Chapter 37

Reflections on Economic Governance in the Central European Countries

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The integration of the European Union is constantly evolving and changing. The economic integration process is becoming increasingly extensive. However, linking national economies to a single system through economic integration involves economic and regulatory problems.[1] Coordinating fiscal and monetary policies raises many problems for national, macroeconomic, and European Union (EU) economic policies. These conflicts are reflected in the regulatory level. As economic and social processes change, the integration processes are also in flux. The strengthening or weakening of national sovereignty influences both the deepening and weakening of conflict. However, integration processes must achieve the objective that the primary goal of integration is to ensure security, efficiency, and prosperity for the societies involved.[2]

The European Council defines what economic governance means. Economic governance is a system of institutions and procedures established to coordinate economic policies and achieve the objectives of the European Union. Therefore, for the EU to maintain a balanced economic situation, Member States' economies must also be free from imbalances. The fundamental aim is to ensure the regulatory framework is conducive to economic growth and low unemployment. This requires ensuring sustainable public finance management and economic growth. The regulatory framework that ensures this impacts the macroeconomic policies of individual Member States; that is, monetary and fiscal policies. Member States need to build rules and mechanisms to meet EU objectives. At the same time, this naturally limits the economic policy of the Member States so that responsibility

1 Halmai, 2020, pp. 13–16.
2 Palánkai, 2019, pp. 27–29.

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remains with those who manage national economic policy, since the Member State is responsible for the well-being, economic and social development, and the performance of public tasks in the society concerned. Given this background, disputes over the use of economic governance instruments emerge. The situation is further complicated because Member States with different levels of economic development participate in the union and are, therefore characterised by different economic and social priorities. EU resources are helping to solve these problems, but there is still a long way to go for individual Central European countries to reach the economic development of Western European societies. To preserve competitiveness and ensure sustainable public finances, changes should also be introduced in the EU rules, reforming the fiscal and monetary frameworks while maintaining the previous main frameworks. National budgetary situations, debt levels, and economic challenges differ across the EU countries. Therefore, the gradual reduction of public debt and deficits, protection of investment, provision of sufficient room for manoeuvring anti-cyclical fiscal and monetary policies, and management of macroeconomic imbalances are important objectives. Thus, the central element of the reform was the sustainability of public debt, with a prudent level of 60% of the GDP and a budget deficit below 3% of the GDP. At the same time, a differentiated approach for each Member State will be allowed through the introduction of national medium-term budgetary structural plans in which Member States would set out measures to address imbalances and reform ideas to ensure sustainable economic growth for at least four years. Member States can request a longer adjustment period if they make investments that increase economic growth and support the achievement of sustainable budgets. To achieve this adjustment, the Commission sends a risk-based, differentiated technical roadmap based on net expenditures to Member States that do not meet debt and deficit benchmarks, ensuring an annual reduction in debt and deficit.[3]

Therefore, an important question for Central European states is how EU regulations affect their domestic fiscal and monetary arrangements, whether they fully comply with EU requirements, and whether they can meet the expected macroeconomic standards in their monetary and fiscal policies. From this perspective, the book examines the fiscal and monetary regulations in seven member states and one state from the perspective of the challenges faced by the Serbian state in meeting these requirements if it wishes to become a member of the European Union. The analysis covers three areas of fiscal policy from the perspective of EU regulations: the definition of sustainable fiscal frameworks, aid policy issues, and taxation issues. In monetary policy, several research questions have arisen regarding the monetary aspects of the introduction of the euro, banking unions, and crisis management. In this chapter, I briefly summarise the experiences of the regulatory and EU-focused

3 *Economic Governance Framework* [Online]. Available at: https://www.consilium.europa.eu/hu/policies/economic-governance-framework/ (Accessed: 20 January 2024).

analyses of the eight countries based on the chapters in the book, pointing to regulatory responses and solutions.

1. Sustainable public finance management and fiscal governance

EU regulations are implemented through several pieces of legislation. The EU chapter of this book points out that the Treaty on the Functioning of the EU sets the reference values that Member States should respect (3% of GDP for government deficit, 60% of GDP for government debt), the Stability and Growth Pact sets out the fiscal surveillance procedure and influences the achievement and maintenance of the reference values through preventive and corrective rules. This is complemented by the 'six-pack' and the 'two-pack', which consist of a series of regulations and directives. These two packages helped develop the European Semester, which combines economic and budgetary policy coordination in a single framework. Under the European Semester, Member States align their fiscal policies with the EU rules.[4]

An important question is how these rules are incorporated into national legislation and the level at which they are regulated. EU rules do not always take the form of legislation but of other non-automatic rules that have to be incorporated into the national legal system. The highest level of public finance regulation is constitutional. The depth of the regulation varies from one Member State to another. The most extensive regulation is found in the Hungarian Fundamental Law, but there are also detailed regulations in the Polish and Slovak constitutions. In the Czech Republic, the constitutional framework is not provided by a single law but by two constitutional laws.[5] A general feature of all constitutional arrangements is that they lay the foundation for public finance regulation. The basic institution of public revenue law is public taxation, which is the basis of taxation and is found in the constitutions of all countries (in the case of the Czech Constitution, two separate acts can be considered a constitutions). Adopting the budget is the responsibility of the parliament as the main basic document for public management, which sets the framework for public finances, typically for one year. Typically, there are rules on budgetary procedures, particularly on implementation and control.

In detailed constitutional legislation (Hungarian, Polish), there is a separate chapter on public finance, where detailed rules on budgetary procedures and sustainable budget management are found at both the central and local levels.

4 Szegedi and Teleki, 2024a.
5 Radvan and Tomášková, 2024.

A separate Public Finance Act regulates detailed rules on the budget, the Budget Act. However, some countries (Hungary, Slovenia, and Slovakia) have two-tier constitutionality of public finances; constitutional rules are set out in detail in separate laws, also adopted by a two-thirds majority. Consequently, constitutional rules are more detailed in these countries.

One of the most important cornerstones of compliance with EU rules is the level of public debt and budget deficits. The 60% GDP ratio of public debt and the 3% budget deficit have not changed in recent EU negotiations, but rather, the timetable for returning to a sustainable fiscal path is adapted to the specific economic situation of each country. Central European countries have also introduced these criteria at the constitutional level, in their public finances, or through related public finance laws. The Maastricht criteria are typically regulated at the level of public finance (Romania, Slovenia, Croatia, Serbia, and the Czech Republic); however, in Hungary and Poland, they are sometimes enshrined in the constitution. In the case of Slovak legislation, the EU criteria are not laid down in the constitution, but the law on fiscal responsibility is constitutional.[6]

Therefore, it is clear that only a few states have taken the opportunity to raise the EU criteria to the constitutional level. Not all states have stuck to the 60% level of public debt but have set a lower level. Hungarian and Slovak laws set the level of public debt at 50%. Both countries' debt currently exceeds this expected level (73.5% in Hungary and 57.5% in Slovakia by 2023). What is the purpose of setting the lower rate? Essentially, these rules bring forward mechanisms that will curb further indebtedness so that it may be possible to avoid debt reaching the EU level (except Hungary, which has not reached this level since the rule was introduced).

In addition to setting the rate, some countries have defined specific mechanisms to reach the target. There are solutions in which the legislator sets standards adjusted to the level of debt (e.g. the Slovak and Polish legislation) or sets corrective measures not for each debt level but for the expected debt level (Hungarian, Slovenian, Romanian, Croatian, and Serbian legislation).

Among these, the Slovak regime, which sets the reference value for public debt at 50%, introduces measures to prevent the increase in public debt from as low as 40% and imposes increasingly stringent measures as debt increases, for example, if the debt increases between 45% and 47%, the Ministry of Finance can freeze 3% of the central budget expenditure. However, the rule is softened because the rates are more favourable and will only be applied more strictly from 2027.[7]

In general, an increase in public debt is generated by a budget deficit; therefore, the set of rules focuses on the budget deficit in addition to the government debt indicator. The absolute objective of the rule is budget balance – that is, the balance between expenditure and revenue. However, the short-term objective is to reach the EU's 3% budget deficit target. In several Central European countries examined,

6 Štrkolec, 2024a.
7 Štrkolec, 2024a.

government debt and budget deficits have exceeded the EU criteria in recent years (Slovenia, Hungary, and Croatia); therefore, rule-based fiscal rules have performed well. Therefore, high rates are typical in countries with high public debt.

The level of public debt is also influenced by local government debt, which is why countries limit the indebtedness of their local governments. Debt limitation mainly restricts the incurrence of long-term debt and not borrowing for temporary liquidity problems within the year. The rules generally discourage local governments from financing their current expenditure through borrowing, as this would lead to permanent indebtedness. To avoid excessive indebtedness, countries impose balanced budgets. The purpose for which a loan can be taken out is defined among the regulatory solutions. For example, the Polish and Hungarian regulations specify four objectives for borrowing: a temporary budget deficit for the municipality, payment of previous liabilities, and pre-financing of EU programs. The latter is generally preferred in other countries because the increasing use of EU funds requires both the pre-financing of programs and the financing of their resources. In the development case, the legislature is more permissive and allows using loans.[8]

Debt ceilings are defined differently. In general, the debt brake applies to municipalities; however, in the past, for example, in Hungary, it has led municipalities to finance their current expenditures with loans and to incur debts through municipal enterprises that perform public tasks, which later burden the municipality in the same way. Consequently, the debt brake applies to municipal entities and enterprises in several countries (Hungary, Croatia and Poland).

