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CHARLES UNIVERSITY
FACULTY OF SOCIAL SCIENCES
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**Plausible Effects of the Adoption of the Euro on the
Czech Economy: Comparison with the Case of the
Slovak Republic**

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Proposed Topic: Plausible Effects of the Adoption of the Euro on the Czech Economy: Comparison with the Case of the Slovak Republic.

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Topic Characteristics / Research Question(s):

This master thesis seeks to analyze if it would be beneficial for the Czech economy to adapt the euro. There are many controversial views about this issue. In order to answer this question, first of all I will analyze the adoption of the euro in Slovakia, both the positive and negative consequences, mainly in the area of trade, export, GDP growth and assess its gains for the Slovak Republic. I will try to show whether the adoption of the euro in the Czech Republic would lead to similar impacts. Additionally, I will also attempt to analyze, on the case of another plausible economic crisis, if the Czech economy would be more resistant to the economic crisis with or without the euro. Based on the results, I will evaluate suitability of the euro for the Czech Republic.

I am going to use academic literature, data from the European Union, the Economic and Monetary Union and I will also collect some data myself from another sources.

Working hypotheses (at least 3):

1. The adoption of the euro in Slovakia led to positive impacts on the Slovak economy.
2. The possibility of adoption of the euro in Czech Republic would not be beneficial for the Czech economy.
3. In the case of plausible economic crisis, Czech economy will be more resistant to this crises without adopting the euro.

Methodology:

In this master thesis I will analyze aforementioned hypotheses which are related to the impacts resulting from the adoption of the euro. After analyzing all the hypothesis, I will be able evaluate the positive and negative impact of the euro on the Slovak Republic and also possible impact on the Czech economy. I will use for examination meta-analysis which combines different sources which deal with the same phenomena. In the second part of the thesis, I will employ the synthetic control method approach, by which I will model a situation of economic crisis and its impact on the Czech economy with and without the euro. The main sources of this master thesis will be based on academic literature, secondary sources and statistical data from the European Union web pages.

Outline:

1. Introduction
2. Theoretical background
3. Adoption of the Euro in the Slovak Republic
 - a. The Process of Adoption
 - b. Impact on Trade, Export
 - c. GDP growth
 - d. Positive Impacts
 - e. Negative Impacts
4. Adoption of the Euro in the Czech Republic
 - a. Formal Conditions
 - b. Positive Consequences
 - c. Negative Consequences
5. Hypothetical economic crisis
 - a. Impact on the Czech economy without the euro
 - b. Resistance of the Czech economy with the euro
6. Conclusions
7. References / Bibliography

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Date: 23 May 2017

Approval of the supervisor (signature or a faximile):

Declaration

1. I hereby declare that I have compiled this thesis using the listed literature and resources only.
2. I hereby declare that my thesis has not been used to gain any other academic title.
3. I fully agree to my work being used for study and scientific purposes.

In Prague on 09.05.2019

Nikola Goralková

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Abstract

This master thesis deals with the euro adoption in the Czech Republic, comparing the possible effects of the euro adoption on the Czech economy and consequences of currency changeover after the Slovak Republic joined the eurozone in 2009. After introducing the theoretical concepts inevitable for the euro adoption, the process of preparation for the currency changeover in the Slovak Republic and the currency changeover itself will be described. Subsequently, the work focuses on the conditions which the Czech government has already met in the process of preparation for the euro adoption and which still need to be fulfilled. In addition, the Czech Republic's economic alignment with euro area countries is analyzed, especially focusing on particular areas. A significant part of this work deals with the comparison of positive and negative effects of the euro adoption in the Slovak Republic with possible impacts of euro on the Czech Republic. In the end, the emphasis is put on the strength of the Czech economy to deal with the possible future financial crisis.

Abstrakt

Táto diplomová práca sa zaoberá prijatím eura v Českej republike, pričom je kladený dôraz na porovnanie možných dopadov zavedenia eura na českú ekonomiku a dôsledky zmeny meny po tom, ako Slovenská republika vstúpila v roku 2009 do eurozóny. Po predstavení teoretických konceptov, ktoré sú nevyhnutnou súčasťou zavedenia eura je opísaný proces prípravy na zavedenie novej meny na Slovensku a prechod na novú menu. Následne je kladený dôraz na podmienky, ktoré Česká republika už splnila v procese príprav na prijatie eura a ktoré stále musia byť splnené. Okrem toho je analyzované zosúladenie českej ekonomiky s krajinami eurozóny, pričom sú vybrané určité dôležité oblasti. Značná časť tejto práce sa zaoberá porovnaním pozitívnych a negatívnych vplyvov zavedenia eura na Slovensku s možnými dopadmi eura na Českú republiku. Nakoniec je dôraz venovaný schopnosti českej ekonomiky vysporiadať sa s možnou budúcou finančnou krízou.

Keywords

Euro adoption, economy, the Czech republic, the Slovak republic, financial crisis, convergence criteria

Kľúčové slová

prijatie eura, ekonomika, Česká republika, Slovenská republika, finančná kríza, konvergenčné kritéria

Title

Plausible Effects of the Adoption of the Euro on the Czech Economy: Comparison with the Case of the Slovak Republic

Názov práce

Možné dopady zavedenia eura na českú ekonomiku: porovnanie s prípadom Slovenskej republiky

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List of abbreviations

DGS	Deposit Guarantee Scheme
ECB	European Central Bank
ECOFIN	Economic and Financial Affairs Council
EDIS	European Deposit Insurance Scheme
EMU	Economic and Monetary Union
ERM	Exchange Rate Mechanism
ESM	European Stability Mechanism
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
MIP	Macroeconomic Imbalance Procedure
SSM	Single supervisory mechanism
SRM	Single resolution mechanism

Introduction

“A symbol of the European integration.” Euro was marked in such a manner by the first president of the European Central Bank Wim Duisenberg, emphasizing the importance of having the common currency. Although the majority of the member states of the European Union has adopted the euro as a new currency by joining the eurozone, there still exist countries whose attitude toward the euro adoption is either ambiguous or strongly skeptical. The Czech Republic is a country which belongs to this group. By becoming a member of the European Union, the Czech Republic had an obligation to adopt the euro without having defined a specific date. Therefore, the country initiated preparation for euro adoption and received the status “a member state with derogation”. Later on, also thanks to the skeptical attitude of the former president Václav Klaus, a high number of politicians and a significant part of the population considered the euro adoption as mainly negative for the Czech Republic. Since then, there has been an ongoing discussion about the euro adoption and its impact on the Czech economy and its citizens. According to the survey undertaken by Eurobarometer (2008) the number of citizens in the Czech Republic supporting the euro adoption has significantly declined since 2005. On the other hand, Slovak citizens did not support the currency changeover at the beginning of 2006, but the situation changed in 2008 with a significant increase of support. The economic literature does not provide a uniform approach and comprehensive work covering this topic is not available.

From the long-term perspective, stable growth is a characteristic feature for the Czech economy. Besides, the economic growth is even above the EU and Eurozone average. Therefore, there arises a question whether in the case of euro adoption, the Czech Republic will experience positive impacts of the euro or mainly the negative ones will prevail. Will be the Czech Republic more resistant to the possible economic crises with the euro as a new currency? Did the euro adoption help the Slovak economy to cope better with the economic crises in 2009? Not only these questions will be addressed in this thesis.

The academic literature encompasses a wide array of works focusing on the European economic integration, emphasizing the importance of having the common currency (Badwin, 2013), but also dealing with the adoption of euro at the national level what is an important issue also for the euro adoption in the Czech Republic. Another

strand of the literature describes both positive and negative effects of the euro adoption on the Slovak Republic and the potential advantages and disadvantages of euro for the Czech economy.

The main objective of this master thesis is to analyze whether the euro adoption will be beneficial for the Czech Republic and if the number of benefits will outweigh possible disadvantages. At the same time, the emphasis will be put on the evaluation of both negative and positive impacts of the euro adoption on the Slovak economy as well as comparison of those advantages and disadvantages for the Czech Republic and Slovakia. The last hypothesis deals with a case of possible financial crises in the future. The aim is to analyze whether the Czech economy would be stronger or weaker with euro in the case a financial crisis hits the country.

Generally, the research questions may be approached either by the qualitative approach which focuses on the collection of various data and application of statistical methods, but also by using quantitative methods such as document analysis or observation, which are also used in this master thesis. In order to be able to explicate the questions mentioned above, methods based on quantitative research are used. Since data and graphs are of great importance for the results of this master thesis, qualitative research is also applied to a certain extent. More specifically, comparative case study was part of the research of the studied subject.

The first part of the master thesis is based on the qualitative method and is devoted to the theoretical background, focusing on the theory of optimum currency areas which is an alternative to the concept of the Copenhagen convergence criteria. Both concepts are profound for euro adoption, providing different attitudes. Although nowadays the concept of the Maastricht criteria is used for evaluation of a country's preparedness to join the eurozone, the theory of optimum currency areas cannot be omitted.

Chapter 2 provides an overview of the primary literature encompassing not only the theoretical concepts but also the impacts of the euro adoption for the Slovak Republic and also possible consequences for the Czech Republic. *Chapter 3* presents the theoretical concepts which can be considered as the core for the euro adoption. Following chapters deal with the real and possible consequences of euro adoption. *Chapter 4* analyzes the process of euro adoption in the Slovak Republic, steps which have already been undertaken by the Czech government and procedures which still need to be done. *Chapter 5* gives the comprehensive overview of benefits and disadvantages which experienced the Slovak Republic after joining the eurozone and comparing those

positive and negative impacts with the possible consequences of the euro adoption for the Czech Republic. In the *Chapter 6* are stated the results of the examined area and *Chapter 7* summarizes findings.

2 Literature overview

Two main strands of literature are of great importance for this master thesis. The first part consists of literature and studies focusing on the European Union, its development and the European economic integration. Secondly, it follows various studies and analysis dealing with different effects of the euro adoption for both Slovakia and the Czech Republic.

Since the emergence of the first concepts of the European Union, it has received considerable attention not only by other countries and integrational associations but also in economic literature and overall in literature. There exists a wide array of books and studies related to the European Union, its historical development and integration process. In order to underpin this statement, a work written by Desmond Dinan called *Europe Recast: A history of European Union*, which offers a summary overview of the historical development of the European Union, at the same time focusing on particular institutions is a great example.

Because this master thesis focuses on the economic area of the European Union, the emphasis is mainly placed on the academic literature and articles related to the economic integration of the European Union. One of the most significant books written by Frank McDonald & Stephen Dearden (1994) emphasizes the importance of the Economic and monetary union, at the same time describing the positive and negative impact of the euro since 1999. On the other hand, there is another important work written by Baldwin and Wyplosz (2013) covering more topics essential for this work, providing an overview of the theory of optimum currency areas, but also the role of euro and its significance, having both positive and negative consequences for the euro area countries.

Other notable work written by Olřich Dėdek called *History of the European Monetary Integration* not only provides the historical overview of economic integration, but also focuses on the concept of the Maastricht criteria and its development as well as the theory of optimum currency areas, providing not only advantages of this theory, but also its critique.

