/si2014/si2014.pdf> . Recall that the IMF itself has acknowledged that the adjustment plans imposed on the European economies experiencing public debt crises were excessive and poorly designed, and especially those imposed on Greece. This *mea culpa* has obviously left Europe’s main leaders unmoved, and more than ever inclined to persevere in their error: *Errare humanum est, perseverare diabolicum!*

[3] See the data on the Maddison Project site: <http://www.ggdc.net/maddison/maddison-project/home.htm> .

[4] Excerpt from the article by Marc Flandreau and Jacques Le Cacheux, “La convergence est-elle nécessaire à la création d’une zone monétaire ? Réflexions sur l’étalon-or 1880-1914” [Is convergence necessary for the creation of a monetary zone? Reflections on the gold standard 1880-1914], *Revue de l’OFCE*, no. 58, July 1996, <http://www.ofce.sciences-po.fr/pdf/revue/1-58.pdf> .

[5] An additional clue: the German Finance Minister Wolfgang

Schäuble insisted that Greece temporarily suspend its participation in the euro zone; in the 1890s, it had had to suspend the convertibility into gold of its currency and conducted several devaluations.

The official introduction of the euro in Lithuania: does it really make no difference?

[Sandrine Levasseur](#)

On 1 January 2015, Lithuania adopted the euro *officially*, becoming the 19th member of the euro zone. The adoption was in reality formal, as the euro was already (very) present in Lithuania. For example at the end of 2014, over 75% of loans to Lithuanian businesses and households were denominated in euros, as were 25% of bank deposits.

The use of the euro alongside Lithuania's national currency, as a currency for loans, a means of savings and for invoicing, is neither an anomaly nor simply an anecdote: this practice concerns or concerned a number of countries in the former communist bloc. "Euroization" [\[1\]](#) is the result of economic and political events that, at one time or another in these countries' histories, have led them to use the euro in addition to their own currency. So given this context, will the official introduction of the euro in Lithuania really not change anything? Not exactly. Lithuania will see some changes, admittedly minor, as will the decision-making bodies of the ECB.

The euroization of loans and deposits: the case of Lithuania,

neither anomaly, nor anecdote ...

If we exclude the principalities, islands and States (Andorra, San Marino, the Vatican, etc.) that have negotiated the adoption of the euro with the European authorities but without joining the European Union together with the countries that have adopted the euro unilaterally (Kosovo and Montenegro), there is in addition a whole set of countries that use the euro alongside their own currency. These countries are mostly from Central and Eastern Europe, the Balkans or the Commonwealth of Independent States (CIS). For example, in 2009, before Estonia and Latvia officially joined the euro zone (in 2011 and 2013, respectively), lending by private agents in the three Baltic states was mainly denominated in the euro, reaching a level of almost 90% in Latvia (Figure 1). Countries such as Croatia, Romania, Bulgaria, Serbia and Macedonia were not far behind, with over 50% of their loans denominated in euros. The figures for deposits in euros are somewhat less striking (Figure 2), but still raise questions as to the attraction that the euro exerted in some countries as a payment or reserve currency or for precautionary savings.

Figure 1. Share of loans to the private sector denominated in euros (emerging Europe, 2009)

