Chapter 7

The Future of the Economic and Monetary Union From the Perspective of the Czech Republic

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Abstract

When the Czech Republic joined the European Union in 2004, it was widely believed that it would adopt the euro as soon as it met the Maastricht convergence criteria. More than 20 years later, the Czech Republic is still not a member of the eurozone, despite having met the Maastricht criteria in the past. At the same time, the Czech population has shown the strongest opposition to euro among the non-eurozone countries. Over the years, the position of the Czech National Bank has remained unchanged – the governance of the eurozone is an unfinished project. As the future obligations of its members are not clear, euro cannot reasonably be adopted. The position of the Government has shifted from mild support to outright opposition. In this argument, we will discuss and evaluate the reasons put forward against the adoption of the euro, concluding that whether the euro is adopted will ultimately be a political, not a legal or economic decision.

Keywords: Czech Republic, Economic and Monetary Union, Euro, Eurozone

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1. Introduction

Over the years since the Czech Republic joined the European Union in 2004, its position towards the adoption of the euro has significantly changed from mild support to the strongest opposition. Even though the statements issued by critical Czech institutions remain unchanged, the public opinion may be changing again.

As will be described in detail below, the Czech National Bank (hereinafter referred to as "CNB") regularly prepares a report concerning the risks and benefits of the possible adoption of the euro. For almost 20 years, the risks have remained the same: the lack of full economic alignment with the eurozone and the as-yet-unknown obligations, connected with the future governance structure of the eurozone. Thus the future of the euro in the Czech Republic depends on the future of the Economic and Monetary Union (hereinafter referred to as "EMU") itself.

In this paper, I will discuss the possible future of the EMU and the position of the Member States within it from the perspective of the Czech Republic. To this end, I will first discuss the approach of the Czech Republic to the adoption of the euro over the past 20 years (Chapter II). Thereafter, I will analyse the arguments put forward as a reason not to adopt the euro in the Czech Republic (Chapter III). As these reasons are, arguably, not persuasive from the economic and legal point of view, I will concentrate on the ultimate argument against the adoption of the euro, consisting in the unpredictable future of the EMU itself (Chapter IV). Furthermore, I will describe the two theoretical models of future EMU and, in particular, the actual measures adopted over the last ten years as a reaction to diverse economic crises hitting the eurozone. This assessment leads me to the conclusion that the EMU is, in the long term, heading towards a fiscal union, characterised by mutualisation of debt and extensive financial transfers.

This leads us back to the original proposition put forward in this paper: the question whether to adopt the euro is, ultimately, a political one, which depends on the willingness of candidate countries to participate in the fiscal union.

2. The Curious Case of the Czech Approach to the Euro

The Czech approach to the euro has been changing significantly over the last 20 years. With a little simplification, we can distinguish the following four phases.

2.1. We would like to, but we cannot

When the Czech Republic joined the European Union in 2004, its population was rather enthusiastic. In 2003, there was a referendum on the accession, in which 55% of voters took part, a relatively high number for the Czech Republic, and more than

77% voted yes. These numbers did not indicate exceptionally high support when compared to Slovenia or Slovakia, both close to 90%, but were much higher than the similar results in Malta (53%) or Estonia (66%).[1]

Concerning specifically the adoption of the euro, opinions in the Czech Republic were fully comparable to other "new" Member States. In 2004, 40% of people supported the adoption of the euro, which corresponded with 39% support in non-Euro countries on average. Thus the Czech Republic was well in the mid-range of the most enthusiastic countries, Hungary and Slovenia (support over 55%), and the most reserved ones, Latvia or Poland (support close to 30%).[2]

The official Czech strategy towards the euro also reflected this "mild optimism". In the months preceding the Czech Republic's accession to the EU, the government's position seemed to be very much in favour of adopting the euro. Together with the Czech National Bank, the government published, in 2003, a document entitled 'The Czech Republic's Euro-area Accession Strategy' (hereinafter referred to as "Strategy 2003"), in which it recommended 'that the Czech Republic join the euro area as soon as economic conditions allow for doing so'.[3]

Even in such an atmosphere, the euro could not have been adopted "immediately". Without going into technical details, a country wishing to adopt the euro must first comply with the "Maastricht" convergence criteria, provided for in Article 140 of the Treaty on the Functioning of the European Union (hereinafter referred to as "TFEU") and Protocol No. 13 thereto. The four criteria concern (a) price stability, i.e. the rate of inflation; (b) sustainability of the government financial position, i.e. avoiding excessive governmental deficits, as defined in Article 126 TFEU; (c) observance of the normal fluctuation margins provided for by the exchange-rate mechanism of the European Monetary System, i.e. participation in the Exchange Rate Mechanism (ERM II); and (d) convergence in the long-term interest-rate levels.