Since this master thesis deals with the euro adoption, particularly in the Slovak Republic and the possible adoption of the euro in the Czech Republic, the literature sources published by both national banks together with recent publications and studies are of high value. The National Bank of the Slovak Republic issued a detailed study of

both negative and positive possible effects, of the euro adoption on the country. Besides, the bank prepared and issued the draft describing the process of transformation to a new currency.

Although the Czech Republic has not adopted the euro yet, despite being discussed for many years, the National Bank of the Czech Republic has also issued several important studies and analysis related to the euro adoption. Among the most important can be found a study related to the effects of the euro adoption called *The study of effects of the euro adoption on the Czech economy*, indicating not only positive impacts of euro, but also negative ones, and the national plan of adopting the euro. In connection to this brief overview of the literature, it is notably significant to define the basic concepts related to the euro adoption which will be repeatedly used in the following pages.

One of the most significant concepts which is closely related to the euro adoption is the concept of the Copenhagen or Maastricht criteria. There are many important books which focus on this issue, but among the most fundamental is a book written by Peter B. Kenen called *Economic and Monetary Union in Europe: Moving beyond Maastricht*.

The author provides a comprehensive analysis of the European monetary union which is a part of the Maastricht Treaty. Furthermore, an emphasis is placed on the advantages and disadvantages of a monetary union. The introduction of the convergence criteria was preceded by the long-term process of preparation and discussions related to the EMU. There was a general agreement that the monetary union can be created only by countries which have a high degree of sustainable convergence and macroeconomic stability (Dědek, 2008).

Another important concept is the theory of optimum currency areas. This theory was introduced by R. Mundell (1961) in his work *A theory of optimum currency areas* and later developed by R. McKinnon (1963) who issued an article called *Optimum currency areas* and P.B. Kenen (1969). Although this theory has been transformed over the course of time and thanks to different contributions of the authors mentioned above, the main idea remains the same. R. Mundell focused on the likelihood of asymmetric shocks and that similar situation such as the increased price of oil will have a different impact on national economies of several countries. The other authors contributed to the theory by focusing on plausible trigger mechanisms of asymmetric shocks as well as factors which could decrease the likelihood of a new asymmetric shock.

The theory of optimum currency areas is summarized in detail in the book *Monetary Integration* written by Lubor Lacina et.al. The vital issue is that Mundell distinguishes between currency area and monetary union. The difference between these two terms is based on the number of currencies. While the currency area includes two or more fixed currencies such as the European currency system, for monetary union is typical single common currency such as eurozone. The currency area is further perceived differently by various authors. Mongelli (2002) defines the optimal currency area as an optimal geographical area which has either single common currency or more currencies but they have to be mutually fixed. The area of optimum currency area corresponds to the area of a sovereign state which uses the single common currency or more mutually fixed currencies. For a currency area to be optimum, it needs to fulfill several requirements. By meeting these criteria, the benefits arising from the membership in the monetary union should exceed the costs related to this situation. De Grauwe (2005) perceives the definition of optimum currency area similarly. Furthermore, Horvath (2001) deals with the suitable area of the currency area (Lacina, 2007).

R. Mundell (1961) based the theory of optimum currency areas on the model of two countries, namely Germany and France, which created a monetary union with common central bank and currency. Because of the shift of consumer preferences from one country to another, there appears demand asymmetric shock. It means that the aggregate demand declines in France and increases in Germany. This shocks would cause problems for both countries. Since the countries are part of the monetary union, they are not allowed to use their own monetary policy. Inevitably there arises a need for automatic balancing mechanisms. Mundell (1961) states that there exist two factors which can play a role of balancing mechanisms, namely a labor mobility and flexibility of wages.

3 Theoretical background

This part of the thesis deals with the theory related to the currencies adoption as well as criteria which need to be fulfilled when a country aims to adopt a new currency. It also points out that there is not a single set of criteria used and different criteria may be used when evaluating a country's potential to adopt a new currency.

3.1 Theory of optimum currency areas

The basic idea of the theory of optimum currency areas is that two or more countries share a single common currency or more fixed currencies and this situation should be beneficial for these countries, meaning that the advantages of being a member of this union should be higher than costs arising from this membership. Besides this theory provides a set of criteria whose fulfillment can be used as a condition for adopting a new currency. A country should meet these criteria if it wants to be a part of optimum currency areas and benefiting from this membership rather than bearing the costs (Lacina, 2007).

According to Mundell (1961) one of the vital criteria is factor mobility. The main reason is that high mobility of factors of production compensates the loss of independent monetary and currency policy. Therefore, the countries with a high degree of mobility of factors of production are less susceptible to the need to change relative prices due to the presence of asymmetric shocks.

Kenen (1969) emphasizes the importance of commodity diversification of production and consumption which can reduce the impacts of asymmetric shocks by reducing the need to change relative prices and it also acts as a prevention of plausible fluctuations of economic development. Moreover, a high degree of fiscal integration is one of the required criteria. It enables a member country to deal with the consequences of an asymmetric shock within the currency area much easier.

For McKinnon (1963) is of high significance openness and size of the economy. He states that countries may prefer the regime of fixed currency because of the ineffectiveness of nominal devaluation of a currency concerning competitiveness. In addition, it is a typical feature of smaller economics to be more open and incline toward membership in a monetary union.

Among other criteria can be found the flexibility of prices and wages which absorbs the impacts of an asymmetric shock such as unemployment or inflation. Furthermore, another measure which can help to prevent another asymmetric shock from happening is the structural similarity of GDP in all countries involved. Therefore, if there is a high structural similarity the same situation should not have different impacts on these countries. The inflation rate should be similar as well. It is shown that countries which have high concurrent inflation rate need to use the currency policy as a balancing mechanism to a much lesser extent. Furthermore, the integration of financial markets belongs to the set of criteria. This criterion is not considered to be a fundamental pillar of the balancing mechanisms in the case of asymmetric shocks, but it is support of long-term balancing process instead. Other, more measurable criterion, is the variability of the real exchange rate. Thus, Vubel (1978) suggests that the readiness of a country to access the monetary union should be also based on the criterion of the variability of real exchange rate. Last but not the least, political factors are also an essential criterion for the theory of optimum currency areas because political will is the main pre-condition of creating a monetary union and success of this union depends on the political consensus of the countries involved (Lacina, 2007).

The theory of optimum currency areas constitutes a significant contribution to the economic literature. Nevertheless, the theory is not perfect and is criticized because of several aspects. One of the crucial reasons is the questionable possibility of adequate evaluation of specific criteria. Some of the mentioned criteria are difficult to be measured in practice. There exist several factors explaining this situation. In comparison with the Maastricht criteria, the criteria which are part of the theory of optimum currency areas do not set any limit values. Consequently, measuring whether the openness of an economy is high or low is not feasible because of the absence of certain limits. Another crucial issue is the significance of each indicator. The theory of optimum currency areas does not precisely state whether fulfilling one indicator over the limit may be considered as a kind of balancing mechanism for another, not completely fulfilled, indicator. In addition, the absence of relevant data and tests also constitutes a problem for the reliability of the theory (Dědek, 2008).

3.2 Maastricht criteria

Although the theory of optimum currency areas is considered by many as very significant, countries adopting euro opt for the concept of the Copenhagen criteria in most of the cases. A country, which is a member of the European Union, cannot enter the Economic and Monetary Union of the European Union without preparation process which includes fulfillment of a certain set of criteria and conditions. One of the critical conditions for entering the Union and consequently adapting the euro is compliance with the convergence criteria (Baldwin, 2013).

After introducing them, there were different opinions on their relevance. Among the most criticized factors were inappropriate strictness of the criteria as well as its duplicity which meant that fulfillment of one criterion ensured fulfillment of another criterion with a high probability. Besides, the criteria were considered to be incomplete because they did not take into account the real convergence which was the main point of the theory of optimum currency areas. Therefore, there exists a high inconsistency between these two concepts and both focus on different aspects. Nevertheless, it has been generally agreed that these criteria constitute a certain standard of a stable economy and constitute a more relevant concept which should be used as a condition for the membership in the monetary union (Dědek, 2008).

From the macroeconomic perspective, these criteria are considered to be specific indicators which measure five significant areas such as price stability, exchange rate stability, sound public finances, sustainable public finances and durability of convergence (European Commission, n.d.). Each criterion is measured differently. Firstly, price stability is measured by consumer price inflation rate, and the requirement is that a candidate country must not exceed the rate of the three member states which perform best by more than 1,5 percentage points. Long-term interest rate is closely connected to price stability because countries which are prone to have volatile inflation rate may intend to intentionally reduce the inflation rate during the last year of preparation. Therefore, the long-term interest rate is not allowed to exceed two percentage points above the rate of the three best performing member states concerning price stability. The third criterion has also been introduced as a precaution of intentional intervention into inflation rate. This criterion requires the candidate countries to participate in ERM for at least two years without the need to devalue their currency from a central rate (Baldwin, 2013). The last criterion puts emphasis on sound public

finances. The first part determines that government deficit cannot go up more than 3% of GDP. This measurement is again related to price stability because inflation is usually a result of an inappropriate budget deficit. As in the case of price stability, the rate of government deficit may be modified in the desired way. To prevent this situation, the second part of this criterion sets the maximum level of public debt. Government debt must be below the reference value of 60% of GDP (European Commission, n.d.).

4 Euro adoption

The Slovak Republic entered the European Union in 2004 together with other ten countries. Becoming a member of the European Union meant long-term integration process, several political as well as economic changes and necessity to undertake various measures and conditions. In the same year, the government of the Slovak Republic approved the strategy for the adoption of the common single currency, euro. In 2009 the Slovak Republic officially entered the eurozone and adopted the new currency.

4.1 The process of adoption in the Slovak Republic

The accession of the Slovak Republic to the Economic and Monetary Union of the European Union was preceded by the long-term preparation. First of all, Slovakia had to be prepared for the adoption of the single currency as well as prepared to fulfill commitments resulting from the Stability and Growth Pact (Národná banka Slovenska, 2003).