In general, the government or the minister of finance has the power to authorise municipal borrowing in the case of municipalities. Borrowing rules are diverse. Slovenian legislation captures the amount of borrowing at 5% of the municipal budget, whereas Croatian legislation takes the previous year's revenue as a basis and allows borrowing up to 20% of this amount. Slovak regulations separate the maximum total debt (maximum 60% of current revenue) from the maximum loan repayments in the financial year (25% of the current revenue).[9] Hungarian regulations allow a maximum amount of debt to arise from transactions, generating up to 50% of the municipality's revenue in the current year.

The basic aim of the debt brake is to ensure that local authorities self-finance based on their revenue and the resources provided by the state. This is reinforced in Hungarian legislation, where the government contributes to debt relief operations if the municipality introduces a local business tax, property tax, or municipal tax on individuals.[10]

The characteristic feature of all these schemes is that they provide an exception to strict rules for exceptional situations. This was also the preference of the European Union when it suspended the Maastricht criteria in response to recent crises.

8 Mikos-Sitek, 2024a; Nagy, 2024.
9 Štrkolec, 2024a.
10 Nagy, 2024.

In dealing with the crisis, states launched programs that meant higher fiscal expenditures, increasing the size of the budget deficit. In general, fiscal and monetary measures taken under exceptional circumstances have reduced the negative economic and social impacts of economic crises. However, this incurs a significant budget cost. The budget deficit increased significantly, and consequently, the level of public debt rose. All the countries sought to reduce unemployment and safeguard jobs through specific business programs. Temporary tax cuts, deferrals, and suspension of payments further aggravated the situation. Thus, while revenues fell, expenditures on state budgets increased. For example, the Hungarian legislature responded to the revenue shortfall by introducing special sectoral taxes, including in the public tax burden economic sectors that had been making high profits, even during the crisis.[11]

An important challenge for Central European countries ahead is to return to the EU and domestic fiscal rules and close the loopholes provided by the exceptional rules. This is also important because the EU's binding fiscal rules could trigger an excessive deficit procedure and the associated sanctions.

2. National State aid and subsidies

As part of the European Union's competition policy, the Treaty on the Functioning of the European Union (TFEU) has special provisions prohibiting unlawful State aid. Such rules can also be connected to the most important economic objective of the European Union, namely, the realisation of a single market. In order to have a well-functioning single market where production inputs (labour and capital) and outputs (goods and services) can flow freely without significant distortions, rules are needed to ensure that government interventions cannot bring about these distortions by means of subsidising certain enterprises or certain productions. Besides laying down the prohibition of unlawful State aid and certain exceptions to this rule, the TFEU does not elaborate on the interpretation of the concept. It was left to the Court of Justice of the European Union (CJEU) to provide for guidance regarding the correct interpretation of State aid rules regarding scope and content. The European Commission is in charge of monitoring the subsidy systems of Member States and carrying out investigations if necessary. If the Commission and the Member State concerned cannot agree on the lawfulness of a subsidy measure, the Commission will make a negative decision, obliging the Member State to recover aid from subsidised enterprises. The Member State has the right to appeal against the negative decision to the CJEU, where the procedures entail two instances: the first-instance judicial body in State aid cases is the General Court,

11 Nagy, 2024.

while the Court of Justice says the final word. As State aid rules form part of the corpus of the law of the EU from its conception, the CJEU's jurisprudence is very extensive on this topic.

In the Economic Governance research project, questions revolving around the functioning of national subsidy policies embedded in the EU's legal framework formed one of its pillars. In the section of the national chapters concerning State aid, the authors provide an overview of their national subsidy policies, including the main features of their system. In doing so, they highlighted the main aspects of the direct and indirect subsidy systems prevailing in the examined jurisdictions and the special characteristics related to socioeconomic crises, such as the Russo-Ukrainian war and the COVID-19 pandemic. As the European Union has a well-developed State aid regime that forms part of its competition law, the interaction between Union law and national subsidy policies is unavoidable. The national chapters paid special attention to this type of interaction, highlighting the leeway of designing their subsidy policies within the framework given by the EU rules and demonstrating the problematic fields where a conflict has arisen due to the coexistence of European Union State aid rules and national rules.

In most countries, one can find national legislation in place that governs State aid control at domestic level, often establishing a special body or office that helps to monitor aid measures (e.g. Hungary,[12] Poland,[13] the Czech Republic,[14] Slovenia,[15] and Serbia[16]). These institutes are also responsible for preparing an annual report and fulfilling the transparency requirements related to State aid rules. National legislation typically takes the form of an act (as in Croatia,[17] Poland,[18] the Czech Republic,[19] Slovakia,[20] Slovenia,[21] and Serbia[22]); however, in other Member State the issue, that is, the implementation of State aid control required by EU law, is regulated in the form of a government decree (Hungary[23]).

It is also noteworthy that the State aid rules of the EU have an influence that goes beyond the territory of Member States. This affects national subsidy rules in the case of countries that intend to become a Member State long before their accession. Croatia[24] (recently joined the EU in 2013) and Serbia[25] (a country that intends to

12 Kecső, 2024.
13 Mikos-Sitek, 2024b.
14 Tomášková and Radvan, 2024a.
15 Bratina and Bohinc, 2024.
16 Popović, 2024b.
17 Žunić Kovačević and Gadžo, 2024.
18 Mikos-Sitek, 2024b.
19 Tomášková and Radvan, 2024a.
20 Štrkolec and Vartašová, 2024.
21 Bratina and Bohinc, 2024.
22 Popović, 2024b.
23 Kecső, 2024.
24 Žunić Kovačević and Gadžo, 2024.
25 Popović, 2024b.

join the EU in the future) serve as good examples of this phenomenon, as these countries adjusted their subsidy policies to synchronise and align them with the legal framework of the EU. Such an alignment is even required from the candidate countries.

As State aid can be constituted by grants distributed based on geographical location (regional aid), Member States shall prepare a so-called regional aid map subject to the European Commission's approval. In most Member States, the intensity of the State aids varies across the country region-by-region. However, this does not automatically mean that the least developed regions can receive the most subsidies. Paradoxically, the opposite was true in Slovakia.[26] This can be problematic as regional aid targets the elimination of regional disparities. Similar discrepancies can also be discovered in Slovenia, where the more developed region receives more subsidies to the detriment of the poorer region.[27] With respect to the regulation of regional aid, Serbia is still in need to achieve further progress before its accession as the country needs to adopt its regional aid map.[28]

In the case of individual aid (subject to the approval of the Commission following its notification), Member States typically subsidise participants in certain industries important to the national economy. For instance, a large bulk of the notified aid in Hungary was related to enterprises carrying out economic activities in the automotive and battery manufacturing industries.[29] The Slovak subsidy policy focuses on manufacturing motor vehicles, trailers, and semi-trailers and developing strategic parks.[30] However, other Member States, such as Slovenia, attempt to use horizontal (i.e. not sector-specific) aid to dominate their subsidy policies.[31] Horizontal aid schemes, which apply across many sectors, are deemed less distortive to competition and are generally allowed without prior notification by the European Commission in light of its General Block Exemption Regulation.

An interesting aspect of the overlap between investment arbitration and EU State aid rules has been raised in the Czech Republic, especially in subsidising renewable energy.[32] The European Commission's general stance is that EU State aid law precludes the finding that the investor's legitimate expectations were infringed upon by amending or eliminating subsidies not approved by the Commission. This position can also interfere with investment arbitration cases, in which foreign investors have been awarded compensation for the withdrawal of subsidies or other benefits. If the European Commission considered that the original advantage was granted in contravention of EU state aid law, it would object to the compensation. The Commission argued that EU law precludes the finding of legitimacy in such circumstances.

26 Štrkolec and Vartašová, 2024.
27 Bratina and Bohinc, 2024.
28 Popović, 2024b.
29 Kecső, 2024.
30 Štrkolec and Vartašová, 2024.
31 Bratina and Bohinc, 2024.
32 Tomášková and Radvan, 2024a.

It is clear from the early stages of the integration process within the EU that State aid can also be granted through tax concessions rather than via the direct transfer of funds. This does not mean that any distinction caused by tax measures among taxpayers is susceptible to constituting unlawful State aid. The Commission itself highlighted in its Notice some aspects of tax systems that should not create unlawful aid. It encompasses general tax measures of a purely technical nature (e.g. the determination of tax rates, depreciation rules, and rules on loss carry-overs; provisions to prevent double taxation or tax avoidance) and measures pursuing general economic policy objectives through a reduction in the tax burden related to certain production costs (research and development, environment, training, and employment). Despite this fact, nowadays, one can observe a significant trend in which the Commission's State aid investigations target national tax measures. Indeed, looking at the most important tax-related case law of the CJEU, an unusually high percentage concerns the compatibility of national tax measures with State aid rules.