The participation in the ERM II has a specific position among these criteria, as it must last at least for two years.[4] For the Czech Republic, the first date that was theoretically feasible for adopting the euro was thus in 2006, achievable if the Czech Republic entered the ERM II immediately. Such decision was adopted by several new Member States; for example, Estonia, Lithuania and Slovenia joined the ERM II in the same year they joined the EU, while Latvia and Slovakia joined ERM II a year later, in 2007.

The Czech Republic did not opt for this solution. Because of the contemporary budgetary difficulties, Strategy 2003 did not expect meeting the other Maastricht convergence criteria before 2007 – in fact it put the date "around 2009-2010".[5] As a consequence, Strategy 2003 suggested that the Czech Republic should enter the

1 Český statistický úřad, 2004.
2 European Commission, 2006.
3 Czech Government and Česká národní banka, 2003.
4 Protocol No. 13 to the TFEU, Art. 3.
5 Czech Government and Česká národní banka, 2003, p. 7.

ERM II only when the convergence criteria would have been met, putting forward that 'staying in the ERM II for longer than the minimum required period of two years does not seem desirable'.[6] Ever since, the Czech Republic had not considered joining the ERM II.

The government started to prepare its institutions for the adoption of the euro. As early as 2005, it appointed a National Coordinator for the Introduction of the euro in the Czech Republic and established a National Coordination Group for the Introduction of the euro in the Czech Republic. In 2007, the government adopted the National Euro Changeover Plan,[7] a technical document providing for procedures and a "timetable" for adopting the euro after entering the ERM II system. Similar to Strategy 2003, the Changeover Plan was aimed at adopting the euro as soon as possible.

However, it should be noted that, from the very beginning, Strategy 2003 expressed realistic concerns about the economic impacts of the euro on the Czech economy. It stressed the importance of 'cyclical and structural alignment of the Czech economy and its financial sector with the euro-area economies' and observed that 'the Czech economic cycle is less aligned with the cycle in the euro area than is that of the average euro-area Member State'.[8] Because of that, the CNB undertook to prepare an annual assessment of the Czech economy's current and expected fulfilment of the Maastricht convergence criteria and an assessment of the Czech economy's alignment with the euro area.

2.2. We cannot (yet), but we should (at some point)

In the subsequent years, however, the Czech position about the euro began to change, growing more and more sceptical. Because of the economic situation, the Czech economy had not converged with the Maastricht criteria, and the situation even worsened following the economic crisis of 2008. The adoption of the euro was no longer foreseeable in the near future.

In 2007, the government published an updated accession strategy to the euro area (hereinafter referred to as "Strategy 2007").[9] Crucially, it no longer stated that the Czech Republic was legally bound to adopt the Euro. Instead, it stressed that the Czech Republic was not yet economically ready[10] and that structural economic reforms were needed first. Any specific date to adopt t the euro was thus impossible to set; however, the Czech Republic remained committed to adopt the euro in due time:

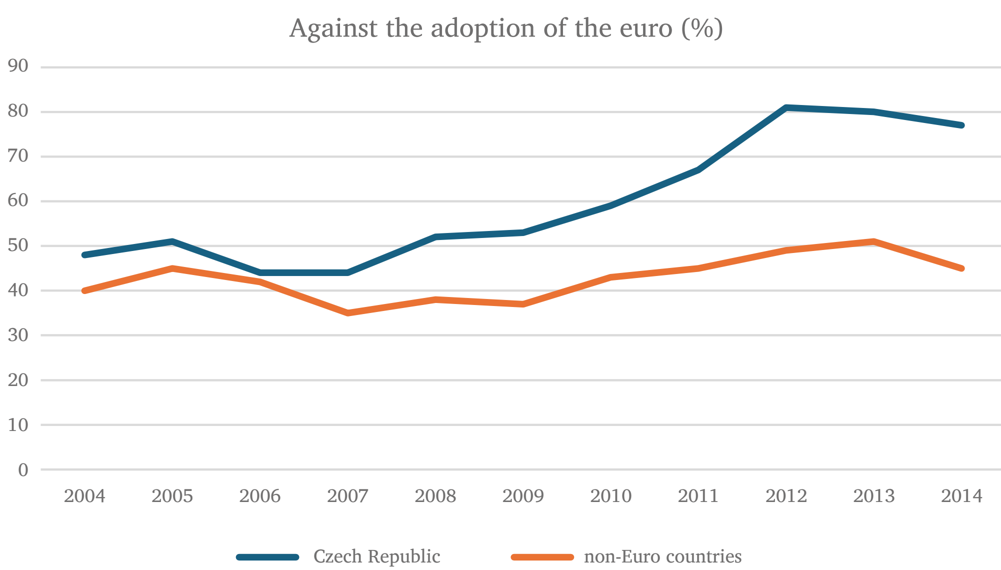
6 Ibid., p. 3.
7 Czech Government, 2007.
8 Czech Government and Česká národní banka, 2003, p. 4.
9 Czech Government and Česká národní banka, 2007.
10 Ibid., p. 9: 'The main obstacles to the fulfilment of the Maastricht criteria remains the unconsoliated state of public finances. This, coupled with the low flexibility of the economy, and especially the labour market, simultaneously presents a risk to the operation of the Czech economy in the euro area and prevents it from reaping the benefits associated with adopting the euro.'