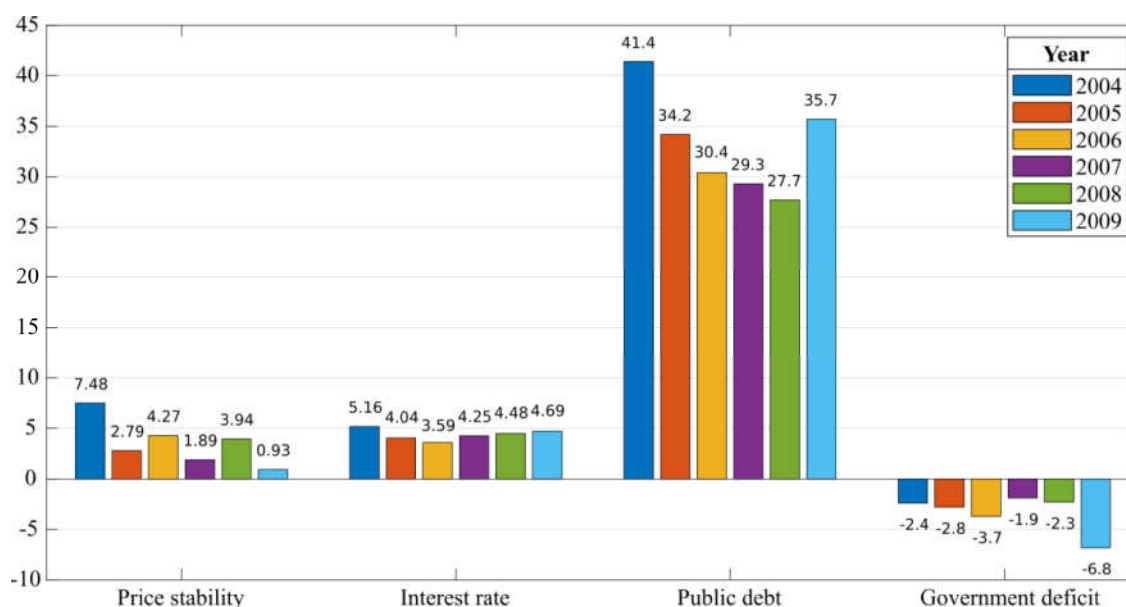
Part of this preparation was “*Strategy of the Slovak Republic for Adoption of the Euro*,” which was put forward on 16.07.2003. Besides, this process required the cooperation of the Slovak government with the National Bank of Slovakia. The result of the cooperation was the adoption of another document, namely “*The realisation of euro adoption strategy*.” This document included the evaluation of fulfillment of the Maastricht criteria as well as set the date of completion of the first stage of preparations, focusing on entering the Exchange Rate Mechanism. Therefore, Slovakia was supposed to join ERM II in the first half of 2006. Moreover, 1.1.2009 was determined as the date of euro adoption in Slovakia (Kupczyk, 2016).

In 2005, the strategy called “*The National Plan for the Introduction of the Euro*” was introduced by the Ministry of Finance and the National Bank of Slovakia, which was updated later in March 2007 and April 2008 (ibid). Apart from confirming the date of the adoption of the euro, this strategy was followed by an aim to meet the convergence criteria, which were the formal condition and at the same time, the government of Slovakia declared the goal of creating favorable conditions for fulfillment of the Maastricht criteria by 2006 (Sychra, 2010).

Since the Slovak Republic met the Copenhagen criteria, as can be seen in the

Figure 4.1, the country requested the process of evaluation of its readiness to access the EMU on 5th April 2008, initiating the formal process of evaluation within the EU.

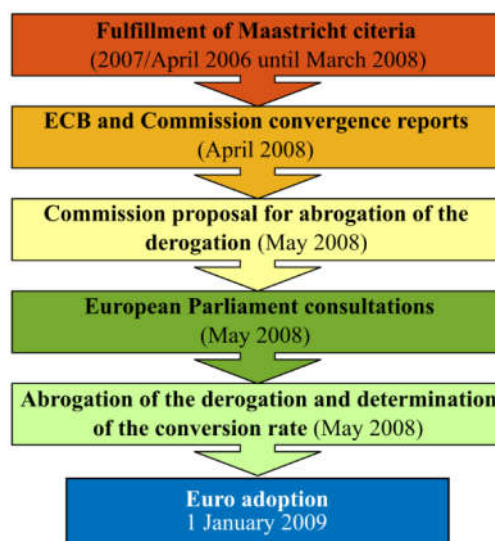
Figure 4.1: Fulfillment of the Maastricht criteria in Slovakia in the period 2004-2009



Source: Own calculation based on the data from Trading Economics (2019)

The Figure 4.2 shows the process of preparation for euro adoption. After initiating the formal process of evaluation, convergence report of ECB and Commission was awaited. The procedure was followed by consultations and determination of conversation rate. Furthermore, six months period required for euro adoption was set, focusing on organizational and technical arrangements of the changeover of korunas to euros (NBS Research Department, 2006). The European Council issued a necessary decision with effect from 1.1.2009, and since then Slovakia has become a member of the eurozone, and the conversation rate was determined at 30.123 korunas per 1 euro. After the formal date of euro adoption, a Big Bang strategy, which describes the process of putting banknotes and coins into circulation at the time of adopting the euro and at the same time quickly withdrawing korunas, was launched. However, for a short period of time both currencies operated simultaneously (Kupczyk, 2016).

Figure 4.2: Sequence of steps and deadlines for euro adoption



Source: NBS Research Department, 2006, p.103

The only problem regarding the Copenhagen criteria arose because of inflation. ECB holds a more critical attitude toward the ability of the Slovak Republic to keep price stability under the given limit, what was caused by various risks related to the Slovak economy. Despite this situation, the problem did not get sufficient attention to be considered as an obstacle of the accession, because the European Commission did not put much emphasis on this issue (Sychra, 2010, 127-129).

4.2 Adoption of euro in the Czech Republic

The Czech Republic belongs to the small number of the member states of the European Union which have not changed their currency yet. Several analysis and studies have already been published whether it would be beneficial for the Czech economy to adopt a new currency. A single solution to this issue does not exist, and there has been an ongoing discussion about the plausible effects of adopting the euro in the Czech Republic.

When taking into account the shared history and similar development of the Czech Republic and Slovakia, there also arises a question which factor or factors contributed to the different attitude of the mentioned countries toward the euro adoption. Slovakia adopted the euro in 2009, and although the Czech Republic has already met the majority of the required criteria, the country has not made a significant step toward deepening the process of the euro adoption. Several reasons, which explain

this different approach of both countries, exist. First of all, from the long-term perspective, Slovakia was somewhat less advanced and underdeveloped when being a part of Czechoslovakia and the relationship between those two countries was not balanced. Therefore, a sense of inferiority was created, and by joining the eurozone, the Slovak Republic showed that its position has changed, and it belongs to a group of countries which adopted the euro among the first (Dandashly and Verdun, 2015). Secondly, another profound factor which influenced the stance of both countries was an attachment to the currency. While the Slovak Republic did not put much emphasis on the form or name of its currency, the Czech Republic considered this issue of high importance. Based on the surveys carried out by Eurobarometer in 2009, the euro adoption was not profound for the Czechs, and they were proud of having koruna as a national currency. Moreover, koruna as a national currency has been circulating since 1918 what adds to its importance. Furthermore, another factor which was present in the Czech Republic to a much higher degree than in Slovakia was euroskepticism, which gained a significant strength after the presidential election which was won by Václav Klaus and the negative attitude toward the euro adoption persists (ibid).

4.3 Formal conditions

If the Czech Republic decided to adopt the euro, then it would have to meet specific formal requirements as is the case of all the member states which have already adopted the euro. First of all, the long-term process of preparation is inevitable, including the fulfillment of the Maastricht criteria.

The Czech Republic met the criterion of price stability in 2013, and the country was able to satisfy this criterion until 2016 as can be seen in the *Table 4.1*. Influenced by several factors, the situation changed in 2017. The higher level of inflation was mainly influenced by national development such as above-average growth of the Czech economy and demand overhang on the labour market. These factors stimulated the growth of wages, which was also speeded up by the low rate of unemployment and a high number of job vacancies. All of these led to higher inflation which among other things indicated the rising consumption of households (Ministerstvo financí ČR a Česká národní banka, 2018).

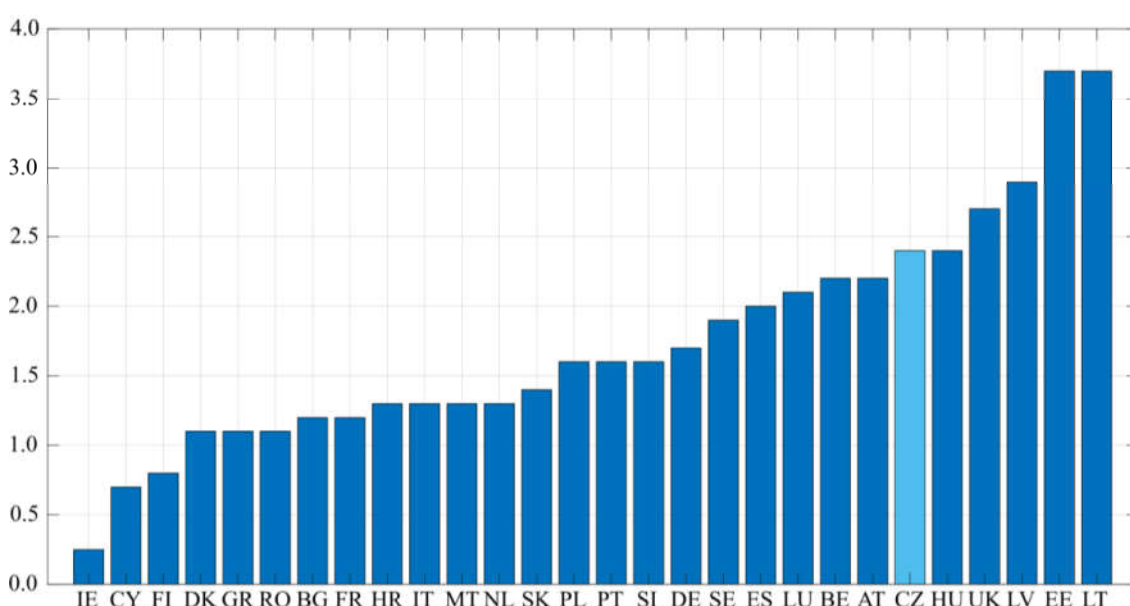
Table 4.1: Harmonized consumer price index

	2012	2013	2014	2015	2016	2017
Average of 3 EU countries with the lowest inflation	1.60	0.30	-0.20	-0.90	-0.80	0.60
Reference value	3.10	1.80	1.30	0.60	0.70	2.10
Czech Republic	3.50	1.40	0.40	0.30	0.60	2.40

Source: Eurostat 2018 cited in Ministerstvo financí ČR and Česká národní banka, 2018, p.3 & Ministerstvo financí ČR and Česká národní banka, 2015, p.4

The higher level of inflation is also observable in the Figure 4.3, which shows that in 2017 the Czech Republic belonged to the countries with higher inflation within the European Union.

Figure 4.3: The average rate of inflation in year 2017



Source: Eurostat 2018 cited in Ministerstvo financí ČR and Česká národní banka, 2018, p. 3

Another criterion puts emphasis on sustainable public finances and government deficit. The Table 4.2 and Table 4.3 indicate that the Czech Republic has been fulfilling both parts of the criterion since 2013.

Table 4.2: Government sector balance

	2012	2013	2014	2015	2016	2017
Reference value	-3.00	-3.00	-3.00	-3.00	-3.00	-3.00
Czech Republic	-4.00	-1.30	-1.90	0.70	1.50	1.50

Table 4.3: Public debt

	2012	2013	2014	2015	2016	2017
Reference value	60.00	60.00	60.00	60.00	60.00	60.00
Czech Republic	44.70	45.20	42.70	40.00	36.80	34.70

Source: ČSÚ 2018 cited in *Ministerstvo financí ČR and Česká národní banka, 2018, p.5* & *Ministerstvo financí ČR and Česká národní banka, 2015, p.5*

The Czech Republic has been able to fulfill the criterion of the convergence of interest rate in the long-term. As the *Table 4.4* shows the Czech Republic met this criterion already in 2012 and has kept up this trend until now.