A very interesting line of cases developed on whether turnover-based business taxes designed with a progressive tax rate structure were compatible with EU State aid rules. The Commission was of the opinion that these taxes, such as the Hungarian advertisement tax or the Polish retail trade tax constituted unlawful State aid.[33] The Commission argued that low-turnover enterprises that fell within an exempted tax band or in a tax band with a low tax rate were in an objectively comparable situation with high-turnover undertakings that fell within higher tax bands and, consequently, were subject to higher average tax rates. Due to comparability, the differential treatment constituted prohibited State aid for the low-turnover undertakings according to the Commission. However, the General Court and later, in the second instance proceedings the CJEU annulled the decisions of the Commission. The CJEU held that high- and low-turnover undertakings were not in a comparable situation on account of their different abilities to pay taxes because turnover is a relevant and neutral indicator for measuring the financial capacity of undertakings, irrespective of the fact that such an indicator does not consider the costs of the enterprises. Furthermore, as to the CJEU, the Commission failed to prove that the tax systems at issue were inherently and manifestly discriminatory despite the fact that it was demonstrated that the tax burden was spread in a very asymmetric and disproportionate manner among the market participants.

In the context of turnover-based business taxes, the Slovak special tax on retail chains should also be mentioned.[34] The tax applied to retail chains as a group of retail establishments operated by the same entrepreneur if they were food traders, had establishments in at least 15% of all districts, generated at least 25% of their net turnover from the sale of food to the final consumer, and their establishments had

33 Kecső, 2024; Mikos-Sitek, 2024b, respectively.
34 Štrkolec and Vartašová, 2024.

a uniform design, common communication and common marketing activities. The basis of assessment for the tax was the net turnover, excluding the turnover of establishments in the least developed districts with a maximum of ten employees and municipalities with a maximum of three establishments selling food to consumers. The rate was 2.5%. However, the tax was almost immediately abolished following its entry into force as a result of an in-depth investigation by the Commission that concluded that the tax constituted State aid because the retail turnover tax was selective since it favoured categories of enterprises that were not subject to the tax according to the established criteria, compared to enterprises that were obliged to pay it. Slovakia abolished the tax and did not appeal to the Commission's decision, so it is uncertain how the CJEU would have decided. Here, a single tax rate was applicable, contrary to the Hungarian and Polish taxes; however, the design of the tax introduced differentiations based on the geographical spread of the retail chains and their size; therefore, the CJEU judgments concerning the former were not conclusive to the latter.

The Frucona case from Slovakia demonstrated the importance of the private creditor test in State aid analysis and its difficulties.[35] The case concerned the write-off of tax debt in the course of a procedure of arrangement with creditors of the company. Although the Commission found this act as unlawful State aid, later on the CJEU annulled its decision with reference to the fact that the Commission failed to explore the relevant circumstances that were necessary to decide whether the conditions of the private creditor test have been fulfilled.

While the tax measures of certain Member States in the context of State aid rules stirred significant debates before the CJEU, in the case of other Member States, such conflict is not typical and is not contemplated either (e.g. Croatia[36]). This can be explained by the fact that, first, in these countries, tax incentives are not intensively used to attract investments and subsidy policies are fuelled primarily through direct grants and transfers. Second, tax incentives in these countries are generally in line with horizontal goals and compliant with the General Block Exemption Regulation (GBER), such as R&D tax incentives or employment-related incentives (Czech Republic[37]).

In the case of Serbia,[38] a candidate country for becoming a Member State of the EU, there were significant differences in terms of the approach towards fiscal aids. In order to eliminate this discrepancy, in March 2022, the Commission for State Aid Control of the country issued a Notice on the obligation and manner of alignment of State aid schemes within the competence of the Ministry of Finance. Under this Notice, the following fiscal schemes were designated as incompatible: (i) four schemes under the Corporate Income Tax Act: tax exemption for concession

35 Ibid.
36 Žunić Kovačević and Gadžo, 2024.
37 Tomášková and Radvan, 2024a.
38 Popović, 2024b.

grantors, tax holidays for large investments, tax exemption for employment of persons with disabilities, and tax credit for risk investment; (ii) wage tax refund under the Personal Income Tax Act; (iii) refund of social security contributions under the Mandatory Social Security Contributions Act; and (iv) exemption from tax and other duties under the Free Zones Act. The Commission for State Aid Control emphasised that state aid under the designated fiscal schemes must be assessed in the context of a particular category of State aid to which it belongs, which is either horizontal or sector specific aid. Alternatively, some aid may be granted as *de minimis* aid.

The COVID-19 pandemic has led to EU-level solidarity measures, especially the creation of the EU's NextGenerationEU recovery instrument, with approximately EUR 800 billion temporary funds to support economic recovery. The core of the NextGenerationEU is the Recovery and Resilience Facility (RRF), in which the Commission raises funds that are then available to the Member States to carry out several reforms and investments in the fields of green and digital transition, implement country-specific recommendations under the European Semester framework of economic and social policy coordination, and execute the RePowerEU plan as the Commission's response to the socioeconomic hardships and global energy market disruption caused by the post-coronavirus Russo-Ukrainian war.[39] In the context of the war, the Commission adopted yet another regulatory framework, the Temporary Crisis and Transition Framework, which brought about new possibilities for Member States in addition to existing ones. Within this framework, the Commission approves measures that aim to facilitate energy management, such as promoting energy from renewable sources and digitalisation, and most of the examined Member States used this opportunity.

The Commission reacted quickly to the crisis by partially suspending and reinterpreting State aid rules and, in parallel, making further changes to the framework that widened the scope of lawful aid (State Aid Temporary Framework or SATF). The SATF enables Member States to use state aid rules flexibly to support the economy during the slowdown due to the coronavirus outbreak. With some exceptions, it has not been extended beyond the expiry date of 30 June 2022. In particular, investment and solvency support measures could remain effective until 31 December 202.

All Member States have utilised this option to some extent. A dominant objective of the measures of Member States underlying COVID-19-related expenditures was the remedy for a serious disturbance in the economy under Art. 107 para. (3) point (b) of the TFEU. The approach of the Commission regarding aid pertaining to this objective and to the facilitation of energy management is rather supportive *vis-á-vis* the Member States. For example, Hungary adopted 23 measures under the Temporary Framework related to COVID-19 and 13 under the Temporary Crisis and Transition

39 Szegedi and Teleki, 2024b.

Framework, and the Commission considered all of them compatible with a single market.[40]

Member States have used this possibility to support areas that were hit by the crisis in particular. For instance, Croatia primarily subsidises tourism and transportation through various aid measures, including zero- or low-interest loans, guarantees, and wage subsidies.[41] In the context of war crises, most Member States introduced new subsidies, focusing significantly on energy management and agriculture (Croatia).[42] Within this framework, Poland implemented a comprehensive set of measures to support small and medium-size enterprises in the midst of the crises and for this purpose a special aid program has been developed.[43] Air traffic is also an industry that has suffered a lot from crises and has generally been subsidised in most Member States. The Czech Republic provided subsidies related to the payment of social contributions, rent reduction for small and medium-sized enterprises, and various aid measures for self-employed people.[44] Among the sector-specific subsidies, the Czech Republic supported tourism, agriculture, and media.[45] Slovakia has focused on tourism, transportation, sports, and R&D-intensive sectors following the pandemic outbreak.[46] In addition to the typical areas where subsidies flow (employment and R&D), subsidies related to environmental protection goals are particularly significant in Slovenia.[47]

Member States can also be distinguished based on the intensity of the use of State aid measures in their economic governance policies. Some Member States rely on this instrument more heavily (e.g. Hungary[48] and Slovenia[49]), while others put less emphasis on this aspect of economic policy (e.g. Slovakia[50]).

Regarding the maintenance of the State aid rules at EU level, it seems that most of the Member States are interested in keeping them instead of instituting a free aid competition among the Member States. For example, the Hungarian author highlights that Hungary's budget would be too tight to get a good result in free competition among Member States if State aid were not forbidden by EU law, according to the general rule.[51] For this reason, Hungary has a strong interest in maintaining an effective prohibition of State aid and making the most successful use of exceptions

40 Kecső, 2024.
41 Žunić Kovačević and Gadžo, 2024.
42 Ibid.
43 Mikos-Sitek, 2024b.
44 Tomášková and Radvan, 2024a.
45 Ibid.
46 Štrkolec and Vartašová, 2024.
47 Bratina and Bohinc, 2024.
48 Kecső, 2024.
49 Bratina and Bohinc, 2024.
50 Štrkolec and Vartašová, 2024.
51 Kecső, 2024.

to the main rule. Similarly, it is also expected in Slovakia[52] and Slovenia[53] that, following the end of the crisis period, a return to the general State aid rules (i.e. the repeal of the various temporary frameworks) will occur. Furthermore, maintaining State aid rules can contribute to fiscal discipline and improve public expenditure choices. Thus, it can be deduced from the national reports that although the Member States found it very important that strict State aid rules be waived by the Commission to enable them to intervene with public funds in the crisis and mitigate its effects, the comeback of ordinary State aid rules under ordinary times is desirable. This outcome is logical in the light of the fact that the examined Member States in the Eastern-Central European region are rather small economies compared to Western European countries, and their position in an EU-wide subsidy competition would be weak. Nevertheless, it can be considered to make regional differentiation and allow for applying a more lax State aid regulatory framework for poorer regions to catch up. However, applying lawful State aid to the cases in which it was intended is very important. A report by the Supreme Audit Office of the Czech Republic demonstrates that Member States tend to subsidise 'national champions', that is, large national enterprises, to the detriment of smaller ones.[54] In some problematic cases, the same phenomenon can be observed, even when aid should be granted only to small and medium-sized enterprises.

