

Petrit Balijs

Euroisation of Western Balkan Countries: Lessons from Kosovo's Unilateral Adoption of the Euro



Abstract

The concept of unilateral euroisation was strongly discouraged by the European Central Bank and the European Union officials after the year 2000. Nevertheless, several countries chose to disregard the warnings and opted to unilaterally euroise their economies. This dilemma has been of particular importance to the West Balkan countries, which could not bilaterally euroise, because they were not members of the European Union. Hence, some of the West Balkan countries chose to unilaterally euroise their economies (Kosovo and Montenegro) while the rest of the West Balkan countries chose not to unilaterally euroise. This study addresses this dilemma by studying the effects that unilateral euroisation has had in Kosovo in order to draw conclusions which could be useful in monetary policy formulation in Kosovo and other West Balkan countries. In this study, two main research sub-questions were developed within the key research question. The first sub-question studied the effects of unilateral euroisation of Kosovo upon its monetary stability, while the second sub-question investigated the effects of unilateral euroisation of Kosovo upon foreign direct investment inflow to Kosovo. Both of these sub-questions contributed to addressing the key research question, namely, "How has Kosovo fared with the unilateral adoption of the euro as its official currency and what does this mean for the West Balkan countries with regard to their euroisation prospects?" The study concluded that the overall impact of unilateral euroisation upon Kosovo's economy was negative, and the findings showed that it is not advisable for other West Balkan countries to unilaterally euroise their economies. Further studies are encouraged to analyze the impact of unilateral euroisation upon economic convergence and the ability to cope with asymmetric shock.