Table 4.4: Long-term fixed bond rates

	2012	2013	2014	2015	2016	2017
Average of 3 EU countries with the lowest inflation	3,10	4,40	1,80	1,80	2,10	1,30
Reference value	5,10	6,40	3,80	3,80	4,10	3,30
Czech Republic	2,80	2,10	1,60	0,60	0,40	1,00

Source: Eurostat 2018 cited in *Ministerstvo financí ČR and Česká národní banka, 2018, p.5* & *Ministerstvo financí ČR and Česká národní banka, 2015, p.6*

If the Czech Republic wants to enter the eurozone successfully, it also needs to participate in ERM for at least two years. It means that the exchange rate should flow within the fluctuation margin $\pm 15\%$ without exerting direct pressures from the government on the currency. Within the period 2014 and 2018, the exchange rate was keeping its position in the defined margin $\pm 15\%$. Therefore, the Czech Republic has satisfied this criterion as well (ibid).

Based on the evidence, it is visible that the Czech Republic has already met the majority of the criteria, but it has not still satisfied all of them, and consequently, the Czech's economy is not compliant with the condition of the fulfillment of the convergence criteria.

The first steps toward euro adoption had already been done before the Czech Republic even entered the European Union by publishing the Czech Republic's euro-area accession strategy in 2003 (Czech National Bank, 2003). The strategy as mentioned earlier foresaw the plausible date of the euro adoption for the time period 2009-2010. However, favourable conditions for fulfillment of the fiscal criteria in a given time period were not created, postponing the year of accessing the eurozone for some time. In 2007, the government approved the updated version of Czech Republic's euro-area accession strategy called 'Eurostrategy', which is similar to the first document, but this

strategy did not indicate any specific date for accessing the eurozone. Therefore, the specification of the concrete date should follow after meeting the conditions for the fulfillment of the convergence criteria. In addition, in April 2007 the government of the Czech Republic adopted a document 'the National Euro Changeover Plan' (Výzkumné centrum PEF MZLU, 2007).

In the following year in April, the Czech government approved 'the Report on Fulfillment of the National Plan.' By adopting this document, the government confirmed the shift toward technical preparations even without the knowledge of a date determining the Czech Republic's accession into the eurozone. After the general election in May 2010, the Czech government agreed not to set a date for euro adoption, but the country would be prepared to initiate the adoption if the development of the single currency will be sustainable and countries within the eurozone will abide by rules. As of February 2014, the new government of the Czech Republic stated the intention to support the effort to create conditions for euro adoption (Ministry of Finance of the Czech Republic, n.d.).

As can be seen, the process of euro adoption has a rigid legal framework and a specific time period. The Treaty on the Functioning of the European Union sets the formal criteria for accessing the eurozone. The fulfillment of the given criteria is evaluated by the European Commission as well as the European Central Bank which regularly issues a convergence report. Since the particular periods of specific steps are set, it is very likely that the European Commission together with the European Central Bank would issue the convergence report evaluating the scale of the fulfillment of the convergence criteria in April, in the year preceding the year of euro adoption. Since the Czech Republic has not adopted the euro when accessing the European Union, the country has received a status of 'a member state with a derogation,' meaning that the Czech government had a certain leeway in determining specific time period until the country will be economically prepared (Allam and Goerres, 2008).

Therefore, by aiming to adopt the euro, the process of evaluation of the convergence criteria will be followed by the decision to abolish the derogation. However, the final decision made by ECOFIN usually at the end of June or beginning of July, will not be delivered until the Council of the European Union receives the confirmation of the Eurogroup, the consultations with the European Parliament take place, and the European Council is also obliged to address this issue. At the end of this procedure, the ministers of the ECOFIN council can deliver the final decisions

regarding the cancellation of the derogation status. The Council of ECOFIN will also definitely set the conversion rate based on the proposal of the European Commission and consultations with the European Central Bank (Ministerstvo financí ČR, 2014).

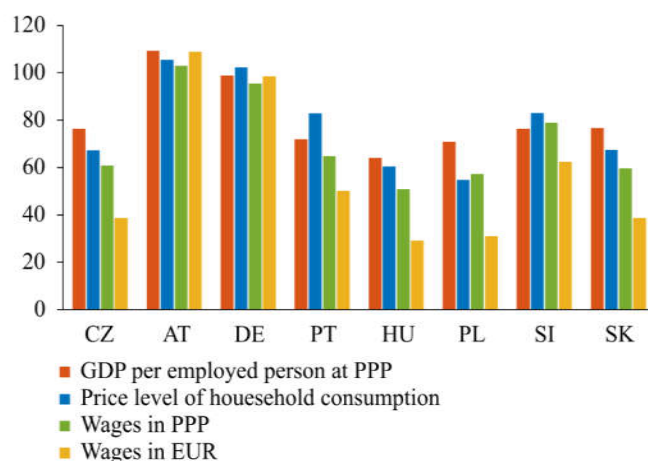
The Czech crown will be replaced by the euro the following year on 1st January. Already in 2006, the government of the Czech Republic opted for the 'big bang' scenario instead of the Madrid scenario. Consequently, there will be no transitional period and euro coins and banknotes will be used from the same day as the euro officially becomes the new currency (European Commission, n.d.).

4.4 The Czech Republic's economic alignment with the euro area

Although the date of euro adoption has not been determined yet, the Czech Republic agreed to adopt the single European currency by joining the European Union. Setting the date of currency changeover depends to a great extent on the preparedness of the country to join the monetary union. The process of evaluation of preparedness is broad and does not include only the legal framework and fulfillment of the Maastricht convergence criteria. For a thorough evaluation is of great importance the degree of the Czech economy's alignment with other countries within the euro area.

One of the main problems regarding the euro adoption in the Czech Republic is the degree of real convergence, which is considered to be unsatisfactory. The indicators in the *Figure 4.4* show that there is a considerable distance of the Czech Republic from the eurozone average and therefore, the ongoing process of long-term convergence still creates an obstacle for accessing the monetary union. As can be seen in the *Figure 4.5*, the Czech Republic belongs to the countries with the lowest long-term convergence. The incomplete convergence process of the Czech economy is partly caused by a lower wage level in comparison with the average within the eurozone. Moreover, the structure of the Czech economy is still different, despite several changes, in comparison with economies within the eurozone, having the most significant disparity in an above-average share of industry in GDP. The lower structural similarity with other countries within the eurozone constitutes a risk concerning to euro adoption because it could lead to asymmetric shocks (Czech National Bank, 2018).

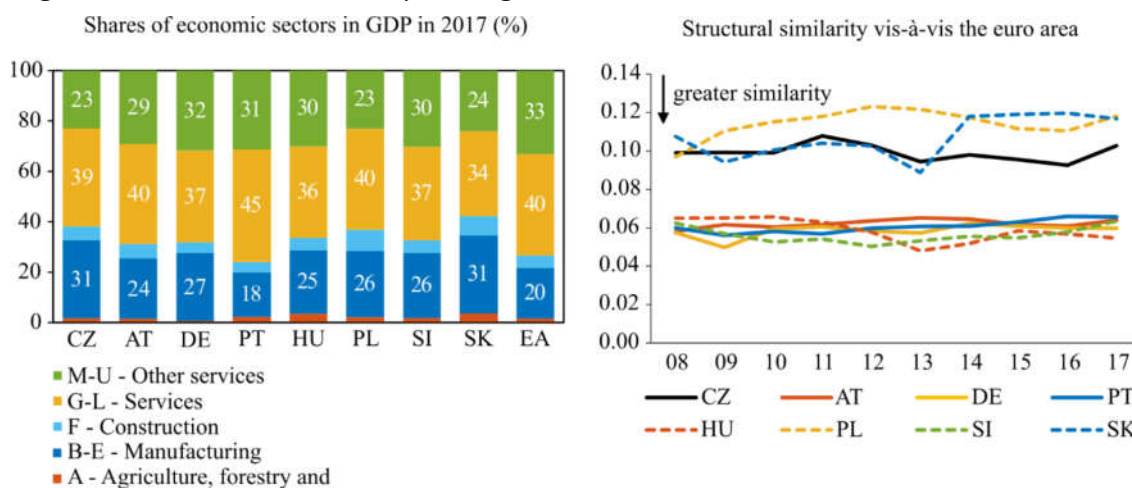
Figure 4.4: Other indicators of long-term convergence (2017, EA = 100)



Source: Czech National Bank, 2018, p. 30

Several differences in economic alignment are observable between the Czech Republic and countries within the European Union. As has already been mentioned, there is a low structural similarity between the Czech economy and the euro area. This can be also seen in the Figure 4.5. The Czech Republic has an above-average share of industry in GDP when compared with other countries, but on the other hand, the country has below-average shares of defense, public administration or education and health care.

Figure 4.5: Structural similarity among the member state countries

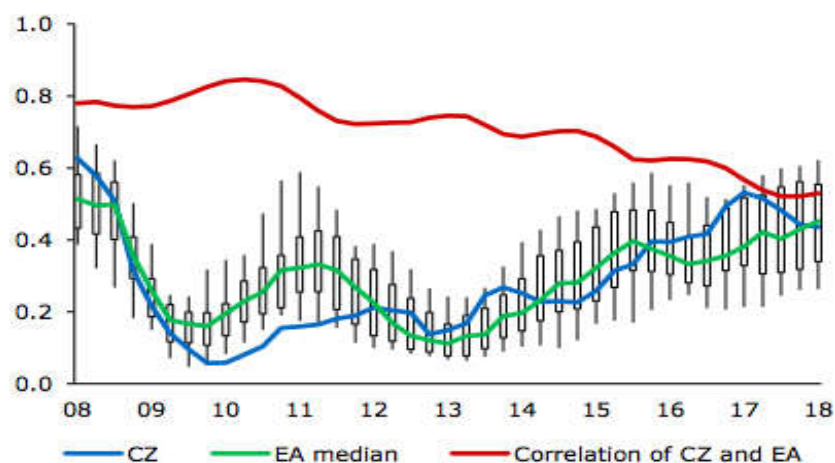


Source: Czech National Bank, 2018, p. 35

As can be seen in the Figure 4.6, the development of financial cycles in 2017 between the Czech Republic and the euro area was rather different. While the Czech economy's growth slowed down during the year, the economy of the euro area experienced a significant growth phase of the financial cycle. Nevertheless, this trend did not have a long-term nature, and the opposite movements in the financial cycle of

the actors mentioned above helped to balance their position in the financial cycle. In the long-term, the Czech economy went through many fluctuations in the financial cycle. During the period 2009-2011, the Czech indicators showed that the Czech economy was at the lowest level within the euro area. On the other hand, in 2014 there was a phase of significant increase in the financial cycle, and in 2016 the Czech economy hit the highest level from all of the concerned countries. Based on the development of the financial cycle, there is present rather a misalignment of the Czech and euro financial cycles both in the short-term and in the long-term. When assessing the long-term development of the financial cycle in the Czech Republic, there is a higher similarity with the financial cycle in Central and Eastern European countries rather than in countries located in Western Europe (Czech National Bank, 2018).