3. Taxation and tax harmonisation issues

The sovereignty of states also encompasses fiscal sovereignty, of which tax sovereignty forms a part. Tax sovereignty could be defined at a high level, as it entails the liberty of the states to design their tax systems in a way that they see fit and spread the tax burden across the tax subjects in a manner that they find the most equitable and efficient. However, this liberty does not come without constraints. Tax sovereignty has voluntary and involuntary limitations. An example of an involuntary limitation is competition between states to make their tax systems attractive to investors. If a state finds itself in a position where other states provide for a much more investor-friendly tax environment, then it might be forced to adjust its tax system to keep up with the competitiveness of others. Voluntary limitations are, for instance, international agreements whereby states choose to cooperate and refrain from introducing certain tax rules; in exchange, they can benefit from enhanced trade and economic relations. From a tax perspective, the most relevant types of

52 Štrkolec and Vartašová, 2024.
53 Bratina and Bohinc, 2024.
54 Tomášková and Radvan, 2024a.

agreements are double-tax treaties, investment treaties, and the World Trade Organisation Agreement.

Another voluntary limitation of fiscal sovereignty is participation in regional integration systems. The establishment of the European Community, now the European Union (EU), achieved one of the most significant integrations. This entails the allocation of competencies between the EU and its Member States. EU competencies can be exclusive, shared, supportive/coordinative. The competences regarding the area of taxation are not explicitly allocated. However, taxation falls within the scope of the single market objective, the achievement of which belongs to the category of shared competences between the EU and its Member States. This implies that Member States are free to regulate their tax systems insofar as the EU does not exercise its competence. If such competence is exercised with regard to a specific field at EU level (i.e. harmonising measures are adopted), then the Member States lose their freedom to act in the given field unilaterally.[55]

Thus, the issue of tax sovereignty becomes a particularly delicate question. On the one hand, there is an interest that the single market within the EU should function properly without significant distortions. This important aim is one of the cornerstones of the EU's economic goals. This could be compromised by the coexistence and interference of diverging national tax systems that are capable of distorting the competition within the single market and the allocation of production factors. It is certainly a legitimate aim to mitigate these negative effects at the EU level by harmonising tax rules.

On the other hand, taxation is a sensitive part of the sovereignty of Member States because the collection of tax revenues enables them to provide public services and operate the country. Furthermore, taxation can also serve as a useful tool for the Member States to support their economic policies and attract foreign investment. This holds especially for direct taxation. First, this is a field where, in contrast to indirect taxes, harmonisation took place only sporadically, and consequently, Member States are more adamant in relinquishing their right to shape their direct tax systems. Second, direct taxation levied on yields derived from economic activities is more susceptible to affect business decisions. However, in the last decade, Member States have reached a consensus concerning two fundamental aspects of corporate taxation. In 2016 and 2017, respectively, the Anti-Tax Avoidance Directives (ATAD 1 and ATAD 2) were adopted, and by the end of 2022, the agreement on a global minimum tax was legislated at the EU level as a directive (Globe Directive). These developments materially affected the sovereignty of Member States and added interesting aspects to the discussion.

In the national sections concerning taxation, the authors highlight the main aspects of the tax sovereignty of a given country. Except Serbia, all the examined countries are Member States of the European Union, and the abovementioned interfering interests must be resolved in one way or another.

55 Károlyi, 2024a.

This chapter aims to show the similarities and differences in the approaches of the examined states towards the interpretation of the concept of tax sovereignty, with special regard to aspects of tax competition. Moreover, Member States' position *vis-á-vis* harmonisation in the field of taxation will be compared, including observing the prevailing tax policies and the compliance with the obligation to transpose harmonising measures. Finally, the domestic tools against tax avoidance are summarised. Tax avoidance also affects states' tax sovereignty, as it implies that tax revenues meant to be collected are lost. Consequently, it is worth examining how the states implemented relevant EU legislation, including substantive and procedural (exchange of information, mandatory disclosure rules) and unilaterally legislated domestic anti-avoidance rules.

In most Member States involved in the scope of the research, the original concept of tax sovereignty entails the right to regulate tax matters independently from external (and from internal, non-state) factors and to impose, collect, and enforce taxes and spread the tax burden in a way that they find the most appropriate. However, tax sovereignty significantly changed with the integration process within the European Union, and this change, that is, the fact that in many fields, Member States conferred competences on the European Union, has gained constitutional acknowledgement. This does not give rise to disputes, as opposed to the extent and scope of such a conferral. As indirect taxes have been vastly harmonised since the integration process, Member States have become more reluctant to give up their tax sovereignty in the field of direct taxation, which has largely remained in Member States' hands. The concept of direct and indirect taxes is often difficult to disentangle (e.g. a vehicle tax with environmental protection objectives). Taxes not levied on transactions connected to goods and services remain the competence of Member States, such as income and property taxes. Most Member States also consider participation in tax competition as part of their tax sovereignty (Hungary,[56] the Czech Republic,[57] and Slovenia[58]), although there are diverging views on whether tax competition can be regarded as a positive or a negative phenomenon. On one hand, it serves as a useful tool to attract and encourage foreign investment and boost the country's economic life. On the other hand, harmful tax competition can result in a 'race-to-the-bottom' where countries might end up with insufficient tax revenues due to the overly low level of taxation forced by fierce competition. Each Member State must assess the pros and cons of tax competition, and some are more in favour of it (e.g. Hungary,[59] Slovakia,[60] and the Czech Republic[61]), while

56 Károlyi, 2024b.
57 Radvan, 2024.
58 Bohinc and Jovanovič, 2024.
59 Károlyi, 2024b.
60 Vartašová, 2024.
61 Radvan, 2024.

others do not consider that its advantages necessarily outweigh the disadvantages (e.g. Slovenia[62] and Croatia[63]).

Several authors have raised problematic issues regarding property taxation. Property taxes are currently out of the scope of any harmonisation activities of the EU, although a more comprehensive and coordinated action is contemplated in this field at the international level; thus, it belongs to the tax sovereignty of Member States. However, it is not properly used to pursue equity considerations, and property taxation is generally very low in the Eastern-Central European region, often distorted, and left to the discretion of municipalities whether they wish to levy it (the Czech Republic,[64] Slovenia,[65] and Slovakia[66]).

Croatia is a rare example where concerns about the restriction of tax sovereignty with accession to the EU are absent.[67] This can be explained by the fact that accession was a strategic goal on which most political actors agreed and that the national economic policy never contemplated creating a tax-haven environment in the region. This stance is also reflected in the approach to harmonisation measures in the field of taxation, which has been carried out without any significant debate. Another example of a relatively conflict-free relationship with the EU in the field of taxation is Slovenia, where the national tax policy is generally aligned with the proper functioning of a single market.[68]

Besides harmonisation, tax sovereignty in the field of direct taxation might be very well affected by primary EU law. More specifically, domestic tax measures must comply with the criteria set out by the TFEU's fundamental freedom and State aid rules. Although these two sets of rules differ in terms of their scope and application, their convergence can be witnessed in tax matters, as they both boil down to a type of non-discrimination test. Thus, discriminatory domestic tax measures might fall short of fundamental freedoms and State aid rules without proper justification.

In academic discussions and the CJEU jurisprudence, a recent development was the challenge of turnover-based business taxes (Poland[69] and Hungary[70]) in light of both fundamental freedoms and State aid rules. These taxes were levied not on the income of enterprises engaged in certain economic sectors (retail trade, telecommunications, and advertising) but on their turnover derived from the given economic activity. Although these taxes applied to all economic operators in the sectors, the tax rate structure was designed in an (often steeply) progressive manner, resulting in de facto exoneration from the taxes of smaller, typically domestic enterprises and

62 Bohinc and Jovanovič, 2024.
63 Žunić Kovačević, 2024a.
64 Radvan, 2024.
65 Bohinc and Jovanovič, 2024.
66 Vartašová, 2024.
67 Žunić Kovačević, 2024a.
68 Bohinc and Jovanovič, 2024.
69 Oktaba, 2024.
70 Károlyi, 2024b.

the heavy taxation of foreign multinationals. The gist of the cases that the CJEU had to decide was whether turnover as the basis of assessment of the tax could be an appropriate indicator for pursuing the principle of the ability to pay, thus enabling progressive taxation. The CJEU answered this query affirmatively, holding that the level of turnover constituted an objective and neutral indicator of taxpayers' financial capacity. Furthermore, it ruled that taxes did not inherently discriminate between foreign and foreign-owned taxpayers. Consequently, regarding the CJEU, progressive turnover-based business taxes did not violate the fundamental freedoms and State aid rules as a principle.

