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Euro as a common currency in the Visegrad Group

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Visegrad Group Cooperation within the EU
Challenging the Rise of Euroscepticism

Executive summary

In the policy paper, we demonstrate dispositions of V4 countries towards the adoption of euro. Due to the biggest share of foreign trade with Eurozone countries, adopting euro would have massive impact on reducing transaction costs, which would stimulate economy. Also, elimination of exchange rate would provide much more stable environment for inflow of foreign investments and foreign trade with other Eurozone countries. However, with adoption of euro, we will have to face the loss of autonomy of monetary policy. Some claim that common monetary policy cannot adapt to differences among economic activities and openness of economies and in effect markets might lose the ability to absorb shocks with free capital movement.

Approach to the adoption of Euro differs in all countries of V4 group. In Slovakia, where euro has been introduced in 2009, people are satisfied with euro and the country doesn't suffer from any major disadvantages, which are usually presented in discussions whether to adapt euro in other countries. Since Hungarian public support of euro adoption escalated to 64%, Hungary is the likeliest of V4 countries with their own currency to adopt euro in the future. Opposite opinion prevails in Czech Republic where 60% of public is against the adoption of Euro, neither it is supported by the government. Poland's public has slightly positive tendencies towards euro adoption with 54% in favour of euro.

Adopting euro prevails as a political decision, but politics and the public opinion influence each other. That is the main reason why authors of this policy paper decided to suggest following policy recommendations:

- Better communication between politics and public opinion about euro as a common currency.
- Activities on the political level.
- Educating the public about the Euro.

1. Introduction

The first concept of a monetary community was articulated in the Treaty Establishing the European Community (Winiarski 2006, p. 530). However, the existence of the Bretton Woods system at the time ensured currency stability, so no separate system was needed. As it became clear after some time that neither the Bretton Woods system nor its successors (the Barne Report and the Werner Report) had succeeded, steps were taken to create the European Monetary Cooperation Fund in 1973. It was based on three elements: an exchange rate mechanism, credit support and a European Currency Unit (ibid., p. 531.) In 1992, in Maastricht, the Treaty on European Union was signed, which envisaged the free movement of capital, the creation of the exchange rate mechanism ERM II, and the establishment of such institutions as the European Monetary Institute, the European Central Bank and the European System of Central Banks (European Central Bank, 2022). The year 1999 proved to be significant — it was then that 11 European Union countries decided to adopt a new international currency: the euro. Initially in the form of a book currency, coins and banknotes were introduced in 2002. To join the euro zone, it is required to meet the convergence criteria: the criterion of stable public finances, the inflation criterion, the interest rate criterion and the exchange rate criterion. All European Union member states are obliged to join the Eurozone undersigned treaties (Treaty on the Functioning of the European Union, 2012). Denmark and the United Kingdom exercised their opt out option, which allowed them not to adopt the common currency. The year 2004 was a crucial period for the Visegrad Group - a year when all the countries of the group joined the European Community. Along with the accession to the union they pledged to adopt the Euro currency.

As of 2022, only Slovakia is in the Eurozone, while the remaining Visegrad countries do not fulfil all the convergence criteria, and most crucially, they do not receive adequate political and social support. The public fears not only the loss of sovereignty, the abandonment of traditions, but above all rising prices. With the economic downturn caused by the pandemic, this problem has affected the whole world, including the European Union. Amid the crisis, discussions emerged about the impact of eurozone membership on the inflation rate. There is speculation that if current currencies were replaced by the euro, inflation would be lower (Cipiur, 2022). In the chart below, we can observe that over the years, inflation rates in the Visegrad countries have been similar. The exceptions are 2010 and 2012, when price growth in Hungary was much higher than in other countries in the group, at 4.86% and 5.65%, respectively. At the beginning of the pandemic, in 2014-2015, inflation in all group countries was at very low levels or even turned into deflation. In 2020 and 2021, Slovakia, as the only member of the eurozone, recorded the lowest inflation rate compared to other Visegrad countries. This feature is no longer noticeable in May 2022.