Figure 4.6: Financial cycle indicators for the Czech Republic and the euro area and their correlation



Source: Czech National Bank, 2018, p.37

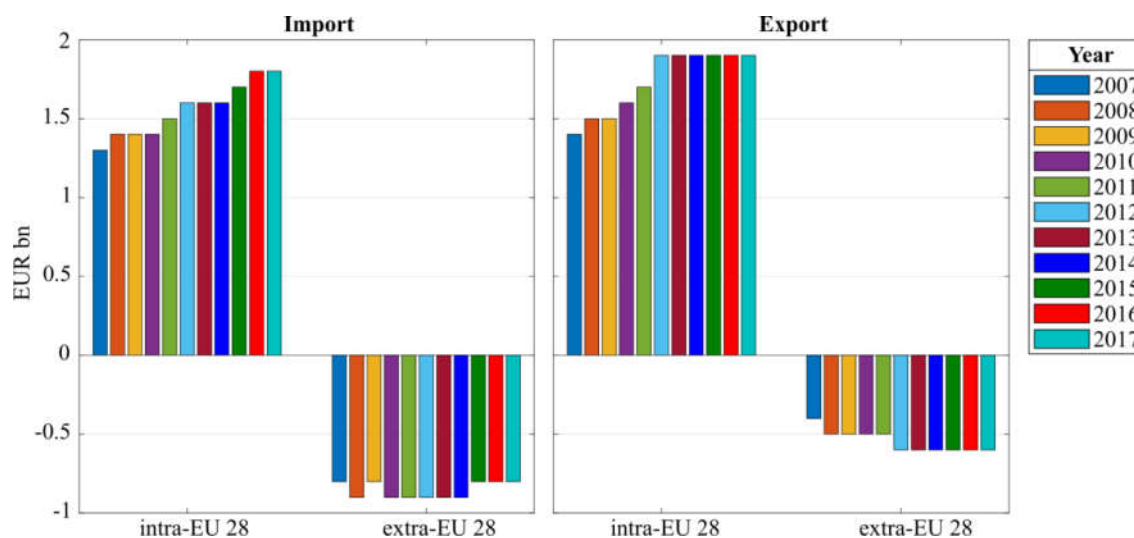
Regarding interest convergence, there also exist some disparities. According to the 'Analyses of the Czech Republic's current economic alignment with the euro area': "The growing short-term interest rate differential between the Czech Republic and the euro area indicates that the ECB's single monetary policy would not fully meet the needs of the domestic economy in the current phase of the business cycle." (Czech National Bank, 2018, 40). Nevertheless, koruna interest rates are close to euro interest rates in the long-term and therefore, the risk of a shock initiated by interest rate convergence is negligible. In the area of exchange rate, there is a high degree of alignment, one of the reasons being a fact that there is a high similarity of reactions of the Czech currency and the euro to changes occurring in the environment outside the eurozone (ibid).

5 Comparison of benefits and drawbacks

5.1 Impact on trade

Having access to the common market of the European Union has brought many positive benefits in the area of trade, export and import. The Slovak Republic was a country which had been cooperating and trading with other countries before the euro was adopted, although to a much smaller extent in comparison with the amount of trade with other countries after the introduction of the euro. As can be seen in the *Figure 5.1* share of imports and exports in intra-EU28 trade has significantly increased after adopting the euro in 2009, the share of imports rose from 1,4% in 2009 to 1,8% in 2017 and the share of exports went up by 0,3% in the period 2009 and 2017. The share of exports and imports increased only slightly in the period 2009 and 2017, even declining in some years.

Figure 5.1: Slovakia's share of exports and imports intra- and extra-EU28



Source: own calculations based on data from Eurostat (2019)

The *Table 5.1* indicates that Slovakia experienced a considerable growth in imports of goods and services since 2009 in comparison with other countries. Not only there has been a significant increase, but the Slovak Republic did not experience a decline in this period as other countries such as Belgium or Finland and the imports of goods and services kept growing. Even countries with the prosperous and well-developed economy such as Austria or Germany did not experience such an increase in export and import as the Slovak Republic after the financial crises. The Slovak Republic experienced a similar situation in the area of export as is shown in the *Table 5.2*.

Table 5.1: Imports of goods and services (as a percentage of GDP) in certain euro area countries in the period 2008-2013

Country	2008	2009	2010	2011	2012	2013
Austria	49,00	41,90	47,50	51,10	51,10	49,90
Belgium	79,00	66,80	74,50	80,80	81,80	81,40
Finland	41,40	34,30	37,40	40,00	41,10	39,10
France	29,10	25,50	27,90	34,00	30,10	29,80
Germany	37,50	32,90	37,10	40,00	40,00	39,80
Greece	36,30	29,40	30,70	32,30	32,70	33,20
Ireland	71,60	72,30	78,20	77,40	85,10	84,50
Italy	27,70	23,10	27,10	28,60	27,40	26,30
Portugal	40,80	34,00	37,40	38,60	38,00	38,30
Slovakia	83,30	69,00	77,90	86,20	88,10	88,40
Slovenia	68,00	55,40	62,80	68,40	68,90	68,70
Spain	30,40	23,80	26,80	29,00	28,80	28,10

Source: Kupczyk, 2016, 87

Table 5.2: Export of goods and services (as a percentage of GDP) in certain euro area countries in the period 2008-2013

Country	2008	2009	2010	2011	2012	2013
Austria	53,20	44,90	50,70	53,70	53,60	53,50
Belgium	79,50	69,30	76,20	81,40	82,20	82,80
Finland	45,10	36,30	38,70	39,20	39,60	38,20
France	27,40	24,10	26,00	27,80	28,10	28,30
Germany	43,50	37,80	42,30	44,80	45,90	45,60
Greece	23,40	19,00	22,10	25,50	28,20	30,20
Ireland	80,40	87,10	95,70	97,70	105,60	105,30
Italy	27,00	22,50	25,20	27,00	28,30	28,60
Portugal	31,10	27,10	29,90	34,30	37,30	39,30
Slovakia	80,40	67,60	76,50	85,30	91,80	93,00
Slovenia	66,10	57,20	64,30	70,40	73,20	74,70
Spain	25,30	22,70	25,50	28,80	30,30	31,60

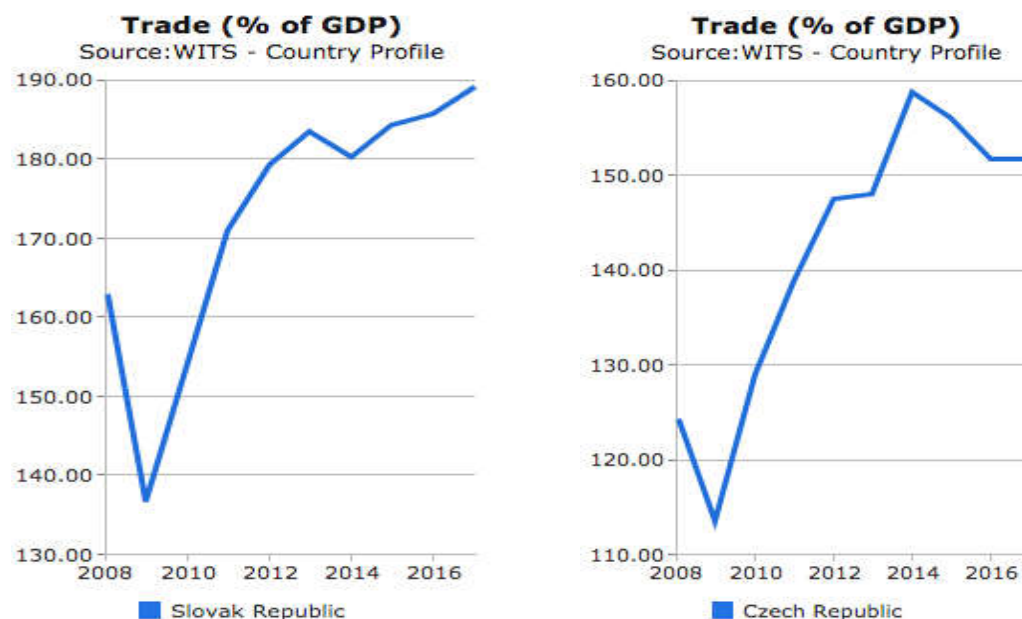
Source: Kupczyk, 2016, 88

One of the most significant advantages related to the euro's adoption is a considerable increase in trade. Growth of foreign trade was plausible because total costs of its execution were reduced to a great extent after euro adoption. Moreover, mutual trade has become even cheaper because of the stabilization of exchange rate and reduction in transaction costs. Nevertheless, there are many other advantages. Firstly, great achievement has been reached in the area of the aforementioned transaction costs.

It is possible to differentiate transaction costs between financial and administrative costs (NBS Research Department, 2006). The basic examples of transaction costs are accounting of foreign exchange gains and losses, foreign currency management or reporting related to foreign currencies (Šuster, 2006). For this part of the thesis are relevant financial transaction costs of which the highest share represents “*a difference between purchase and selling price of foreign exchange*” (NBS Research Department, 2006, 6). Before the euro was introduced in the Slovak Republic, enterprises as well as households had to bear the transaction costs when exchanging domestic currency into foreign currency. There exist different kinds of transaction costs, but the most substantial burden was caused by payments by bank cards or by inter-bank market, especially in relation to international trade and exchange market (ibid.). In addition, transactions with foreign countries have a much smaller likelihood of being exposed to exchange rate risks. Having the euro as a currency leads to smaller exchange rate risks against other currencies. Therefore, there does not exist any insecurity related to exchange rates which could unexpectedly make their foreign transactions cheaper or more expensive. Moreover, euro adoption led to the cancellation of the obligation to pay a commission for the exchange of currency. This change was very significant for Slovakia because it is a small country whose trade is to a great extent dependent on countries such as Germany, Austria or France which use euro as a currency. Sharing the same currency has led to a more equal position of markets (Apolen, 2014).

The Czech Republic could benefit from similar advantages in the area of trade if the country adopted the euro. As can be seen in the *Figure 5.2*, the percentage of trade in the Slovak Republic has sharply increased since euro adoption in 2009 with a slight decrease in the period 2013-2014, but again with gradual growth since 2014. The same cannot be said about the development of trade in the Czech Republic. While the Czech economy did not experience a slight decrease in the period 2013-2014, but the growth instead, since 2014 the amount of trade has been decreasing. The positive impacts of the euro for the Slovak Republic are visible also in this case.

Figure 5.2: Development of trade in the Slovak Republic and in the Czech Republic in the period 2008-2017 (as a percentage of GDP)



Source: WITS, 2019

5.2 GDP growth

The decision to adopt the euro has positively impacted also GDP growth. Before the introduction of the euro, it was expected that GDP would considerably increase thanks to the euro because new currency would reduce some risks as well as save some costs (Šuster, 2006).

However, the predictions were incorrect because of the crisis which negatively influenced not only the Slovak economy but whole of Europe. This can be clearly seen in the *Table 5.3*, which shows that all the mentioned countries experienced negative GDP in 2009.