The Romanian transfer pricing rules have been challenged by a taxpayer in the light of the freedom of establishment on the grounds that it applied only in a cross-border setting while it did not apply to transactions between a domestic head office and its domestic branch[71]. The CJEU ruled that even though such legislation was liable to make the freedom of establishment more burdensome, it could nevertheless be justified by the balanced allocation of taxing rights and the measure did not go beyond what was necessary to ensure such aim as the balanced allocation of taxing rights was not endangered in a purely domestic situation.

Yet another Romanian case concerned the limitation period for filing a claim for reimbursement due to a stamp duty, the imposition of which was declared to violate EU law[72]. The limitation period for such claims was one year, whereas in the case of similar domestic claims due to violation of national law, there was a longer five-year limitation period. The CJEU interpreted the principles of effectiveness and equivalence in conjunction with the principle of sincere cooperation and held that even though the determination of a one-year limitation period did not, in itself, amount to incompatibility with EU law, the fact that the limitation period in comparable domestic situations was longer was contrary to Union law.

Minor interpretation issues arose in Slovenia concerning the correct application of EU directives, resolved in the preliminary ruling procedures.[73]

In Serbia, which is not an EU Member States and thus is not submitted to the jurisdiction of the CJEU, one can also find non-discrimination provisions at the domestic level.[74] This originates from Serbia's double taxation conventions, which prohibit discriminatory treatment against nationals of the treaty partner country.

According to the economic literature in Serbia, corporate income tax incentives are the most important tool for attracting foreign direct investment.[75]

Based on national reports, the sporadic harmonisation measures that occurred in the arena of direct taxation (the Parent-Subsidiary Directive, the Interest-Royalty Directive, the Tax Merger Directive, etc.) have been properly implemented without

71 Cîrmaciu, 2024b.
72 Ibid.
73 Bohinc and Jovanovič, 2024.
74 Popović, 2024c.
75 Ibid.

significant opposition from the Member States. It is also noteworthy that these directives have been adopted prior to the accession of most of the states located in the region of Eastern-Central Europe, so they 'inherited' the rules with their accession, even though later on, these directives have been amended to some extent. In Romania, the timely implementation of certain tax-related directives was problematic; however, it was rectified within the framework of an infringement procedure.[76]

However, it is important to distinguish between these sets of rules and those that mark more recent harmonisation processes: Anti-Tax Avoidance Directives and the global minimum tax directive. The former group restricted to a much lesser extent the freedom of the Member States as to the design of their corporate income tax systems, basically requiring the equal treatment of domestic and cross-border intra-group payments and reorganizations (while leaving the national standard for taxation untouched). In the case of the latter group, the directives put more significant restraints on tax sovereignty, calling for introducing certain anti-avoidance rules in a given form and imposing a minimum tax level on large group companies.

The adoption of the global minimum tax at EU level demonstrates very well the difficulty of reaching a consensus in the field of direct taxation. The global minimum tax rules have already been agreed upon at an international level within the framework of the OECD/Inclusive Framework, yet its unanimous adoption at EU level in the form of a directive could only be achieved via tough political bargains. This raises the question of whether unanimous decision-making in the field of taxation is a suitable solution. On the one hand, it displays a greater level of democratic legitimacy because it ensures that harmonised measures are acceptable to all Member States, and none of them are forced to transpose rules against their will. However, this can slow decision-making, and the entire procedure often fails.

It can be seen from the national chapters, that the Eastern-Central European Member States stick to the unanimous voting mechanism and oppose the idea, that comes up more and more frequently in public and academic discussions, of switching to qualified majority voting procedure in the field of taxation. This stance holds true even for Member States that are considered to be the most compliant with EU law. For instance, Slovenia adheres to unanimity voting on tax matters to preserve equity within the EU, enabling a balance between the interests of larger and smaller Member States.[77] Indeed, unanimity is one of the strongest tools in the hands of smaller Member States to ensure that their voices are heard during decision-making process. An interesting compromise between unanimous decision-making and qualified majority voting could be to invoke the enhanced cooperation mechanism whereby some Member States, which are keen on taking further harmonisation measures could move forward without waiting for all Member States to consent.

76 Cîrmaciu, 2024b.
77 Bohinc and Jovanovič, 2024.

Slovakia has supported such an approach in the context of financial transaction tax, which nevertheless failed.[78]

Certain Member States have perceived the introduction of the global minimum tax as a threat to their competitiveness and that of the EU in general. The attainment of a consensus on a global minimum tax is particularly remarkable in the light of the fact that all examined Member States previously objected to the introduction of the common consolidated corporate tax base (CCCTB) idea. In many aspects, the global minimum tax goes even further. However, the Hungarian example shows that due to certain aspects of the global minimum tax (the option for the application of a qualified domestic top-up tax, the scope of the covered taxes, etc.), even highly competitive corporate tax systems can be maintained without jeopardy for significant tax revenue loss.[79] Indeed, all the examined Member States used the option to introduce a domestic top-up tax so that they did not lose tax revenues, even if the effective tax rate in the given jurisdiction fell below 15% in the case of certain multinationals. Several national reporters (Poland[80] and Hungary[81]) have highlighted that the most severe effect of the global minimum tax on domestic corporate tax systems is that most incentive tax credit systems (e.g. related to R&D, large investments, etc.) must be overhauled and revamped.

From the national reports it can be seen that the prevention of tax avoidance and tax fraud is of paramount importance. For instance, a special public body (the Council for Counteracting Tax Avoidances) was established in Poland, which is mainly an advisory institution.[82] Their opinions can be requested during legislative and tax procedures involving potential tax avoidance. The pivotal roles of anti-fraud and anti-avoidance can be deduced from constitutional provisions, typically the ability-to-pay principle (where it is enshrined in the national constitution). Interestingly, in Croatia, combatting avoidance schemes is also connected to the constitutional principle of equity, as tax avoidance is mostly available for high-income earners, which might compromise the attainment of vertical equity.[83]

As far as the transposition of harmonized anti-avoidance provisions is concerned, all examined countries seem to have properly implemented the general anti-avoidance rule (GAAR) of the ATAD. Regarding the specific anti-avoidance rules of these directives, no cases have been brought before the CJEU from the Member States concerned, either in an infringement procedure or in the form of a preliminary ruling request due to their incorrect or late implementation. However, this does not mean that the transposition of these technical rules occurred without controversy. The implementation deadline expired only recently, consequently, future challenges cannot be excluded. Some minor discrepancies have already been

78 Vartašová, 2024.
79 Károlyi, 2024b.
80 Oktaba, 2024.
81 Károlyi, 2024b.
82 Oktaba, 2024.
83 Žunić Kovačević, 2024a.

detected (for instance, concerning the Hungarian CFC rules[84]) by the Commission or the Czech GAAR rules;[85] however, these issues seem to have been resolved without litigation.

In Croatia, the abuse of law doctrine lays down a special procedure for 'piercing the corporate veil' in tax matters by means of which shareholders, board members and executive directors of a company, as well as persons associated with them, can be declared to be liable for a company's tax debt if such a debt results from their abusive behaviour.[86] Furthermore, Croatian tax legislation includes a targeted anti-avoidance rule (TAAR). It denies the tax benefit for the reinvestment of company profits (reduction of the income tax base by the amount of the company's capital increase made for investment and development purposes) if it is obvious that the intention of the company's capital increase was tax evasion or tax avoidance.[87] GAAR rules in several Member States had already been implemented prior to the ATAD obligation, and the adoption of the latter, in some cases, required a revamp of the original domestic GAAR (e.g. in Slovakia).[88]

On the procedural side of tackling tax avoidance, the most important rules are harmonised at the union level in the Directive on Administrative Cooperation (DAC) in tax matters, the scope of which has been constantly expanded throughout the years. In addition to the exchange of information, it also prescribes transparency and disclosure rules such as broadening the ambit of the automatic exchange of information on tax rulings and advance pricing agreements (DAC3), country-by-country reports (DAC4), access to beneficial ownership information collected under anti-money-laundering legislation (DAC5), reportable cross-border arrangements (DAC6), and tax transparency rules for reporting by digital platforms (DAC7). The compliance of Member States with their transposition obligations can be appraised as being timely and appropriate. This signals that Member States are keen to ensure that taxes that they intend to collect will indeed be collected and they do not want to use lax enforcement as a tool for attracting investments.

Some Member States went further and implemented disclosure rules to apply to purely domestic arrangements without requiring a cross-border element (Poland).[89] In Romania, a special person has been appointed to take on duties in the field of administrative cooperation to both other Member States and third countries.[90] It is also common for Member States to distinguish between taxpayers based on their tax compliance history, providing compliant taxpayers with benefits

84 Károlyi, 2024b.
85 Radvan, 2024.
86 Žunić Kovačević, 2024a.
87 Ibid.
88 Vartašová, 2024.
89 Oktaba, 2024.
90 Cîrmaciu, 2024b.

and enhancing audits over formerly non-compliant taxpayers (e.g. Hungary[91] and Slovakia[92]).