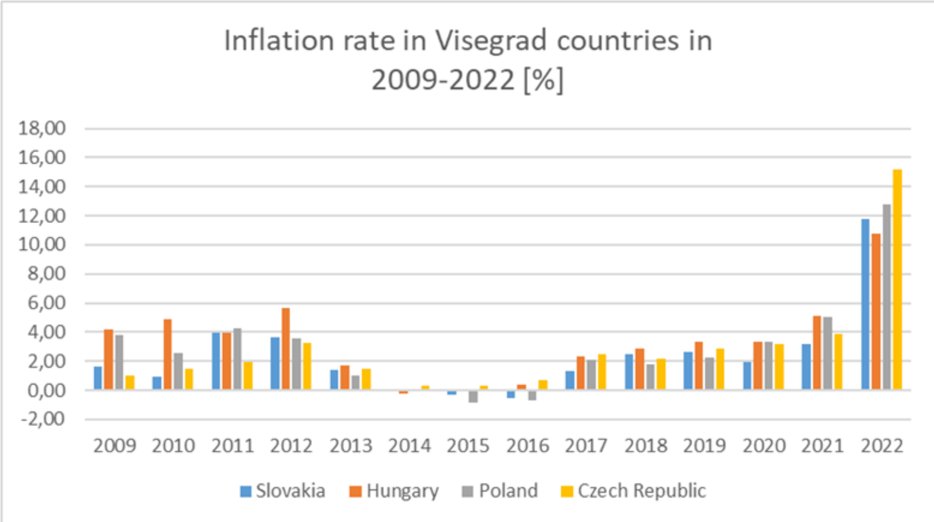

Figure 1: Inflation rate in the Visegrad Group countries in 2009-2022
Source: own elaboration, based on Eurostat data

2. Advantages and Disadvantages of Euro

Any discussion started on topic of euro introduction comes to the point of assessing the advantages and disadvantages of this step for national economies. Thus, the Visegrad group countries are no exception. Similar features of the four countries allow to address the pros and cons of euro introduction collectively.

Several benefits arise from the euro introduction for national companies. An important advantage is lowering the transaction costs in foreign exchange transactions. Since currently the biggest share on foreign trade of the V4 group concerns the countries of the Eurozone (Poland), this would mean a significant stimulation in economic performance of the companies. It would lead to "higher factor productivity as higher output can be produced with the same inputs of labour and capital" (Narodowy Bank Polski, 2004, p. 42; Aizenman & Marion, 2001). Naturally, the greater openness towards foreign trade of one nation, the bigger the benefits are. To this advantage also comes the elimination of the exchange rate risk. Moreover, thanks to the exchange rate risk elimination and the deeper convergence of V4 countries with the euro area after the euro adoption, the countries may expect in long-term horizon increased foreign capital inflow giving them even more benefits connected with the investments (Narodowy Bank Polski, 2004). However, this advantage was suppressed in case of Slovakia's euro accession, mainly due to the reduced global supply of investment funds caused by the financial crisis and, in addition, Slovakia's attractiveness to investors worsened as a result of the appreciation of the euro vis-à-vis the countries of Central and Eastern Europe outside the euro area (Fidrmuc et al. 2013).

Furthermore, euro facilitates the cross-border exchange which, therefore, leads to an increased productivity of national companies throughout the augmented price transparency across the eurozone (Brans P., et al. 2021). This is eventually also linked to the increase of the competition with similar effect on the companies' performance since the resources will be used more effectively and companies with lower economic efficiency will no longer be able to remain in the market (Narodowy Bank Polski, 2004).

Expected outcome of these benefits in the end could lead to higher GDP of the country. Looking at the case of Slovakia, one cannot omit the full benefits of euro adoption were at the outset suppressed because of the crisis. However, according to the analysis conducted by Branislav Žúdel and Libor Melioris (2016), if Slovakia had kept its own currency and a floating exchange rate during the time of recession in 2009, it would have been better off by approximately by 2% that year.