Table 5.3: Gross domestic product [%] in selected euro area countries in the period 2008-2013

Country	2008	2009	2010	2011	2012	2013
Austria	1,50	-3,80	1,90	3,10	0,90	0,20
Belgium	1,00	-2,60	2,50	1,60	0,10	0,30
Finland	0,70	-8,30	3,00	2,60	-1,50	-1,20
France	0,20	-2,90	2,00	2,10	0,30	0,30
Germany	1,10	-5,60	4,10	3,60	0,40	0,10
Greece	0,40	-4,40	-5,40	-8,90	-6,60	-3,30
Ireland	-2,60	-6,40	-0,30	2,80	-0,30	0,20
Italy	-1,00	-5,50	1,70	0,60	-2,30	-1,90
Portugal	0,20	-3,00	1,90	-1,80	-3,30	-1,40
Slovakia	5,40	-5,30	4,80	2,70	1,60	1,40
Slovenia	3,30	-7,80	1,20	0,60	-2,60	-1,00
Spain	1,10	-3,60	0,00	-0,60	-2,10	-1,20

Source: Kupczyk, 2016, 87

In 2009 when the euro was introduced in Slovakia, the Slovak economy experienced a sharp decline of GDP from 5.4 in 2008 to -5.3. The economies of other euro area countries suffered from a similar drop of GDP. It was caused by the European sovereign debt crisis. Although there was a significant drop in the GDP, the Slovak economy was much better off in comparison with other countries, the euro adoption being one of the factors which contributed to that situation. In the following years, the GDP slightly increased and the Slovak economy experienced steady economic growth (Kupczyk, 2016).

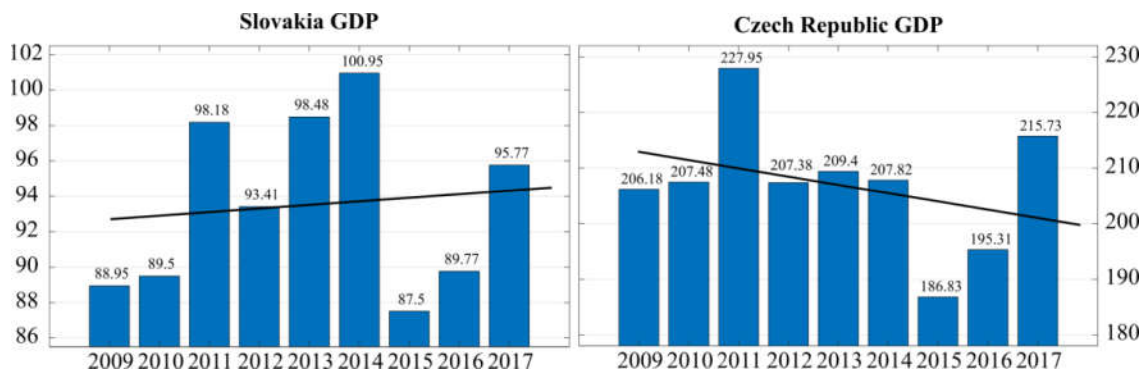
The Ministry of Finance of the Slovak Republic published a comment about the impacts of the euro adoption on the Slovak economy. The comparison of the GDP of Slovakia with countries outside the euro area showed that the introduction of the euro in Slovakia significantly contributed to the rise of real GDP by 10% (Melioris and Žúdel, 2016).

Financial markets have also been positively influenced, concerning especially the competition and effectiveness. Euro adoption led to the elimination of risk surcharges causing a reduction in real interest rates. Therefore, higher quality of business environment together with more favourable conditions of financing that were created enabled decrease in capital costs. This situation creates a suitable environment for additional incentives that stimulate investment growth in Slovakia. These investments include domestic and foreign investments. Because of faster investment

growth, growth of GDP was encouraged even to a greater extent. At the same time an increase in capital investment has led to the stimulation of productivity of factors of production and consequently to the growth of living standard. Higher investment growth was caused by the confluence of several factors such as the decrease of interest rate together with the decrease of capital costs reduced by the elimination of transaction costs. Therefore, acceleration of economic growth was stimulated by FDI and further by a higher amount of foreign trade of Slovakia (NBS Research Department, 2006).

After adopting the euro, the Slovak economy has experienced a considerable growth of GDP compared to the Czech Republic suffering from a significant decline in GDP after 2011 as can be seen in the *Figure 5.3*.

Figure 5.3: Development of the GDP in Slovakia and in Czech Republic in the period 2009-2017



Source: Trading Economics, 2019

Nielsen (2016) confirms this fact and attributes stronger GDP growth of the Slovak Republic since 2009 mainly to euro adoption. Moreover, the euro contributed to a great extent to shape the economic convergence of the country and the Slovak Republic also experienced faster economic growth after adopting the euro in comparison with the Czech Republic. It is expected that the Czech Republic would also experience similar positive impacts if the country adopted the euro (Havlat, et al.,2018).

5.3 Positive impacts

Having the euro as a new currency brings many advantages for all the countries and this applies to the Slovak Republic and will also apply for the Czech Republic.

After the Slovak Republic became integrated into the common market of the EU, this step has brought the country a lot of positive benefits, but the negative ones are not missing either. First of all, it is inevitable to evaluate positive impacts. The benefits of

adopting a single currency can be divided into direct and indirect. The essential change belonging to the direct benefits will be the full integration of the Czech economy into European monetary structures. Therefore, the country will be able to partly influence and implement the single European monetary and exchange rate policy as it is in the competences of the Slovak Republic now (Czech National Bank, 2003).

As has been already mentioned, the elimination of transaction costs belongs to one of the positive impacts. Not only financial transaction costs have been eliminated in the Slovak Republic, but also transaction costs in administration and accounting. Secondly, various risks related to exchange rate has been significantly reduced. For example, after euro adoption, there is no exchange rate risk between the Slovak koruna and the euro (NBS Research Department, 2006).

As in the case of the Slovak Republic, the Czech economy would greatly benefit from the elimination of exchange rate risks which can now occur with other euro-area countries, mainly with the countries, which are the most significant trading partners. The volatility of exchange rate negatively influences many subjects involved in the financial transactions such as enterprises which participate in the foreign trade, investors and public sector, but also citizens who exchange the Czech crown when travelling to the countries within the euro area. Citizens are obliged to pay not only the commission for exchange, but they may also experience the loss of the value of their exchanged money if there occurs a change of exchange rates (Výzkumné centrum PEF MZLU, 2007).

Consequently, the reduction of both financial and administrative costs as well as lower investment uncertainty may be expected. Although financial and administrative costs will be eliminated to a great extent, they will not be entirely reduced, because there will still exist some actors for whom it will be inevitable to realise financial transactions in other currencies (*ibid*).

Slovakia has undoubtedly benefited from higher price transparency, being especially beneficial for households. Since joining the euro, citizens have had a better possibility to compare domestic market prices with the prices on the euro area countries markets. Therefore, a consumer can compare the prices of products in the eurozone and opt for a more affordable product. This situation may positively influence the competition on the European Single Market. Thanks to higher price transparency, the increase in competition can be present also in the corporate sector, consequently creating downward pressure on prices which prevents them from a substantial increase.

Although this step is a great advantage, its usefulness is limited because of the shopping behaviour of the Slovak consumers. They are not likely to go shopping abroad and more importantly, prices on the Slovak market are generally equal or sometimes lower in comparison with other euro area countries markets (Šuster, 2006). However, the extent of benefits resulting from higher price transparency is influenced by several factors such as willingness to search for information, knowledge of different languages or complaint matters. Therefore, higher price transparency is more likely to be beneficial in the area of products rather than services (Czech National Bank, 2003). The studies of the Czech National Bank indicate that the Czech Republic will experience the same trend and thus, higher price transparency.

The changeover of currency will result in many positive effects in the area of the business sector in both countries. There may be some negative impacts, mainly in the form of one-off costs or change of software informational systems and enhanced communication flows among customers and supplier for the Czech Republic. Nevertheless, the Slovak Republic experienced the same issue and dealt with it without severe consequences. The amount of costs depends to a great extent on the size of enterprises though. Therefore, more prominent companies will have to deal with higher costs in comparison with smaller companies. Although there are some negative consequences, the range of positive impacts is much more extensive. To the most significant advantages belong long-term costs savings for operations abroad. Among other things, it is influenced by the elimination of currency risks and costs related to them as well as by considerable reduction of transaction and conversion costs. However, not all companies will be affected by this change in the same way. It generally depends on the fact, to what extent is a particular company involved in export, import, and other operations. Another possible advantage will come in the form of more favourable conditions for business financing. At the same time, higher price transparency may be beneficial for business financing as well as it may also act as a possible stimulus of growth (Výzkumné centrum PEF MZLU, 2007).

With the adoption of the euro are closely connected foreign direct investments. There is a great emphasis placed on FDI because their inflow is a contributing factor of economic growth and it stimulates the development of the economy as well. Nevertheless, the extent of their impact is different for the Czech Republic and the Slovak Republic. Although FDI have many positive impacts on Slovakia, the country is not developed enough in order to absorb them completely. In the case of Slovakia, the

problem is often represented by the lack of a sufficient amount of qualified workers and the inability to use advanced technologies. The absence of these factors reduces the attractiveness of a business environment for the placement of FDI. However, the government of Slovakia is aware of this issue, and reform in education has been proposed in order to solve the aforementioned problem (NBS Research Department, 2006).

Several studies show that by joining the eurozone, the Czech Republic will not experience any significant impact on the amount of FDI. The advantages of the common currency will influence this decisions of foreign investors, but only to a small extent. Apart from slight progress in the area of FDI, the expansion of international trade will be much more significant for both countries.

In the case of the Czech Republic, it is expected that the euro adoption will bring many benefits in the area of international trade. International trade is much more complicated than home trade, and also the rules related to international trade are more complicated because of cross-countries trade. One of the greatest advantages resulting from joining the eurozone will be the elimination of currency differences because the Czech Republic is a country whose international trade is based mainly on cooperation with the countries within the eurozone and consequently, the Czech Republic and the trading countries will not have to solve this issue anymore. In addition, costs related to the business activities undertaken in more currencies will also be removed. Among the most significant costs are:

- insurance costs against risks associated with exchange operations
- costs resulting from unsecured exchange operations
- exchange operations charges and spreads
- higher administrative costs when using more currencies
- costs of liquidity maintenance and costs for the management of a company's cash flows (Výzkumné centrum PEF MZLU, 2007).

A company, whose business activities are based on trade realized in more currencies, is more prone to be affected by disadvantageous changes of exchange rates. Generally, there exist three kinds of risks related to the flow of rates. Firstly, transaction risk describes a change of the value of profits and costs affected by exchange rates. An example is a purchase or a sale of a good or service when the price is expressed in a foreign currency unit, and the price is paid after a certain period from the time the price

has been agreed on. In this case, appreciation or depreciation of the currency may have negative impacts on actors involved, and consequently, actors do not have any guarantee regarding the value of financial flows in the future, and at the same time they must also bear the risks of unfavourable monetary development. Secondly, translational risk is related to the fluctuation of value of assets and liabilities of a company expressed in a foreign currency unit when converted into domestic currency. This situation may influence the value of a property of a foreign company, or it may also affect the number of international commitments. Last but not least, there also exists an economic risk of change of exchange rate which may affect the economic results of enterprises. The change of exchange rate may have many impacts on companies such as the different value of raw materials imported from abroad, the price of final products, but also it influences the competitiveness of goods as well as the amount of sales. Therefore, the possibility of economic risk is likely to distort the assessment of the economic results from a business activity (Výzkumné centrum PEF MZLU, 2007).