In Serbia, one can find no explicit anti-abuse clause in tax legislation; however, there is a substance over form doctrine that requires an examination of whether the transaction reflects economic reality and substance.[93] It is debated in the legal literature whether such a doctrine can be regarded as a type of anti-abuse provision.

4. The role and challenges of monetary policy in Central European countries

One of the main goals of the chapters on monetary policy was to examine the lessons related to the introduction of the common currency, a covenant – however non-compellable in practice – under the preamble of the TEU[94] in the case of Member States inside the Eurozone and to introduce the reasons for Member States to stay outside the Eurozone, that is, the pros and cons of the common currency. To fulfil this aim, one may first examine the convergence data of Member States. Convergence reports published between 2014 and 2020 showed that while Croatia met the inflation and interest rate criteria, the criteria related to public finances were not met. Since 2018, efforts have been made to meet these criteria. In July 2020 Croatia was accepted into the exchange rate mechanism (ERM II), the forerunner of the Eurozone. The Convergence Report for Croatia, published by the European Commission in June 2022 specified that the country met the criteria for adopting the single currency, except for a high level of debt. Nevertheless, at the end of June 2022, the European Council approved Croatia's entry into Eurozone. On 12 July 2022 the Council of the European Union agreed. Croatia adopted the Euro on 1 January 2023.[95] The Czech Republic, Hungary, and Poland currently do not fulfil the Maastricht criteria. However, the inflation target of the Czech Central Bank has been 2% since 2010 the Czech Republic suffered from high rates of inflation, similar to many other EU member states. In 2021 this inflation was driven by supply-side factors, amplified by loose fiscal and monetary policies, and a tight labour market. The war-induced energy crisis also had its negative effects in 2022. In addition, the Czech Republic has breached the maximum deficit value since 2020, as the balance exceeded 5% of the GDP in 2020 and 2021 (2020 deficit 5.8%, 2021 deficit

91 Károlyi, 2024b.
92 Vartašová, 2024.
93 Popović, 2024c.
94 'Resolved to achieve the strengthening and the convergence of their economies and to establish an economic and monetary union including, in accordance with the provisions of this Treaty and of the Treaty on the Functioning of the European Union, a single and stable currency.'
95 Žunić Kovačević, 2024b.

5.1%). As the Czech National Bank reported, the Czech economic level will move slightly away from the Eurozone average by 2021. The predictions show that the Czech economy will not fulfil the Maastricht criteria in the following years.[96] The peculiar Hungarian story is that the country was closer to meeting the Maastricht criteria in 2000 than in 2006 due to the undisciplined fiscal policy of the 2000s. As pointed out by the author of the Hungarian chapter, Hungary was close to fulfilling the Maastricht criteria between 2014 and 2020 due to fiscal and monetary policy changes. However, a full convergence has not yet been achieved.[97] Poland does not meet most of the economic convergence criteria, nor does it participate in the ERM II mechanism, and the latest convergence reports of the European Commission and the European Central Bank (ECB) from 2022 indicate – just like the 2020 report –, that significant inconsistencies of national legislation with the Treaties exist and that there is a need to introduce numerous changes. Poland is expected not to adopt the Euro in the coming years or enter the Eurozone. In Poland, the European Commission noted that the country is not subject to an excessive deficit procedure. However, the economic forecast prepared by the Commission in spring 2022 was envisaged to exceed the permissible budget deficit in 2022 and 2023 (4% and 4.4% of GDP, respectively), which was supposed to be a consequence of the burden of the costs of helping refugees from Ukraine. Since 2004, the goal of the Polish Central Bank has been to maintain inflation at 2.5% with a symmetrical deviation band of ±1 percentage point in the medium term. The inflation targeting strategy was implemented at a floating exchange rate.[98] Romania currently fulfils only one nominal convergence criterion, namely public deficit. However, these data deteriorated; in 2011–2013, it varied from 33.9% to 32.7%, whereas in 2020–2022, it moved between 46.8–47.2%. It is worth mentioning that even an excessive deficit procedure was ongoing between 2020 and 2021 and the country performs very poor in terms of real convergence as well. Legal convergence is also missing, as indicated by the fact that the 2022 Convergence Report questioned the conformity of the legislation on the independence of the country's central bank.[99] Once joining the EU, Serbia is willing to adopt the Euro as a legal tender as soon as it fulfilled the relevant Maastricht criteria. Under the Budget System Act, government sector debt, including liabilities based on restitution, should not exceed 60% of GDP, while the target medium-term fiscal deficit should represent 0.5% of GDP. The general government debt-to-GDP ratio is expected to stabilise at 55.10% by 2022. Since 2009, the National Bank of Serbia has implemented a full-fledged inflation-targeting regime. Headline inflation target for the period from January 2023 to December 2025 is set at the level of 3%, with a tolerance band of ±1.5%.[100] Slovakia alone among the

96 Tomášková and Radvan, 2024b.
97 Marinkás, 2024b
98 Mikos-Sitek, 2024c.
99 Bíró, 2024.
100 Popović, 2024d.

'Visegrad Four' countries adopted the Euro. The change from the national currency to the Euro began on 1 January 2009. However, preparation began much earlier in 2003, that is before the country's accession to the EU, by adopting the strategy of Eurozone accession. The strategy clearly stated that Slovakia would introduce the Euro as soon as it fulfilled all the convergence criteria sustainably. As pointed out by academics, Slovakia fulfilled the Maastricht criteria in 2008, proving the importance of strong and longstanding cross-governmental commitments if a country wishes to join the Eurozone. Some studies show that during the 2010s, Slovakia did not fulfil the Maastricht criteria, and recent data also suggest that except for the debt-to-GDP ratio, still does not fulfil them.[101] Slovenia was the first among the '2004 entries' to introduce the Euro. The country only needed two years from accession to the EU to achieve convergence with the Maastricht criteria, and according to a decision made in 2006, Slovenia introduced the Euro on 1 January 2007. Similar to Slovakia, Slovenia did not fully meet the Maastricht criteria.[102]

As for the country specific reasons for adopting the Euro or dispensing with it, the decisive factor for Croatian decision-makers was that, as a small and open economy, the country's economy was already 'euroised', similar to the Serbian economy. Furthermore, the Croatian currency has been tied to the Euro for a long time and, before that, to the German mark. Therefore, no significant changes were expected after adopting the common currency. Croatian decision-makers thought that adopting the Euro should be followed by benefits in business and the economy by eliminating currency risk and lowering transaction and borrowing costs. While the increase in inflation during the initial period of the transition to the Euro is already a common phenomenon, Croatia's inflation trends show that inflation started to increase rapidly in the second half of 2022 and peaked at 13.5% before the end of the same year. From January 2023 – the time of accession –, it has decreased. In the case of Croatia, the high inflation rate has not been induced by the introduction of the Euro; instead, it has been caused by the energy crisis due to the ongoing war.[103] Unlike their Slovak counterparts, the decision-makers of the Czech Republic, Hungary, and Poland decided to keep their countries outside the Eurozone and not create so-called close cooperation with the ECB. This provides the possibility to make a comparison of the 'Visegrad Four' countries in this regard: while the Slovak decision-makers calculated that the advantages of the accession outweigh the disadvantages, thus identified the accession to the Eurozone as a goal, which would help the Slovak state belonging to the core, the other V4 countries 'opted out'. The Slovak decision-makers, just like the Croatians and the Slovenians, considered the loss of monetary sovereignty a necessary, and with a view to being a small and open economy, not so high price to be paid in turn for the membership.[104] The Czech,

101 Štrkolec, 2024b.
102 Festić and Bohinc, 2024.
103 Žunić Kovačević, 2024b.
104 Štrkolec, 2024b; Festić and Bohinc, 2024.