With that said, the loss of country's independent monetary policy is indeed considered to be one of the most significant costs of the euro introduction. Losing the independent interest rate mechanism means losing an effective instrument for stabilising fluctuations emerging in business cycle. As to Slovakia, its recession was, in fact, sharper compared to other V4 countries in year 2009, which could be rationalized through the euro adoption, considering the fact that the currencies of the neighbouring countries depreciated, providing them with a comparative advantage (Žúdel & Melioris 2016). Nevertheless, Slovakia caught up and even exceeded its pre-crisis GDP level already in 2011 (Slovakia GDP..., 2022), yet claiming that this was achieved primarily thanks to the euro adoption would be wrong. Several analyses concur in the statement that losing the independent monetary policy does not have that large negative impact on economies of V4 (cf. Narodowy Bank Polski 2004; Šuster 2006). They state the main reasons being the high degree of economic integration of the countries with the euro area, the relatively high level of openness and, thus, the limited ability to effectively absorb shocks with free capital movement. On the other hand, there still are the arguments from the opposite direction. The governor of the Hungarian National Bank György Matolcsy claims that "less-developed countries should pursue their own monetary policy, especially to maintain the possibility to devaluate the national currency to improve the economy's competitiveness" (Jóźwiak 2017, p. 1). He further continues that joining the euro area would be economically beneficial if convergence of national income levels was achieved. At the same time, Czech National Bank admits the high correlation of Czech economic activity with the eurozone, but still, it emphasizes that the structural differences may cause asymmetric shocks, which the single monetary policy of the eurozone cannot fully absorb (Ministry of Finance of the Czech Republic, 2020).

General public predominantly perceives as relevant the disadvantage of higher prices on the market. The euro adoption relates to the risk that sellers will use the advantage of the transition and increase the prices. However, since the creation of the euro area multiple studies found out that "price increases were not a general phenomenon but limited to certain categories of goods and services, so that their impact on aggregate consumer price inflation was modest" (Hüfner & Koske 2008, p. 6). For the enterprises and firms, the one-off costs should also not be omitted. Before the euro accession in Slovakia, these costs were estimated at approximately 0,3% of GDP but were expected to be covered already after the first year from the benefits arising from joining the euro zone (Šuster 2006).

Euro introduction brings with it several pros and cons for the Visegrad group countries that were not stated in this report. Altogether, the most important fact is that eventually from the long-term perspective the advantages prevail. After all, this depends also on the economies itself, especially on their preparation for euro as well as on the general public opinion.

3. Public Opinion

When we consider the possibilities and actuality of introducing a common currency in the V4 countries, it is also very important to look at people's opinions. Obviously, no democratic government can go against the will of the people, so the public's attitude towards the European Union and the euro as a common currency is extremely important. To start with, we have to admit that the people of the Visegrad countries have very different attitudes towards the single currency.

In 2022, the Hungarian-based Republikon Institute surveyed support for the euro in several European countries. The survey (Az euró bevezetésének támogatottsága Magyarországon nemzetközi összehasonlításban, 2022) included Bulgaria, the Czech Republic, Croatia, Hungary, Poland, Romania, and Sweden. In the light of all this, it can be said that the document is also relevant for us, as it provides an accurate comparative picture of the Visegrad countries.