> The euro adoption date will depend on a fundamental reform of public finances and on enhancing the flexibility of the Czech economy. The Government therefore sets itself the task of making maximum reform efforts to remove these obstacles by the end of its term of office [i.e. 2009].[11]

The subsequent governments took a similar stance, the last to proclaim its willingness to adopt the euro was the government in power between 2014 and 2017, who, in their policy statement from 2014, pledged to create the conditions for enabling the Czech Republic to enter the eurozone.[12]

This more reserved approach of the government to the euro corresponded with the shift in public opinion. From a moderately pro-euro country in 2004, the Czech Republic shifted to the strongest opposition to the euro in the EU. Public opposition to the euro grew from 48% in 2004 (the average of non-eurozone countries was 40% at that time) to 81% in 2012 (compared to the average of 49% in other non-eurozone countries). This trend is represented on Graph 1 below. Only 13% of the Czech population supported t the euro in 2012, compared with 47% in other non-eurozone countries.[13]

Graph 1.



11 Ibid.
12 Czech Government, 2014.
13 These numbers, together with the values in Graph 1, were compiled from the Eurobarometer reports of the European Commission for years 2004 – 2014. European Commission, 2007; European Commission, 2008; European Commission, 2009; European Commission, 2010; European Commission, 2011; European Commission, 2012; European Commission, 2013; European Commission, 2014.

As we will discuss below, this was the period when the public opposition to the euro was the strongest. The government subsequently adopted an openly anti-euro position, despite the fact that support for the euro began to grow slowly.

2.3. We can, but we do not want to

The subsequent governments entirely stopped supporting the adoption of the euro. In particular, the government in power since 2018 openly proclaimed in its policy statement that it 'currently sees no way of joining the euro area'.[14] The government also listed three reasons why it refuses to adopt the euro: (a) loss of control over monetary policy; (b) incomplete process of convergence with the euro area; and (c) the extent of liabilities connected with the European Stability Mechanism.[15] This hostile approach to the adoption of the euro resulted, among others, in the fact that the post of the National Coordinator of the Introduction of t the euro in the Czech Republic has not been filled since 2017.[16]

Oddly, this happened in a period of time when, from the economic point of view, the Czech Republic was closest to fulfilling the convergence criteria, i.e. before the economic impact of the COVID-19 pandemic. In its 2018 convergence report, the European Central Bank reported that the Czech Republic fulfilled the convergence criteria (for the participation in ERM II).[17] However, the report also noted that 'Czech law does not comply with all the requirements for central bank independence, the monetary financing prohibition and legal integration into the Eurosystem'.[18] Surprisingly, the 2018 annual CNB report on alignment with the eurozone failed to comment on this, and repeated, as in the previous reports, that the 'still unfinished process of real economic convergence of the Czech Republic towards the euro area and persisting lower structural similarity of economies' constituted a serious economic risk.[19]

14 Czech Government, 2018, p. 2.

15 Ibid., p. 7: 'Our unwillingness to try to adopt the euro as a common currency in the coming period is mainly driven by the fact that we would lose control of our own monetary policy, and the process of nominal and actual convergence with the euro area remains incomplete, meaning that, when the exchange rate is fixed, this would engender costs – in the form of inflation – impairing the value of citizens' savings. If the common currency were to be adopted in the near future, the Czech Republic would be required to contribute somewhere in the order of tens of billions of crowns to the European Stability Mechanism. The related contingent liabilities could then spiral to hundreds of billions of crowns.'

16 This information is available online on the website of the National Coordination Group for the Introduction of the euro in the Czech Republic. Available at: https://www.zavedenieura.cz/cs/narodni-koordinacni-skupina/narodni-koordinator/narodni-koordinator (Accessed on 1 December 2023).