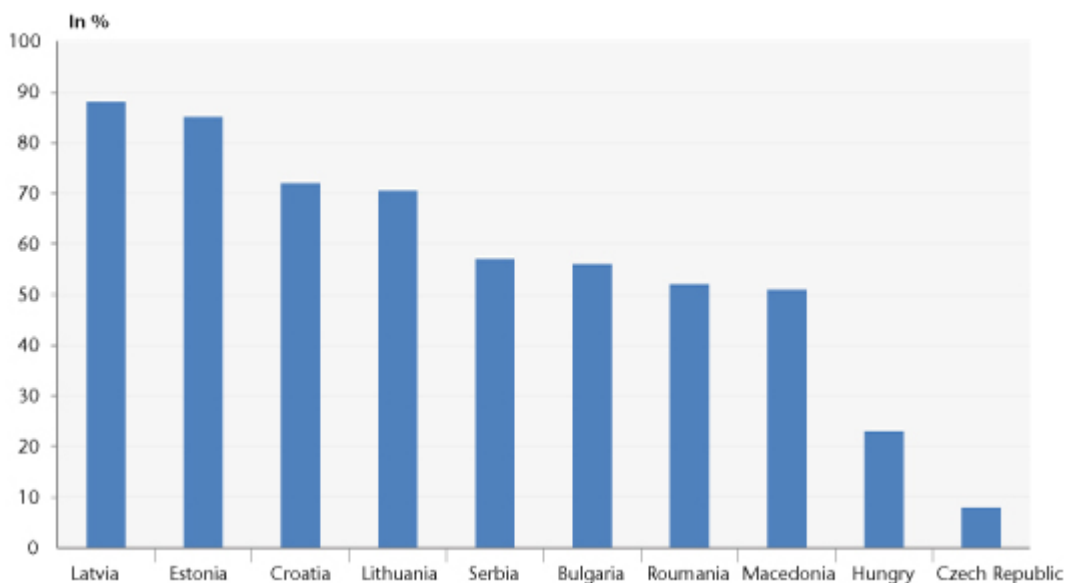
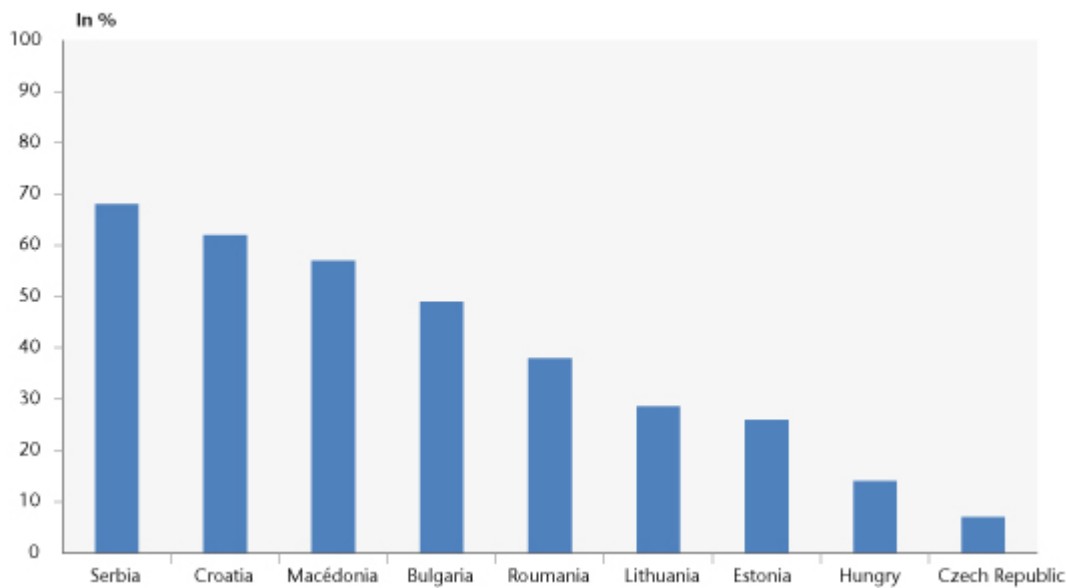


Figure 2. Share of private sector deposits in euros (emerging Europe, 2009)



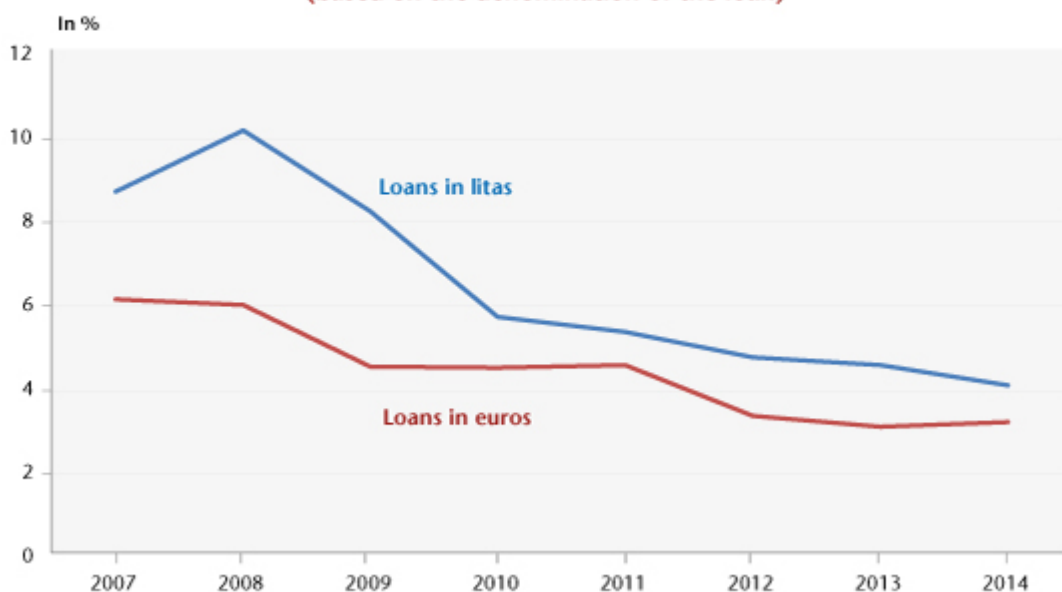
There are a number of reasons why these countries have used the euro in addition to their own currency:

- **The existence of fixed** (or relatively fixed) **exchange rates** against the euro, which protects borrowers against the risk that their euro-denominated debt will grow heavier (since the likelihood of a devaluation / depreciation of the national currency is considered to be low);
- **A lower interest rate on loans denominated in euros** than when the loans are denominated in the national currency;
- **A strong presence of multinational companies (particularly in the banking sector)** that have not only funds in euros but also the “technology” to lend / borrow in euros;
- For loans in euros, **the ex ante existence of bank deposits in euros**, which is itself linked to [multiple factors](#) (e.g. the credibility of the monetary authorities, a strong presence of multinationals, revenue from migration coming from countries in the euro zone) .

