MASARYKOVA UNIVERZITA

PRÁVNICKÁ FAKULTA

Diverging policies of central European countries towards introduction of Euro and debt crisis in several member states of the EU threatening single currency

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Justification of single currency

- European Communities and the European Union (EC/EU) serve(d) economic integration.
- Basic economic freedoms enabled immense internal trade in goods among member states and significant movement of workforce, capital and services.
- Cross-border payments are necessary complement.
- If different currencies exist, exchange is necessary.
- Transaction costs emerge (1% GDP and more)
- Even efforts to stabilize exchange rates did (formerly Brettonwoods system, later interventions of central banks) not exclude risks of change for traders.
- Single currency removes these costs and risks.

Requirements for introduction of Euro

- Treaty on the European Union (Maastricht Treaty) formulated requirements on the member states:
- Institutional criteria
- (1) independence of national central bank
- Monetary:
- (2) convergence of inflation (low inflation +1.5%)
- (3) convergence of interest rates (+2% above lowest)
- (4) stable exchange rate of national currency
- Fiscal: confirmed as Stability and Growth Pact
- (5) low deficit of public budgets less 3%
- (6) limited indebtedness of government – less 60%GDP

Start of Euro and Rise of Eurozone

- 1993-1998 preparatory phase.
- 1999 – introduction of Euro in formal sense (accounting, banks, cashless payments).
- 2002 – introduction of Euro banknotes and coins.
- National banknotes and coins were withdrawn and Euro put into circulation.
- Total continuity of pecuniary obligation, price to be calculated with fixed coeficient (quasi exchange rate)
- Gradual enlargement of Eurozone from 11 to 19 (+some other countries).

Debt crisis since 2010

- Excessive public indebtedness: Greece, Portugal, Ireland, Cyprus, also Spain, Italy…
- Sharply increasing interest required from investors destabilized situation.
- Rescue loans were gradually institutionalized (EFSM, EFSF and now European Stability Mechanism).
- Enhancing missing discipline (Fiscal Pact, six-pack, debt brakes expected, supranational control).
- Expansive monetary policy of the ECB and Eurosystem
- „Haircut“ (Greece), project of banking union.
- Demands for mutualization of debts (Eurobonds) and rating agencies control failed.

Euro questioned

- Introduction was smooth. Maintenance of single currency is more difficult than many expected.
- What caused crisis? Welfare state? Corruption? Reckless lending and borrowing by public and private hand? And is Eurozone optimal currency area?
- Is bail-out indebted member states necessary? Can discipline function with bail-out? Eventual collapse of Eurozone (domino effect)? Threat to EU in general?
- Effects on the member states and on the EU (intergovernmentalism, role European Parliament and the Commission), collapsing coalitions, early elections, rise of populist and sceptic parties, interethnic distrust within EU

Economic aspects of adoption/retention

- Smaller member states (15M) – Slovenia, Slovakia, Estonia, Latvia (since 2015 Lithuania) adopted Euro.
- Larger states (58M) - Poland, Czechia, Hungary (+Romania, Bulgaria - 30 M) retained their currencies.
- Can it be explained with size of national economies and related proportion of international trade?
- Does introduced Euro contribute to economic growth or is insignificant (Poland v. Slovakia v. Czechia v. Hungary v. Baltic countries etc.)?
- Are economies of retentionist member states already „euroized“? To what extent?

Political aspects of adoption/retention

- Various positions and attitudes of politicians, experts and population towards Euro. Impact of Eurocrisis?
- Slovakia: effort to show success in integration, Slovaks are generally satisfied despite burden resulting from rescue loans
- Czechia: „Euro-sceptical“ ODS in decline now, new coalition ČSSD+ANO+KDU-ČSL pays lip service to Eur, Population is, however, sceptical. Traditionally stable *koruna* allows dreaming about quasi *Swiss-Franc*.
- What about Poland (elites more engaged in introduction than population) – important for Czechia and Hungary (opposite)?
- No pressure from EU to adopt. Eurocrisis?

Preparations for introduction

- „Administration as usual". Eurocracy and national bureaucracy prepares and competent institutions adopt reports, evaluations and projects.
- Technical aspects analyzed and introduction would be thus very well prepared and surely carried.
- Non-compliance is identified in several criteria, especially deficit (5), unstable exchange rate (4) and even institutions (1).
- Ability to estimate long-term suitability of Euro is lower. Nevertheless, even economists in Eurozone and globally are uncapable to predict development.

Legal aspects of Euro and its introduction

- Comparatively detailed framework for monetary union with deficient „economic“ union (what was, could be and shall be meaning of this adjective).
- Debt crisis led to reinterpretation, ignorance of rules (as inapplicable and dangerous), changes of legislation confirming new measures.
- Fragility of supranational EU law shown with questioning of constitutionality of measures (Germany).
- New member states are formally obliged to introduce Euro (only Great Britain and Denmark opted-out).
- Can substantial change of circumstances be invoked?