17 European Central Bank, 2018, p. 7.

18 Ibid., p. 8.

19 Česká národní banka, 2018, p. 10.

2.4. … or do we?

The current government, in power since 2022, is the first one not to address, in its policy statement, the question of adopting the euro at all.[20] The parties that form the governing coalition are split in this regard, some strongly in favour of the euro and some strongly against.

As concerns the convergence reports of the CNB, the message remains the same. In its latest recommendation on the adoption of the euro, issued jointly by the CNB and the Ministry of Finance, it was suggested that 'the Czech government should not set a target date for euro area entry for the time being. This recommendation implies that the government should not aim for the Czech Republic to join the exchange rate mechanism either.'[21] In its latest analyses of the Czech Republic's alignment with t the euro area from 2023, the CNB mentioned again, as a risk factor, 'the unfinished process of economic convergence of the Czech Republic towards the euro area, especially as regards the convergence of the price and wage levels.'[22]

Nonetheless, this prevailing scepticism at the institution level seems to be at odds with the shift in public opinion. Indeed, the support for the euro grew from 13% in 2012 to 44% in 2023, while the percentage of opponents dropped from 81% (2012) to 54% (2023), as is evident from Graph 2 below.[23]

20 Czech Government, 2022.

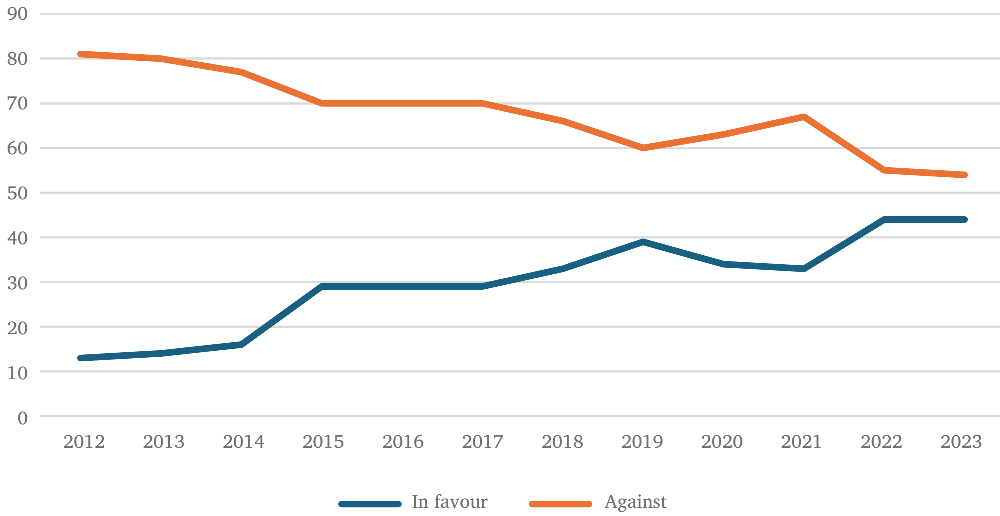
21 Česká národní banka and the Ministry of Finance, 2022.

22 Česká národní banka, 2023.

23 These numbers, as well as the values in Graph 2, are compiled from the Eurobarometer reports of the European Commission for years 2012–2023. European Commission, 2013; European Commission, 2014; European Commission, 2015; European Commission, 2016; European Commission, 2017; European Commission, 2018; European Commission, 2019; European Commission, 2020; European Commission, 2021; European Commission, 2022; European Commission; 2023.

Graph 2.

Support for the adoption of the euro (%)



These numbers still do not express an actual support for the adoption of the euro and are well below the averages of other non-eurozone Member States. In 2023, the average support was 58% and the average opposition 40%. Nonetheless, these figures seem to indicate a strong trend. Interestingly, the growing support for the euro is not correlated with the perception whether the Czech Republic is actually ready to join the eurozone – these numbers remain low (21% in 2023), but comparable with the non-eurozone average (26% in 2023).[24]

A stronger push for the adoption of the euro is also visible on the business level. In November 2023, the Confederation of Industry of the Czech Republic, the largest association of employers in the Czech Republic, issued a statement asking the government to make maximum efforts to adopt the euro in the shortest possible timeframe, while also requesting that the target date for the adoption of the euro be set and that the Czech Republic joined the ERM II.[25]

Having in mind this growing support for the euro, we shall further analyse the arguments *against* its adoption.