Hungarian and Polish decision-makers, however, think that the sovereign monetary policy is more important than the advantages of Eurozone membership. The Czech and Hungarian standpoints are very similar; introducing the Euro is the only option when it offers more advantages than a politically motivated and premature accession to the Eurozone before reaching a certain level of real convergence. The Hungarian Central Bank set the so-called Maastricht 2.0, earmarking 90% real convergence compared to the EU average as a compass. Although Hungary still does not have an official target date announced by the government, in 2023, high-ranking officials, including the Minister of Finance, mentioned 2030 as a possible date for their statements. However, nothing is carved into the stones.[105] The governors of the Czech Central Bank and the Polish Central Bank expressed in their recent statements that they did not wish to introduce the Euro in their countries. In the Czech approach, despite the undeniable positive benefits of being in the Eurozone, such as savings in transaction costs or eliminating exchange rate risk, adopting the euro means giving up an independent monetary policy and the exchange rate of the Koruna as stabilising macroeconomic instruments.[106] Similarly, while Polish professionals acknowledge the benefits of the Eurozone, they identify the loss of monetary sovereignty as their main disadvantage. They argue that macroeconomic stabilisation, the prospect of increasing the economic growth rate, eliminates the risks and costs resulting from fluctuations in the exchange rate and exchange rates affecting the development of trade, greater security, and greater credibility in the assessment of foreign investors. However, from a Polish perspective, the concerns that arise most often in connection with the adoption of the common currency are the loss of monetary sovereignty and the related consequences of the ECB's decisions taken as part of its monetary policy, as well as the limitations of economic policy tools that are important in conditions of economic slowdown, only to fiscal instruments. The adoption of the Euro is also conditional on carrying out structural and institutional reforms aimed at fiscal, economic, and financial integration between Poland and the Eurozone.[107] In 2018, the Romanian Government established a National Commission to elaborate a National Plan for adopting the Euro. The plan scheduled the Euro adoption date in Romania for 2024 but was postponed until 2029.[108] Altough the Serbian point of view is that the country should join the Eurozone as soon as possible, accession to the EU should happen before the issue of adopting the Euro could be put on the table. Based on certain calculations, the accession of Serbia to the EU and the introduction of the Euro would bring about a higher real gross domestic product, more employment, and more sustainable public finances attributable to increased productivity.[109] In Slovakia *ex ante* evaluations revealed

105 Marinkás, 2024b.
106 Tomášková and Radvan, 2024b.
107 Mikos-Sitek, 2024c.
108 Bíró, 2024.
109 Popović, 2024d.

the 'usual' benefits and disadvantages of introducing the common currency: eliminating exchange risk, increasing foreign trade, etc., versus losing monetary sovereignty. However, regarding the latter, decision-makers thought that it was a price worth paying since the ability of monetary policy to stabilise the real economy was low. Ex-ante evaluations also predicted higher inflation, which did not occur based on ex-post evaluations. On the other hand, benefits were realised.[110] Slovenia's first years with the Euro resulted in mixed experiences: internal factors contributed to an inflation spiral in 2007 due to weak competition in particular sectors and increased demand in Slovenia. Inflation peaked in January 2008 at 9.9% and decreased during spring. By May 2008, it was 6.3%.[111]

As for the support of the citizens for introducing the Euro in countries that have not yet implemented it, Hungarian public opinion seems to be the most supportive based on a 2023 Eurobarometer survey: 72% of the population were in favour of introducing it, and 62% replied that it would have mostly positive consequences. The same values were 71% and 60% for Romania. The Polish population showed less support for the introduction, with 55% and 46% thinking it would benefit the country. Czech citizens were the most against introducing the Euro: 54% said they were against it, and only 44% were in favour. Similarly, more respondents answered that the Euro would negatively affect the economy. As a reference point, 79% of respondents living in the euro area believe that having the Euro positively affects the EU, and 69% believe that the Euro has a positive effect on their own country. While 84% of the Slovak and 78% of the Slovenian respondents said introducing the Euro positively affected the country, only 51% of the Croatian respondents considered the positive effects to overwhelm the negative ones. It is worth mentioning, however, that Croatia is a newcomer to the club, and thus far, the first years with the common currency have brought difficulties in every country that introduced the common currency.[112]

Finally, certain constitutional issues concerning the introduction of the Euro and its use are worth mentioning. In the case of Hungary, drafters of the Fundamental Law decided to grant constitutional status to the Forint, which means that whenever the government in power decided to introduce the Euro, it would need a 2/3 majority in the Parliament. While some argue that this solution may guarantee that the decision to introduce the Euro has to be taken with strong democratic legitimacy, others argue that it may create a situation in which Hungary will not be able to adopt the Euro despite fulfilling the Maastricht criteria and the actual government having the political will to do so.[113] The other issue concerns Slovakia. The Parliament of Slovakia has systematically enshrined the right to pay in cash at the constitutional

110 Štrkolec, 2024b.
111 Festić and Bohinc, 2024.
112 *Flash Eurobarometer 512. The euro area Report* [Online]. Available at: https://europa.eu/eurobarometer/surveys/detail/2663 (Accessed: 25 February 2024).
113 Marinkás, 2024b.

level. The regulation entered into force in July 2023. This move by the Slovak legislature has raised questions as to whether such a regulation might interfere with the EU's exclusive competence in the field of monetary policy and how the dilemma would be resolved if the proposed digital Euro, which is in a rather initial phase for the time being, replaces the 'physical Euro'.[114]

Another aim of the monetary policy chapters was to examine how the Banking Union was created and how member states within and outside it complied with its institutions. The Eurozone crisis made it clear that the previous banking supervision and resolution framework, which was based on cooperation, failed during the crisis because domestic authorities were prone to look the other way when it came to their 'national champions'. The first reactions of the Eurozone to tackle its effects date back to 2011. What happened in the next years was extraordinary and unthinkable even a few years earlier. As some characterised this era: 'supranationalism had gained momentum'. European legislators created the European Banking Union based on Art. 114 of the TFEU. Under the European Commission's proposal, the banking union should have been based on four pillars: the Single Rulebook, the Single Supervisory Mechanism, the Single Resolution Mechanism and the European Deposit Insurance Scheme. Until this day (25 January 2024), only the first three pillars were realised, and the EDIS was still in the making stage.[115]

In its April 2023 report on the Single Supervisory Mechanism, the European Commission concluded that the mechanism has developed into a well-functioning organisation capable of rapidly adapting to emerging supervisory challenges like the economic crisis induced by COVID-19. Other opinions support the idea that SSM positively impacts the banking system, even if some positive effects – such as enhanced profitability – are unintentional. The picture of the Single Resolution Mechanism is somewhat mixed: two novel judgments of the CJEU, introduced in the EU chapter, show that many years after the launch of the Single Resolution Mechanism, there are unclear issues, including who should be notified when a resolution starts, the competences of the participating institutions, and the legal nature of the resolution scheme.[116]

Those member states' central banks, which entered the Eurozone – namely Croatia, Slovakia and Slovenia –, participate in the functioning of the Banking Union based on the applicable rules. EU Member States whose currency is not the Euro may participate in the Single Supervisory Mechanism upon request by the so-called close cooperation between the ECB and their National Competent Authorities. The Croatian Central Bank entered close cooperation with the ECB in July 2020, after requesting it twice in 2018 and 2019 respectively.[117] A key difference between being a full-fledged Eurozone member and the close cooperation is that ECB legal acts,

114 Štrkolec, 2024b.
115 Marinkás, 2024a.
116 Marinkás, 2024a.
117 Žunić Kovačević, 2024b.

including decisions on banks, do not have direct effect in the Member State. In return they do not have full representation within the Single Supervisory Mechanism, thus their influence is limited on supervisory decisions. Furthermore, they also cannot use the liquidity funds of the European Stabilization Mechanism provided for in the financing mechanisms of Pillar II. These factors surely played a role in the decisions of the Czech, Hungarian, Polish, and Romanian decision-makers concerning establishing such cooperation. As the Czech Central Bank claims, accessing the Eurozone or developing close cooperation would mean its hands would be tied, hindering an effective reaction to the so-called asymmetric shocks. It is worth mentioning that, as elaborated in the chapter on Czech monetary policy, the chosen crisis management tools of the Czech Central Bank resemble those of the ECB.[118] In Poland, it remains complicated to determine the time horizon for adopting a common currency; thus, the decision to establish close cooperation is also complicated.[119] Romania's prudential regulation is aligned with the requirements of the Basel Core Principle, because a large part of the Romanian banking system is owned by banks from the Eurozone.[120] In contrast, Poland witnessed the so-called repolonization of the banks, enhancing the state's role in the bank sector.[121] However, these countries did not establish close cooperation. In January 2023, the ECB signed a Memorandum of Understanding with the National Competent Authorities of these countries to ease effective supervisory cooperation and information sharing arrangements between the ECB and the National Competent Authorities to supervise institutions and their cross-border establishments. Denmark and Sweden also signed the memorandum. Serbia, as a non-member state, cannot establish close cooperation; however, the Serbian Central Bank and the ECB have conducted numerous cooperation projects in the last 20 years and signed a Memorandum of Understanding in 2018 with the purpose of formalising cooperation and information-sharing mechanisms between the ECB and the NBS related to their supervisory roles.[122] Slovenia's Eurozone membership was not preceded by close cooperation, as this mechanism was established only with the Banking Union.[123]

Members of the Council of the Croatian Central Bank, presided over by the governor and comprising a deputy governor and six vice-governors, are elected by the Croatian Parliament based on the proposal of parliamentary committees defined by law. The nominees must fulfil strict criteria that guarantee their independence.[124] The supreme governing body of the Czech Central Bank is the Bank Board, which consists of the governor, two Deputy Governors, and four other Bank Board members. The president of the Czech Republic appoints all Bank Board members for

118 Tomášková and Radvan, 2024b.
119 Mikos-Sitek, 2024c.
120 Bíró, 2024.
121 Mikos-Sitek, 2024c.
122 Popović, 2024d.
123 Festić and Bohinc, 2024.
124 Žunić Kovačević, 2024b.