Although the euro is not an official currency in the Czech Republic, the number of companies using the euro instead of the crowns is still growing. The Czech enterprises not only pay suppliers in euro, even domestic ones, but they also pay rents in euro and take loans in the same currency. Therefore, the importance of the euro is also gradually increasing (SITA, 2017).

When a country becomes a part of the eurozone it is required to abolish the monetary policy and according to the Stability and Growth Pact implement, fiscal policy instead. There exist several reasons why this step should be perceived as advantageous. Firstly, implementation of fiscal policy will not only lower the costs of financing public budgets, but it will also stabilize long-term interest rates, having positive consequences for households and corporations. Furthermore, these actors will benefit from access to more transparent capital markets within the euro area as well (Czech National Bank, 2003).

As has been already mentioned above, the monetary policy will be completely restricted and apart from the stabilization of long-term interest rates, the Czech national bank will not be competent to determine the short-term interest rate. It means that in the long-term there will be a smaller possibility of high inflation. Although it is very doubtful that the Czech national bank will undertake measures which will lead to high inflation, this possibility still exists under current conditions (Kovář, 2014).

Although the loss of independent monetary policy is considered by many experts

as an obstacle for the favorable economic development, it also brings certain advantages. According to Huerta de Soto: “*A huge advantage of the adoption of the euro was to eliminate the possibility that the national governments use a discretionary monetary policy to induce some artificial booms by credit expansion.*” (Huerta de Soto, 2012, 2). Since the use of the monetary tools is limited, the government will not be able to use monetary policy for political purposes or resort populist policies. Moreover, monetary instruments were very often used to cover the budget deficits caused by a considerable increase in government spending. Instead of increasing budget revenues by higher taxes, the governments created inflation instead, because raising taxes were considered by the voters as an undesirable step (Mursa, 2014).

To sum up, there is a wide array of positive impacts caused by the euro adoption in the Slovak Republic. Even the governor of the National Bank of the Slovak Republic, doc. Ing. Jozef Makúch PhD., confirmed many benefits of the euro in Slovakia. For him is a great advantage being automatically a member of the Bank Union. Among other things, membership in this union means that a country should be more resistant to the possible financial crisis (Wiesnerová, 2017).

Taking into account all the outlined positive impacts of the euro adoption, the Czech Republic will greatly benefit from joining the euro area, and in some cases, the country will even profit more from these advantages than the Slovak Republic did.

5.4 Negative impacts

Overall, euro adoption led to more positive impacts rather than negative ones in the case of Slovakia. However, there still exists some negative consequences of euro adoption. The crucial disadvantage is generally a permanent loss of independent monetary policy because a country is not able to influence its economy anymore. However, in the case of the Slovak Republic, it is not of great importance. The reason is that Slovakia is a relatively small country with high open economy and therefore, the usefulness of monetary policy is restricted. The Slovak monetary policy focuses mainly on price stability, the level of the employment rate of the stabilization of the real economy. The scope of operation of the Slovak monetary policy is rather narrow and therefore, euro adoption has not had many negative impacts in this area (Šuster, 2006).

If the Czech Republic decided to join the eurozone, among the most essential

disadvantage of adopting the euro ranks the loss of independent monetary policy. This fact applies both to the Slovak Republic as well as the Czech Republic. Inability to control its monetary policy leads to several restrictions. For instance, the central bank of a country, which has adopted the euro, is deprived of the possibility to respond to either internal or external shocks, loses the capacity to approach specific situations in the economy and is not able to create a stable environment for optimal price stability (NBS Research Department, 2006). One of the most significant disadvantages will be the determination of the fixed exchange rate, meaning that the economy will lose one of the basic mechanisms to deal with economic shocks. In addition, the European Central Bank will be responsible for determination of short-term interest rate and the ECB adapts the common interest rate to the state of the economics of the eurozone and therefore, it may determine either too high or too low interest rate for specific countries (Wiesnerová, 2017). Nevertheless, there exists certain exceptions and loss of independent monetary policy does not have to negatively influence a country to a considerable extent. It means that if a country is rather small and economic openness is high, then the scope of operation of monetary policy is limited. This is precisely the case of Slovakia and the Czech Republic (NBS Research Department, 2006).

In addition, because of the single common currency, revenues of banks located in the Slovak Republic which benefited from foreign exchange trades and currency exchange activities have been considerably reduced. Not only the revenues of banks were reduced, but they had to pay specific costs. Czech banks are likely to experience the same revenue reduction (Šuster, 2006).

The costs arising from euro changeover were present in different sectors of the Slovak economy such as in the system of cash flow or in the structure of balance. The system of cash flow required free conversion of koruna into euro within the system of cash payments happening in a limited period of time. Consequently, operational costs were increased by this activity also in the short-term. Other changes influenced the structure of costs and revenues of the banking sector, concerning to foreign currency operations (ibid).

Apart from the the issues mentioned above, the banking sector will also suffer from specific costs. These excessive costs can be grouped into one-off costs and permanent costs. Especially the Czech national bank and commercial banks will be affected by one-off costs. The Czech national bank will have to bear the costs of production, preparation and distribution of euro coins and banknotes as well as the bank

will be responsible for removing crown coins and notes from circulation. Commercial banks will have an obligation to adapt their automatic teller machines, which also implies software modification in a way that cash points display the requested amount in euro. Moreover, commercial banks will take care of free change of crown banknotes into euro banknotes, resulting in one-off costs in a period approximately three years before the euro adoption and six months after this event. The Slovak National Bank as well as commercial banks in Slovakia had to deal with the same issues, but the costs and obstacles created were not of significant importance (Výzkumné centrum PEF MZLU, 2007).

Another significant drawback is one-off costs of euro changeover. It means that this situation pertains to business, banks, but also the state administration and they had to cover all the costs themselves without being at least refunded by public resources. Therefore, in order to minimize excessive costs, it was inevitable to prepare and arrange all the necessary details including timing, a proper organization for euro changeover, adjustment of cash registers and personnel training. There were different areas where the euro changeover caused some troubles. For example, the dual display of prices and dual circulation were quite demanding measures. Displaying all prices both in korunas and in euros is necessary. Thus, all prices of goods and services, bank services, invoices, personal account statements had to be dually displayed. Regarding dual circulation, this measurement required businesses to accept cash in euro as well as in korunas for a certain period of time (NBS Research Department, 2006).

The immediate one-off rise in the price level has been considered as another burden for the Czech economy resulting from the change of currency. Mainly the citizens were worried that the situation would occur and according to a survey undertaken in 2007, 79% of respondents believed that euro would lead to the increase in prices. However, these worries are unfounded if the rules regarding price rounding off will be complied with. The exception might be prices rounding off for marketing purposes and the possible increase of prices in the form of catalogues or menu. Based on the analysis from countries which have already adopted the euro, it is a common practice to wait one or even two years before the planned date of euro adoption in order to change prices in menu or catalogues, because it not only time-consuming, but it also requires some resources (Výzkumné centrum PEF MZLU, 2007).

Each country, including the Slovak Republic and the Czech Republic, which aims to adopt a new currency needs to deal with an administrative and technical issue related

to the currency changeover. First of all, entrepreneurs, institutions of public sector, but also financial institutions will have to adapt their software programs used in the area of accounting or tax return in a way so these programs are able to work with two currencies during a specific period, six months before the official date of the euro adoption and one year after adopting the euro. Thereafter the programs will be working only with the euro. Secondly, if it will be necessary to prepare staff working with money beforehand. It means that these employees will need to be acquainted with the usage of the euro, they must be able to recognize the safety features of euro banknotes and work with new software will also be a part of their preparation. Administrative and technical issues also include informational campaign about the euro adoption which will be carried out by the government. The information campaign will consist of a wide range of topics such as the formal date of the euro adoption, the form of euro coins and banknotes, the period of dual circulation of both currencies, conversion rate or introduction of specific production in both currencies with an aim to facilitate using of new currency after currency changeover (ibid).

Devaluation of savings does not belong to the negative impacts, but it was expected by many people in Slovakia and the Czech Republic that their savings would be devaluated after euro adoption. However, the savings of people in korunas were automatically converted into euros by the same conversion rate as prices. So the value of savings did not change. The same applies to the value of pensions because at that time in the society existed worries related to the value of pensions. Therefore, a psychological factor also played a role in euro adoption (Šuster, 2006).

Another significant drawback of adopting the euro can be for the Czech Republic necessity to help other countries, even if it is involuntary. The Czech Republic would be a part of euroval as is, for example, Slovakia, having an obligation to participate in European Union Stability Mechanism. It means that the country would help countries which are not able to borrow money on financial markets. This situation has already happened and eurovals provided financial resources for countries such as Greece, Portugal, Cyprus or Spain. Therefore, the Czech Republic would suffer from additional costs (Apolen, 2014).

Another significant change will be a considerable centralization of decisions at EU level what can be considered as a significant drawback. One of the reasons is that powers will be concentrated within a small group of individuals, and by adopting the euro, the Czech Republic will be even more limited in decision-making. Moreover, the

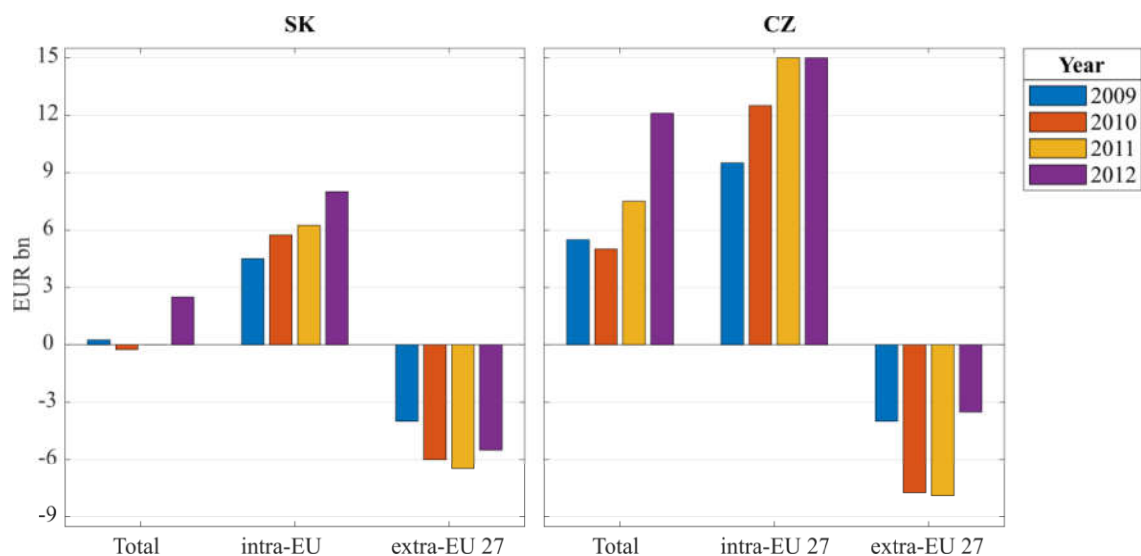
Czech government will not be able to exert pressure on the Czech national bank in case it needs to monetize budget deficits (Mursa, 2014).