24 European Commission, 2023.
25 Svaz dopravy a průmyslu České republiky, 2023.

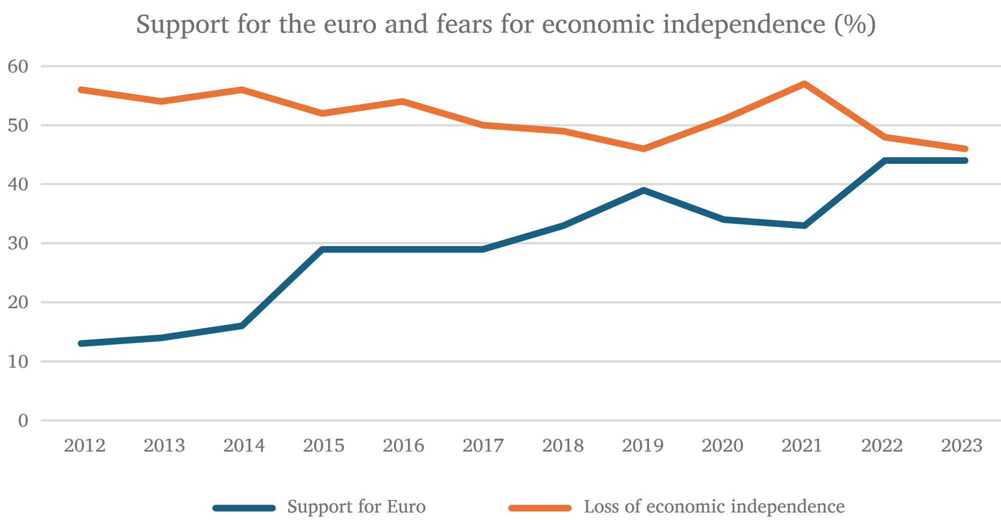
3. Why (Not) Adopt the Euro

There are four key topics to consider when discussing the reasons why t the euro should not be adopted in the Czech Republic. In this chapter, we will discuss the first three topics, while the most general topic – the unfinished nature of the eurozone governance structure – will be analysed in detail in a separate chapter below.

3.1. Loss of control over monetary policy

The first principal argument against the adoption of the euro is the loss of control over the national monetary policy. It ought to be mentioned that this issue resonates in the public opinion. There is a prevalent perception that the adoption of the euro would limit the Czech control over its economy. Curiously, however, while this perception remains high, the support for the euro grows nonetheless, as is evident from Graph 3.[26] Thus it seems that, according to the public opinion, the loss of economic independence is an acceptable consequence of the adoption of the euro.

Graph 3.



From the economic and legal perspective, this is not a real dilemma. By definition, giving up a national currency means giving up national monetary policy. Therefore, the introduction of the euro, a supranational currency, necessarily entails the acceptance of a supranational monetary policy. The loss of national monetary

26 These numbers, as well as the values in Graph 3, are compiled from the Eurobarometer reports of the European Commission for years 2012–2023, referred to in footnote 23.

policy is a direct consequence of joining the eurozone. Therefore, in my opinion, there is no need to further discuss this issue.

3.2. Costs and liabilities

Entering t the eurozone entails significant direct costs and liabilities. These were summarised by the CNB and the Ministry of Finance in 2022, as follows.[27]

The principal financial obligation is associated with the payment of the rest of the Czech Republic's share in the subscribed capital of the European Central Bank (hereinafter referred to as "ECB"), estimated to amount to EUR 200 million. Furthermore, the adoption of the euro comes with an obligation to transfer to the ECB a part of the CNB's international reserves and a contribution to the ECB's reserve funds, amounting to approximately EUR 800-900 million.

Additional costs are associated with the participation in the European Stability Mechanism (hereinafter referred to as the "ESM"), an international financial institution set up by the euro area Member States to help the euro area countries in severe financial distress. Even though the ESM was created based on an amendment of Article 136 of the TFEU, it was set up by an international treaty rather than the law of the European Union, and it forms an international organisation outside of the EU architecture – similar in design to the International Monetary Fund, but interlinked with other EU institutions.[28] Upon joining the ESM, the Czech Republic would have to pay up a capital deposit totalling around EUR 1.8 billion within four years. These funds would remain the property of the Czech Republic, which, in exchange, would receive ESM shares in the same total nominal value and acquire corresponding shareholder's rights and obligations in the ESM. In addition, a contingent liability of EUR 14.6 billion would be payable in the extreme case scenario where the ESM's lending capacity would be fully exhausted. Thus the capital deposit constitutes an upfront payment, whereas the liability is, to some extent, hypothetical.

Finally, there would be costs associated with participation in the Banking Union, specifically the Single Resolution Fund (hereinafter referred to as the "SRF"). On the basis of a regulation from 2014,[29] the ECB gained certain responsibilities for the prudential supervision of approximately 150 euro area credit institutions, representing around 80% of the banking assets in the euro area, national authorities retaining

27 Česká národní banka and the Ministry of Finance, 2022, Appendix B, p. 21.