a maximum of two six-year terms.[125] The Fundamental Law of Hungary states that the President of the Republic should appoint the Governor and Deputy Governors of the Hungarian Central Bank for six years. The Hungarian Central Bank's governor is the Monetary Council's Chairman. Other members of the Monetary Council are elected by the Parliament.[126] The President of the Polish Central Bank is appointed by the Lower House of the Polish Parliament (Sejm) of the Republic of Poland at the request of the President of the Republic of Poland for a six-year term of office. The term is renewable once. The Monetary Policy Council consists of the Chairman of the Council, who is the Governor of the NBP, and 9 members appointed in equal numbers by the President of the Republic of Poland, Sejm of the Republic of Poland, and the Senate of the Republic of Poland.[127] The Central Bank of Romania is governed by the Board of Directors. The chairman of the Board is the Governor of the Central Bank of Romania. The Parliament elects board members based on the recommendations of certain parliamentary committees, as defined by law.[128] The Central Bank of Serbia performs its tasks through three main bodies: the Executive Board, the Governor and the Council of the Governor. The Governor is appointed by the Parliament upon the proposal of the President of the Republic of Serbia, for a six-year renewable term of office. The Executive Board consists of the Governor and Vice-Governors of the Central Bank of Serbia. The Council of the Governor consists of five members, including the president, appointed by the Parliament on the proposal of the parliamentary committee in charge of finance.[129] The term of office of the Board of Slovak Central Bank members is six years, commencing on the effective date of their appointment. There are no term limits for Bank Board members; however, no one may serve as a Governor or Deputy Governor for more than two terms. The Governor and Deputy Governors are appointed and may be dismissed by the President of the Slovak Republic at the government's proposal and are subject to the approval of the Slovak Parliament. The other three members of the Bank Board are appointed and may be dismissed by the Slovak Government at the proposal of the central bank Governor.[130] The decision-making bodies of the Central Bank of Slovenia are the Governor and the Governing Board of Banka Slovenije. The Governing Board comprises five members: the governor and four vice-governors. The members are elected by the Parliament for a period of six years at the proposal of the President of the Republic of Slovenia, and may be re-appointed.[131] As a conclusion it can be stated that in five of the eight countries, the Parliament has the final word in appointing the Board Members, and only three countries' regulations entrust the head of the state with appointing the members. However, the Hungarian

125 Tomášková and Radvan, 2024b.
126 Marinkás, 2024b.
127 Mikos-Sitek, 2024c.
128 Bíró, 2024.
129 Popović, 2024d.
130 Štrkolec, 2024b.
131 Festić and Bohinc, 2024.

and Polish regulations do not belong categorically to either one, as in the case of Hungary the Governor and the Deputy Governors are appointed by the Head of State, and the parliament elects other members. Polish regulation also divides the right of appointment between executive and legislative powers, which one may deem as a desirable solution, creating a balance between the branches of power when appointing members of such an important institution.[132]

As a common tendency during the first years of the Eurozone crisis, most developed countries' central banks soon achieved an interest rate level of near zero and sometimes even a negative interest rate. However, this traditional tool proved insufficient during the crisis; therefore, the central banks of developed countries started to apply quantitative easing. The ECB, as the initiator of the purchase programmes and the CJEU, as the supervisor of their legality, were not in an easy situation: they could have chosen either the functional 'amendment' of the Founding Treaties, or taking the risk of the Eurozone's possible fall. Subsequently, they selected the first option. While the ECB is often balanced on the borders of its competence, the CJEU has always displayed an 'amicable attitude' towards the institutional framework of the ECB's crisis management. .The national constitutional courts did the same until the German Constitutional Court gave a strong signal in the so-called PSPP case, in which certain elements of the purchase program were declared to go beyond monetary policy. However, the German Constitutional Court 'retreated' after the loud political outcry, thus, the Federal Central Bank of Germany did not have to leave the PSPP-programme.[133]

The central banks of Slovakia and Slovenia, members of the Eurozone since 2009 and 2007, respectively, had to adopt ECB crisis management. Unlike other central banks in countries outside the Eurozone, Czech and Polish banks did not go significantly beyond the standard monetary policy. The Czech Central Bank relied mainly on decreasing the base rate to a near-zero level of 0.05% and, to a certain extent, on foreign exchange intervention. According to the Czech Central Bank, the application of this tool prevented deflation and helped the country overcome its crises.[134] After the 2008 financial crisis, the Central Bank of Poland identified possible liquidity disturbances in the banking sector as the main threat to the stability of the national financial system. Attention was also drawn to the possible decline in trust in the interbank market.[135] In contrast, the Hungarian Central Bank played an active role in tackling the consequences of the Eurozone Crisis by facilitating the self-financing of the country and eliminating the high level of household debt, which created a serious risk. Of course, traditional monetary policy also played a role: the Hungarian Central Bank reduced the base rate from 7.0% to 0.9% and

132 Conclusion made by the editor.
133 Marinkás, 2024a.
134 Tomášková and Radvan, 2024b.
135 Mikos-Sitek, 2024c.

maintained it at that level between 2012 and 2019.[136] Romania became the first European Union country to cut interest rates in response to the Eurozone crisis with the November 2011 decision of the Romanian Central Bank.[137] In the wake of the crisis, Serbia was one of the most euroised economies in Europe, with a 72% loan euroisation. This created a risk similar to what the Hungarian Central Bank had to face, and the Central Bank of Serbia replied similarly: since 2011, dinarization has been highlighted as one of its objectives in its monetary policy program. In 2012, the NBS and the Government of the Republic of Serbia signed the Memorandum on the Strategy of Dinarisation of the Serbian Financial System and re-affirmed their commitments in 2018.[138]

In response to the negative economic effects of the COVID-19 pandemic, the ECB launched the Pandemic Emergency Purchase Program with an initial envelope amounting to EUR 750 billion, reaching EUR 1,850 billion by the end of the program. The Governing Council of the ECB decided on 16 December 2021 to discontinue the programme by the end of March 2022. The ECB left the base-rate near zero. The negative economic effects of the Russo-Ukrainian War required a rather different approach, however: the challenges of the new crisis characterised by high inflation rates, contrary to the disinflation trends of Eurozone and the COVID-19 crisis, required a return to the 'good-old' restrictive monetary policy with high interest rates and abandoning the refinancing role. In July 2022, the ECB increased its fixed interest rate to 0.5% for the first time in six years. Subsequently, the ECB increased the interest rates almost monthly. By June 2023, the rate reached 4%, the highest since the start of the global financial crisis in 2007. The ECB's other tool for fighting inflation is the phasing out net purchase programs.[139]

In tackling the negative effects of the COVID-19 crisis and the Russo-Ukrainian War, the central banks of Slovakia and Slovenia applied the ECB's monetary policy and its measures. The Croatian Central Bank, still not a Eurozone member state's central bank then, fully followed the ECB's policy, most probably with a view towards the nearby Eurozone accession.[140] Central banks of countries outside the Eurozone handled the crises related to COVID-19 and the Russo-Ukrainian war similarly due to economic necessities. The Czech Central Bank began a 'return to normalcy' in 2021, similar to its Hungarian counterpart, and increased its base rate. The currently applicable base rate is 6.75%. This tendency to raise base rates strengthened in 2022 at other central banks as well, after the economic effects of the Russo-Ukrainian war started to spill in.[141] The Hungarian base rate hit a record of 13% and has only recently decreased. The Hungarian Central Bank also decided to moderate its refinancing role, which was excessive compared to the Czech

136 Marinkás, 2024b.
137 Bíró, 2024.
138 Popović, 2024d.
139 Marinkás, 2024a.
140 Žunić Kovačević, 2024b.
141 Tomášková and Radvan, 2024b.

and Polish banks, and gradually phased out certain programs.[142] Poland's base rate reached its lowest (0.10 %) in May 2020. The current applicable base rate is 5.75%.[143] Like other countries, the Romanian Central Bank handled the COVID-19 crisis by decreasing the base rate and dispensing with refinancing the markets. Romania's interest rate reached its lowest level in 2021 (1.25 %). The Romanian Central Bank, together with the government, banks, and creditors, contributed to the measure to defer payment of loans to firms and households for up to nine months under a government guarantee scheme and also used tools that could be deemed as quantitative easing. New challenges of the Russo-Ukrainian war were handled by the Romanian Central Bank, with a rise in the base rate up to 7%.[144] In Serbia, the base rate reached its lowest value of 1.50% in the spring of 2020, when the economic effects of COVID-19 peaked. Another monetary policy measure the Serbian Central Bank applied was to provide dinar and foreign currency liquidity to the banking sector during a state of emergency by applying swap auctions and repo operations. These programs were terminated in October 2021. In January 2024, the base rate was 6.5%.[145]

In summary, despite the diverging paths chosen by the selected Central European countries, namely the attitude towards the common currency and monetary sovereignty, several similarities could be observed in handling crises and also in their regulations on central banks. Even though some central banks displayed a rather restricted response to the Eurozone crisis, most central banks outside the Eurozone applied similar tools to handle the crises induced by the Eurozone and COVID-19, including extremely low interest rates and the extensive use of refinancing programs, while abandoning these tools when they needed to mitigate the effects of the Russo-Ukrainian war. In other words, the monetary policies of the analysed countries, as an important part of economic governance, showed similarities.

142 Marinkás, 2024b.
143 Mikos-Sitek, 2024c.
144 Bíró, 2024.
145 Popović, 2024d.

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