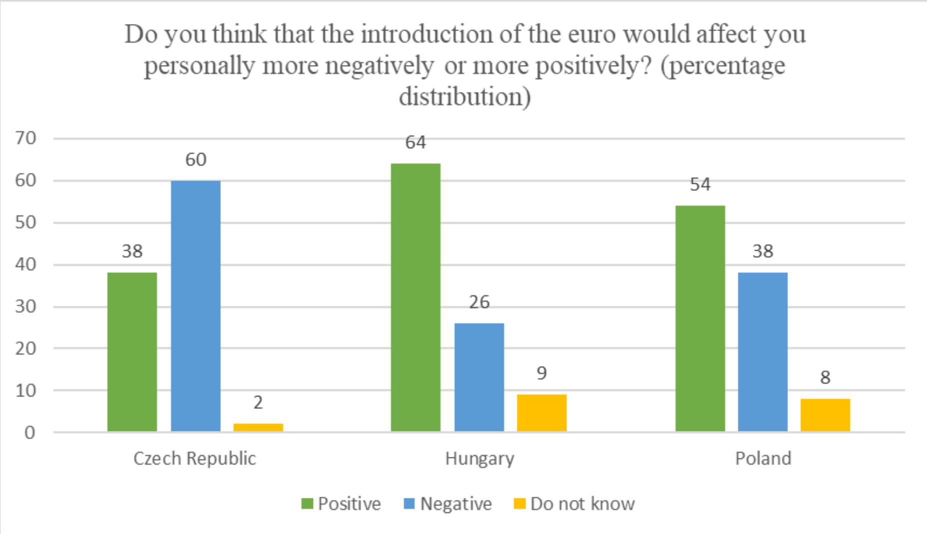

Figure 2: People's views on the introduction of the euro in the Visegrad countries.
Source: based on a survey by the Republikon Institute (http://republikon.hu/media/106472/republikon-22-02-08-euro.pdf)

The survey clearly showed that Hungarians are the most likely to see the personal benefits of adopting the euro. In their case, 64% think that they would be personally positively affected by the introduction of the single currency. In addition, 26% think that the introduction of the euro would have a rather negative impact on their lives.

The survey shows that Czech society takes a very different approach. In the Czech Republic, 38% of respondents said that the introduction of the euro would have a positive impact on their lives, while 60% were clearly negative. It is important to note that only 2% of respondents in the Czech Republic said they did not know, compared to 9% in Hungary and 8% in Poland.

Poland is somewhere in the middle between the Czech Republic and Hungary. 54% of respondents gave a positive answer about the personal impact of the euro. In addition, 38% answered negatively and 8% could not answer the question.

Overall, there are huge differences in people's attitudes towards the euro in the Visegrad countries, especially when comparing Hungary and the Czech Republic.

When we look at the Visegrad countries, we should also mention Slovakia, which has already adopted the euro, but that is precisely why it is worth looking at the population's opinion of it. According to the results of the survey run by Eurobarometer in 2021, the overall opinion of Slovak society on euro is rather positive. The Slovaks evaluate the euro introduction even more positively than the EU average, both at the national as well as EU level.

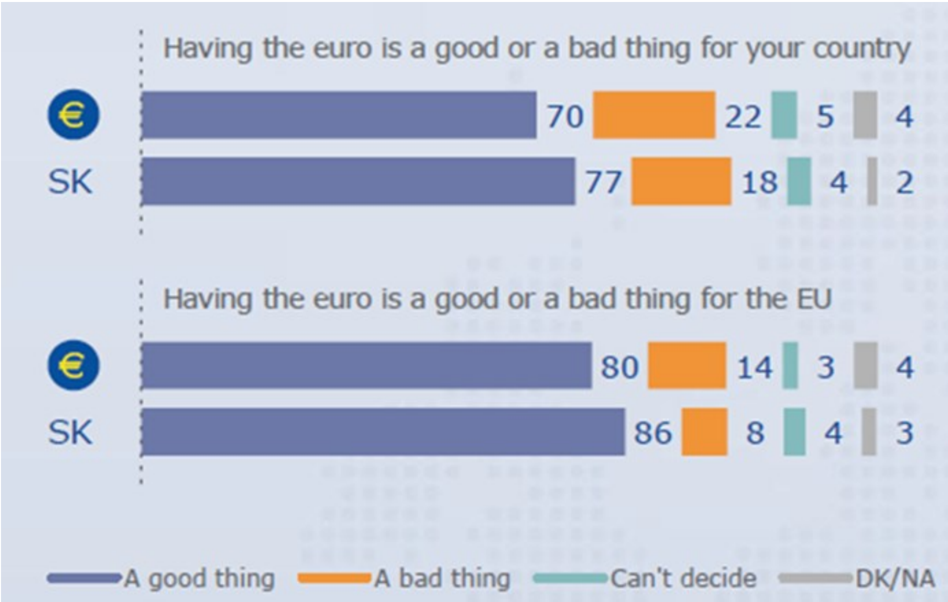

Figure 3: Slovak people's views on the euro
Source: Eurobarometer https://webgate.ec.europa.eu/ebsm/api/public/deliverable/download?doc=true&deliverableId=75516

Of course, in addition to these surveys, there have also been many other studies showing people's attitudes towards the euro in the countries surveyed.