28 As summarised by Beukers and De Witte, 2013, p. 814: 'The governance system of the ESM [...] forms a curious hybrid: all formal decision-making powers are entrusted to organs composed of representatives of the Members; but those representatives happen to be the same persons who represent their country in the EU's informal Eurogroup and the euro working group.; and major tasks in preparing and implementing those decisions are entrusted to the supranational EU institutions, the Commission and the ECB.'

29 Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions.

supervisory responsibility over the rest.[30] This is known as the Single Supervisory Mechanism, and is referred to as the first pillar of the Banking Union.[31]

This first pillar of the supervisory mechanism is accompanied by the second pillar, known as the Single Resolution Mechanism (hereinafter referred to as the "SRM"), which concerns the restructuring of failing banks.[32] Similarly to the ESM, however, the actual financing of the restructuring is entrusted to the Single Resolution Fund, a fund outside of the EU architecture, created on a basis of an international treaty.[33] The Czech Republic would be obliged to transfer the contributions of banking institutions to the SRF rather than keep them on national level. Thus, the participation in the SRM does not actually incur new costs for the Czech Republic, only the transfer of contributions collected from banking institutions subject to the Single Supervisory Mechanism.

As summarised above, the costs associated with the adoption of the euro are significant, but not insurmountable. They serve, to large extent, as an "insurance", a cost for the stability of the euro, the national finances and the banks. Therefore, in my opinion, these costs cannot be used as a serious argument against the adoption of the euro. Comparable amounts of money would be at stake for the support of the national currency as well.

3.3. Incomplete process of convergence

This leads us to the third argument against the adoption of the euro, repeatedly used by the CNB since 2004, which is the claim that the alignment of the Czech economy with the economy of the eurozone is not yet finished. Even though the convergence is not complete, the CNB itself reports a very high level of convergence.

In its last report from 2023, the CNB concedes that the 'correlation of economic activity in the Czech Republic and the euro area has long been high', that the 'Czech currency reacts to changes in the environment outside the euro area similarly to the euro' and therefore the correlation of the koruna-dollar exchange rate with the euro-dollar exchange rate remains high, and that the 'Czech Republic's strong trade and ownership links have long been one of the strongest arguments for it joining the euro area.'[34]

As the argument against the adoption of the euro, the CNB underlines the differences in prices and wages that could lead to a sustained pressure on Czech inflation targets. At the same time, the CNB admits that the 'convergence of the price

30 Ferran and Babis, 2015.

31 Kern, 2015.

32 Regulation (EU) No. 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Bank Resolution Fund and amending Regulation (EU) No 1093/2010 of the European Parliament and of the Council.

33 Fabbrini, 2015.

34 Česká národní banka, 2023, pp. 6 and 7.

and wage levels accelerated.'[35] Thus the principal argument remains the 'persisting differences in the structure of the Czech economy compared with that of the euro area, [which] consist mainly in an above-average share of industry in Czech GDP.'[36] According to the CNB, the structural differences pose the risk of asymmetric effects from economic shocks.

Even though this may be the case,[37] it should be noted that no country was ever fully aligned with the eurozone economy before adopting the euro.[38] There are no exact metrics for determining the optimal level of convergence for the adoption of the euro.[39] In this regard, it is surprising that the CNB itself mentions in its analyses that the lack of complete alignment with the eurozone is not a material problem:

> The analysis shows that alignment of economic activity does not represent a barrier to euro adoption for the Czech Republic. The Czech Republic's economic activity is well synchronised with the euro area countries, especially Germany, France, Austria and Slovakia.[40]

Overall, I take the position that the three arguments discussed above do not constitute a relevant reason against adopting the euro, since they are either inherent to the process (loss of control over monetary policy), intended as insurance (associated costs and liabilities) or economically manageable (state of convergence). Thus the only argument remaining is the fact that the governance of the eurozone is not yet finished, and therefore the prospective members cannot be certain about what are they applying for, as will be discussed in the following Chapter.

4. The Future of the Eurozone

It is surprising that, 30 years after the establishment of the Economic and Monetary Union by the Treaty of Maastricht, there is still no consensus about what its final form should look like or what target its members should set.[41] The Conference on the Future of Europe did not bring any significant input in this regard and, as the

35 Ibid.
36 Ibid.
37 Lacina et al., 2007, p. 136.
38 Čihák and Holub, 2005; Gorčák, Šaroch and Bič, 2021; Žďárek and Šindel, 2007.
39 Lacina et al., 2007, p. 248.
40 Česká národní banka, 2019.
41 As summarised in Česká národní banka, 2019, p. 12: 'On the one hand, mainly "southern" Member States are advocating faster integration with a stronger sharing of risks and financial resources, and on the other, the countries of the European "north" seek to emphasise countries' individual fiscal responsibility, fiscal stability and risk reduction in the EU financial sector.'

term of the current European Parliament and the Commission is drawing to an end, no significant decisions can be expected in the near future.