These factors have been present to a greater or lesser extent in the different countries. In Lithuania, the existence of a [Currency Board \[2\]](#) vis-à-vis the euro since 2002 has generally

contributed to the economy's "euroization". This system of fixed exchange rates has enjoyed great credibility, prompting the country's businesses and consumers to borrow in euros, particularly since these benefited from very low interest rates (Figure 3). The presence of multinational companies in a number of sectors strengthened the use of the euro as a benchmark currency for different functions (billing, deposits and savings). The importance to Lithuania of banks from the euro zone should nevertheless not be overestimated: [the three largest banks operating in Lithuania are from Sweden and Norway](#). The risk of loans in euros thus involves, beyond the risk associated with the value of the Lithuanian lita, a risk associated with the value of a third currency. ... This risk will obviously not disappear with Lithuania's formal adoption of the euro.

**Figure 3. Interest rates on loans to the private sector
(based on the denomination of the loan)**



What changed on 1 January 2015?

Four changes can be highlighted:

(1) The euro now circulates in Lithuania in the form of notes and coins, whereas previously it existed primarily in the form of bank money (bank deposits and euro-denominated loans); the euro is the legal tender and will be used for all

transactions; and the lita will disappear after dual circulation for a fortnight.

(2) Changes to the price labels for goods will result in additional inflation, due to more frequent rounding off upwards rather than downwards. However, this phenomenon, which has been seen in all countries during the transition (official) to the euro, should have only a [minor impact](#). Experience shows that in general [perceived inflation is higher than actual inflation](#).

(3) Lithuania is adhering *de facto* to the [banking union](#), which can provide benefits in the financial sector (e.g. opportunities for additional collaboration in a common monetary and banking space, existence of an orderly resolution mechanism in case a bank runs into difficulty).

(4) The Governor of Lithuania's Central Bank is now a member of the ECB Governing Council and therefore participates in decision-making on euro zone monetary policy, whereas previously, under its Currency Board system[\[3\]](#), Lithuania's Central Bank had no choice but to "follow" the decisions taken by the ECB in order to maintain parity with the euro. It could be argued that in any case Lithuania will not carry much weight in the ECB's choice of monetary policy due to the size of its economy. Note, however, that Lithuania's entry into the euro zone is bringing changes to the way decisions are made by the ECB Governing Council. The principle of "one country, one vote" that prevailed until now is being abandoned [in accordance with the Treaties](#), due to the entry of a 19th member into the euro zone. Henceforth, the five "major" countries in the euro zone (defined by the weight of their GDP and their financial system) have now four voting rights, while the other fourteen countries have eleven votes. The vote in each group is established according to a [rotation principle](#), which displeases the [Germans](#), but [not just them](#). In practice, however, it is not certain that [this change in the voting system will affect many decisions](#). For example, while the

governor of Germany's central bank now has only [80% of its voting right](#), it still has 100% of its right to speak... Will not voting one month out of five really mean that it loses its power of persuasion?

On 1 January 2015, the official adoption of the euro by Lithuania was thus not at all amount to a Big Bang. However, it is very symbolic for Lithuania, further demonstrating how much it is anchored in both Europe and the euro zone. This shows once again that despite all the turmoil the zone has experienced, it still has its supporters. The most striking result of Lithuania's accession to the euro zone is probably the change in the ECB's system of voting rights: here too the symbolic meaning is heavy, as it sounds the death knell of the principle, "one country, one vote".

For more on the issue of euroization, readers can see:

Sandrine Levasseur (2004), Why not euroization ? *Revue de l'OFCE*, [Special Issue "The New European Union Enlargement"](#), April 2004.

For more on the system of rotating voting rights in the ECB, see:

Silvia Merler (2014), Lithuania changes the ECB's voting system, [Blog of Bruegel](#), 25 July 2014.

[\[1\]](#) Strictly speaking, euroization refers to the adoption of the euro as legal tender by a country without its being given permission by the issuing institution (i.e. the European Central Bank) or the decision-making authorities (i.e. the heads of State of the European Union member countries). Euroization is then said to be [unilateral](#). It differs from the

phenomenon discussed here, where the euro is used in conjunction with the national currency, but only the national currency constitutes [legal tender](#).

[\[2\]](#) A currency board involves a system of fixed exchange rates in which the central bank simply converts foreign exchange inflows and outflows into the local currency at the pre-defined parity. A central bank that adopts this system gives up the tool of autonomous monetary policy: its role is reduced to that of a “cashier”.

[\[3\]](#) See footnote 2.