According to another survey, for example Czech society is quite pessimistic towards euro. Since 2011 approximately 70-80% of Czechs are against euro (Členství České republiky v Evropské unii očima veřejnosti – červenec 2021, 2021). Accepting euro is supported neither by politicians nor by national bank. Czechs truly trust Czech crown and only small percentage of loanholders have them in foreign currency.

Based on a survey conducted by UCE RESEARCH and SYNO Poland in the second half of June 2021, it can be concluded that people in Poland do not want to adopt the euro currency. About 53% of respondents are strongly opposed to the adoption of international currency. Only 25% of respondents declare willingness to join euro zone. 17% have no opinion on this subject, and 4% are indifferent. Most supporters are in cities with population over 500 thousand, the least in towns with population under 50 thousand. The public believes that the introduction of the euro will sharply increase prices, while wages will not rise. There is a conviction that Slovakia's entry into the Eurozone has been very disappointing.

Overall, people's perceptions of the common currency in the Visegrad countries are quite different. Czech society is clearly the most sceptical, although Poles also seem to prefer their own currency. Hungary did not introduce the euro as well, but shows the highest support from the public, although the forint is expected to remain the national currency in the near future. Slovakia, on the other hand, has already adopted the euro and surveys show that people are satisfied with the common currency.

Policy recommendations

⇒ **Better communication between politics and public opinion about Euro as a common currency.** As we have presented, all V4 countries perceive the euro differently. Although we can see that the main problem, which all countries have in common, is the lack of communication between politics and the public. Proper communication in this field is crucial as politics and public influence each other. However, it is important to customise the topic according to the situation in a country at hand. In Czech Republic, Hungary and Poland, we recommend organising several public discussions with decision makers, public and experts in all regions. In Hungary and Poland, where adoption of euro is supported by majority, we should also exert more pressure on decision makers to boost the process of adopting euro. In Czech Republic the desired effect would be to increase interest and modernize education of the public on this topic.

⇒ **Activities on the political level.** It is important that the politicians favouring the topic of adopting the euro start talking about it in public and thus give an impetus to discussing the topic on the floor of parliaments. The adoption of the euro is, as we know, a political decision, so we want to promote the debate at political level so that the media become more interested in the topic and the debate moves from the political level to the entire society. On this occasion, we would use the public interest and visibility of the topic to add educational elements to the debate. It would be a great opportunity for the media to create space for this content and spread the debate. At the same time, this would create the opportunity to create more educational events and debates at local and regional level. Even if this sequence of events does not lead to the adoption of the euro, we believe that public opinion would shift towards a more positive view of the euro.

⇒ **Educating the public about the euro.** Whereas all countries that have entered European Union have agreed on accepting euro and decision makers care about public opinion when deciding whether to adopt the euro, we should ensure that public opinions are relevant and based on valid information.

Informing people through various advertising campaigns would not only educate people, but it would also bring the topic of adopting euro closer to elderly generation. We recommend creating educative content, which could be broadcasted in radios, TV, magazines, newspapers. The goal is to inform people about main information connected to adoption of euro and to debunk untruths connected to this topic. By providing basic information we both aim to create more space for communication on the topic and provide people with basic knowledge, to avoid manipulation based on lack of knowledge.

We also recommend organising events in all kinds of schools, to bring the topic closer to youngsters.

By promoting the debate at both political and local level, we would like to emphasize the debate so that it reaches as many people as possible. This will create the right environment to start the processes of adopting the euro.

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