At least since the financial crisis of 2008 and the subsequent sovereign debt crisis unfolding in several Member States, it was debated whether there are deficiencies in the architecture of the EMU. The European Commission issued a communication in 2012,[42] identifying 'weaknesses in the initial design of the EMU' and claiming that the 'EMU needs to be deepened further'. After five years, at the end of 2017, the Commission issued another communication, admitting that 'the euro area architecture is more robust than ever before but this does not mean that it is complete.'[43] Admittedly, a lot of progress has been made since then, including the establishment of the ESM and the first two pillars of the Banking Union, as discussed above, or the ongoing reform of the Stability and Growth Pact.[44] The ultimate vision of the EMU has, however, not yet been formulated, and the opinions do not seem to be converging.[45]

As has been described elsewhere,[46] with a level of simplification necessary for the purposes of this study, there are two general approaches to the understanding of the EMU: a *stability union* and a *fiscal union*. Rooted in broader economic theories, these approaches re also projected into the narrative of the financial crises the EMU has gone through. We will briefly outline these approaches below.

4.1. EMU as a stability union

The concept of a stability union (*Stabilititätsunion*) was framed in Germany, and is based on the economic school of ordoliberalism, a stream of neo-liberalism generally identified with the social market economy. Its ideas are based on the principle that the state (public authority) must create a proper legal environment for the economy, allowing competition to flourish, and must employ active measures in order to maintain it.[47]

These ideas apply to the area of monetary policy as well. In this framework, the principal goal of a monetary union is to ensure fair and stable conditions for efficient free-market competition by maintaining a currency that is solid both internally (low inflation) and externally (stable exchange rates).[48] Conversely, interventionist fiscal

42 Communication from the Commission. *A Blueprint for a Deep and Genuine Economic and Monetary Union. Launching a European Debate*. COM(2012) 777 final/2 of 30 November 2012.

43 Communication from the Commission. *Further Steps Towards Completing Europe's Economic and Monetary Union. A Roadmap*. COM(2017) 821 final of 6 December 2012, p. 1.

44 European Parliament, 2023.

45 Brunnermeier, James and Landau, 2017, p. 7: '[C]ountries are following, on the whole, an approach of ‚business as usual' – digging trenches around established intellectual and theoretical propositions. The rational business of negotiation strategies developed in the course of the European crisis intensified rather than resolved the clash of cultures. As the relentless logic of events went on, the French appeared ever more French and the Germans ever more German.'

46 Hacker and Koch, 2016.

47 Vatier, 2010.

48 Hacker and Koch, 2016, p. 11.

policy (financial stimuli), leading ultimately to inflation and devaluation, creates fundamental risks. Growth and economic dynamism is achieved through productivity-expanding competition in the markets, not through expansive fiscal or monetary policy.[49] Government deficit is the only area in which co-ordination is needed among members of a monetary union, because they may lead to a debt crisis and ultimately to a demand for bailout,[50] which is absolutely unacceptable under this approach.

In this narrative, a monetary union needs to be built on two pillars: an independent central bank and the fiscal discipline of its member states.[51] In addition to that, it is important that liability and control must go hand in hand. In each relevant policy field, control over fiscal and economic policy action has to be accompanied by a liability for its consequences, any divergence between these two aspects is causing a moral hazard and may result in serious political tensions.[52] This effectively prevents any mutualisation of debt.

4.2. EMU as a fiscal union

Conversely, the concept of a fiscal union is based on neo-Keynesian thinking, focused, in contrast to the ordoliberal approach, on the demand side of the economy, which needs to be stimulated by public authorities (and public finances) in order to prevent the cyclical crises. In case the monetary union is not an optimal currency area, as is clearly the case with eurozone, public stimuli are needed to contain regional asymmetric shocks.[53]

Extensive spending capacity on the side of a monetary union is thus necessary for it to function.[54] In addition to that, economic policies of member states need to be closely coordinated. In direct opposition to the ordoliberal approach, it is claimed that a monetary union cannot work properly without being supported by some form of economic[55] and, in the long run, political union.

49 Ibid.
50 Dullien and Guérot, 2012, p. 3.
51 Wyplosz, 2017, p. 149.
52 Feld et al., 2016, p. 48.
53 In detail, see Mundell, 1961.
54 De Grauwe, 2006, p. 727: '[M]onetary union needs a central budgetary authority capable of offsetting the desire of consumers gripped by pessimism to increase their savings, by the dissaving of the central government. In addition, to the extent that there are asymmetric developments in demand at the national level, the existence of an automatic redistributive mechanism through a centralized budget can be a powerful stabilizing force. Finally, in this view the responsibility of a central bank extends beyond price stability (even if this remains its primary objective). There are movements in demand that cannot be stabilized by only caring about price stability.'
55 Pisani-Ferry, 2006, p. 841.

In this narrative, there is a "design failure" in the current architecture of the EMU,[56] and some form of debt mutualisation[57] and creation of a common budgetary authority – in short a "fiscal union"– is needed in the future, because 'in the long run the monetary union will have to be embedded in a significant fiscal union. […] Without significant steps towards a fiscal union there is no future for the euro.'[58]

The proponents of this approach call for the introduction of specific stabilisation funds[59] and significantly increased fiscal capacity at the EU level.[60] This is, however, in direct contradiction to the ordoliberal requirement on the same level of control and liability, according to which, as showed above, any form of debt mutualisation and bailout is inconceivable without the full-fledged transfer of fiscal and economic powers to the EU.[61]

4.3. The trajectory of the EMU

Arguably, the long-term trajectory of the EMU seems to be the fiscal union.[62] Strategic materials published by EU institutions point in that direction,[63] as well as several notable changes concerning the financing of the EU.

The establishment of the ESM, a mutually guaranteed fund devised to support failing Member States, is a case in point. The banking union, and especially the SRF, point in the same direction. Another decisive step toward the fiscal union was done as a reaction to the COVID-19 pandemic.[64] In 2020, the EU created the EU Recovery Instrument,[65] which provides access to funds up to EUR 750 billion, almost equalling the overall Multiannual Financial Framework (2013–2020) of EUR 961 billion.[66] Most of these resources is to be disbursed to Member States as grants and loans via the Recovery and Resilience Facility.[67] Arguably, this as yet one-off project constitutes the most decisive step towards mutualisation of debt and anti-cyclical financing, as called for by the proponents of the fiscal union. In summer 2023, a proposal for the Ukraine Facility, a fund based on similar principles, was published.[68]

56 De Grauwe, 2013.
57 Ibid, p. 26.
58 Ibid, p. 29.
59 See eg. De Grauwe and Ji, 2016, p. 144.
60 See eg. Pisani-Ferry, Vahriala and Wolff, 2013, p. 3.
61 Feld et al., 2016, p. 50.
62 Dědek, 2014, p. 316.
63 Petr, 2018, p. 188.
64 Dermine, 2020, p. 345.
65 Council regulation (EU) 2020/2094 of 14 December 2020 establishing a European Union Recovery Instrument to support the recovery in the aftermath of the COVID-19 crisis.
66 Porras-Gómez, 2022, p. 6.
67 Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility.
68 Proposal for a regulation of the European Parliament and of the Council on Establishing the Ukraine Facility. COM (2023) 338 final of 20 June 2023.

At the same time, it should be noted that there is no consensus on the future of the EMU as a fiscal union. In my opinion, however, the activities of Member States seem to suggest that, in the long term, this is the trajectory of the EMU. Even though currently there is no evidence for the actual costs of staying outside of the EU, the deepening monetary integration may ultimately lead to more economic benefits associated with joining the monetary union.[69]

5. Conclusions

The Czech approach to the euro has undergone several changes over the past 20 years. In 2004, the Czech Republic started as a moderately pro-euro country, only to turn into its strongest opponent in just 10 years. On institutional level, it has maintained this sceptical approach, with the government proclaiming openly that the adoption of the euro was not in the interest of the Czech Republic. The public opinion and the support of business has, however, lately shifted back to a moderate support of the euro.

Czech institutions have put forward four reasons against adopting the euro. As we have discussed in this paper, these reasons are, arguably, not decisive from the economic and legal perspective. The only relevant argument seems to be that the future of the EMU itself is yet unknown, and it is impossible to subscribe to a project with unclear trajectory.

I have argued in this paper that the long-term course of the EMU heads towards fiscal union. Ultimately, it will be a political choice whether the Czech Republic is willing to participate in such a project. Currently, there are no strong economic arguments against the adoption of the euro; however, the political arguments may be legitimate.

The current government will clearly not take any steps towards the adoption of the euro. The next government should make its position clear, explaining the political choice of why (not) vote for participation in the EMU as a fiscal union.

69 Dědek, 2014, p. 177.

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