Although it is evident that the adoption of the euro does not lead only to positive impacts, the number of advantages is much higher than of disadvantages. Not only various analysis and studies confirm that the euro adoption was prosperous for the Slovak Republic. The Slovak citizens perceive the adoption of the euro in similarly way. According to the Eurobarometer survey (2014), more than half of the Slovak citizen consider new currency as beneficial for the country (Apolen, 2014).

Although the amount of benefits resulting from euro adoption is much higher than negative effects, there also arises a question whether the Czech economy is already better off without the currency changeover. There already exist some economic areas which indicate this situation.

The *Figure 5.4* provides a comparison of intra-EU 27 and extra-EU 27 trade between the Slovak Republic and the Czech Republic in the period 2009-2012. Although the Slovak's intra-EU 27 trade increased after adopting the euro, the Czech intra-EU 27 trade was also growing, and amount of trade was much higher compared to Slovakia, even without having the euro as a currency. The same trend applies to extra-EU 27 trade, but both countries experienced a decline after 2011. Therefore, having the euro as a new currency will increase intra-EU and extra-EU trade in the Czech Republic, but only to a certain extent. Since the level of intra-EU and extra-EU trade is comparable or even higher compared to Slovakia, a sharp increase cannot be expected.

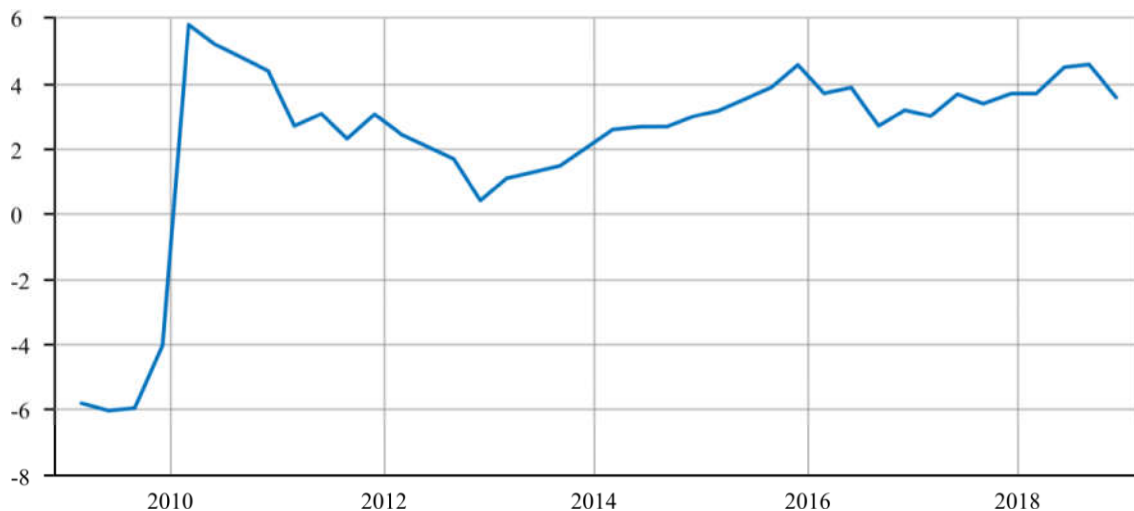
Figure 5.4: Comparison of intra- and extra-EU 27 trade between the Slovak Republic and the Czech Republic in the period 2009-2012



Source: Polyák, 2016, p. 432

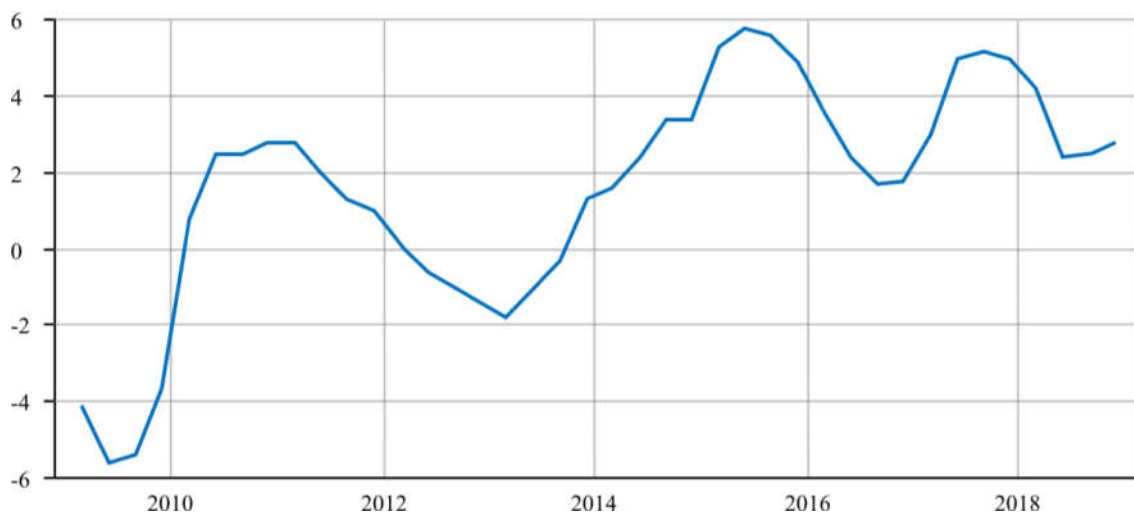
A similar situation occurred in the development of the GDP growth rate. The assessment of long-term development of the GDP growth rate in Slovakia and the Czech Republic in the period 2008-2018 showed that the Slovak economy experienced a significant increase in comparison with the Czech economy. As can be seen in the *Figure 5.5*, after 2009 the GDP of both countries sharply increased, but the growth in Slovakia was higher compared to the GDP growth in the Czech Republic, all occurring after euro adoption. The subsequent development of both countries was rather similar, but the GDP of the Czech Republic decreased much sharper in the period 2011-2013. Although the GDP rate of the Czech Republic underwent greater fluctuations during the defined period, the level of GDP was similar to that of the Slovak Republic, and in some instances it even hit the higher level, as in the year 2015.

Figure 5.5: Slovakia GDP annual growth rate in 2009-2018



Source: Trading Economics, 2019

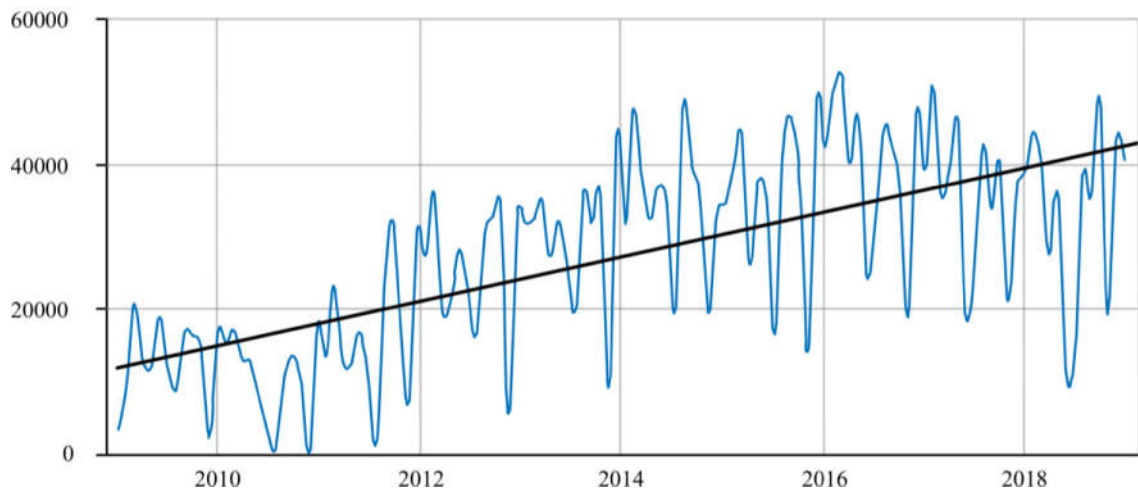
Figure 5.6: Czech Republic GDP annual growth rate in 2009-2018



Source: Trading Economics, 2019

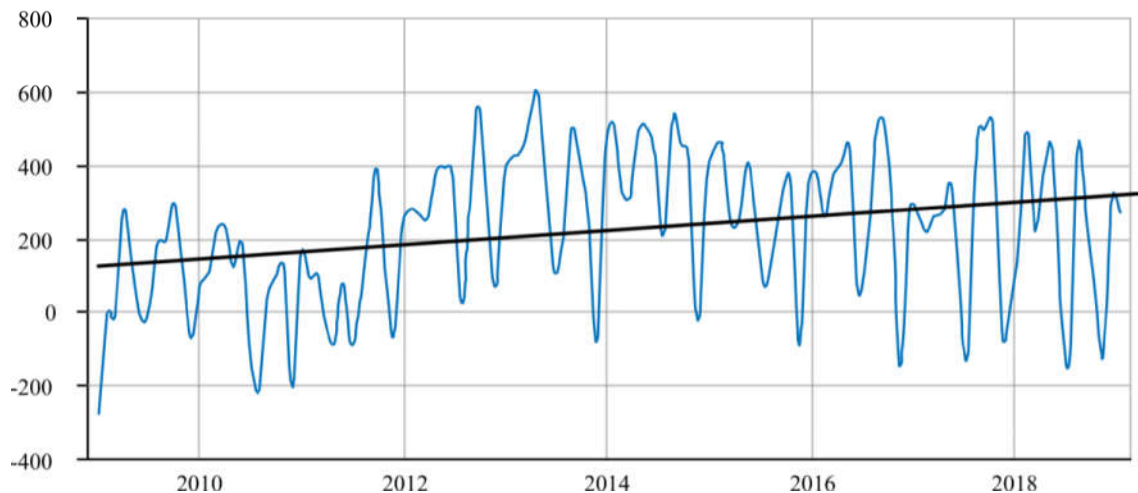
The *Figure 5.7* shows the balance of trade in the Czech Republic as well as in Slovakia within the past ten years. Both countries experienced a considerable increase of trade in the period 2011-2012, but the growth in the Czech Republic was markedly higher, and despite having euro as a new currency, the balance of trade in Slovakia reached even negative numbers. The trend indicates that overall the growth in the Czech Republic was more significant than in Slovakia.

Figure 5.7: Czech Republic Balance of Trade in the period 2009-2018



Source: Trading Economics, 2019

Figure 5.8: Slovakia Balance of Trade in the period 2009-2018



Source: Trading Economics, 2019

6 Hypothetical economic crisis

The last part of this diploma thesis focuses on a possible economic crisis and its impact in two different cases. Firstly, if the Czech Republic still decided to maintain its status of “ a member state with derogation” and not to adopt the euro in a short time, then there arises a question whether the country would have more options to fight or deal with another economic crisis than the countries within the euro area. The second part aims to analyze the possibilities of the Czech Republic if the country would be part of the eurozone.

6.1 Impact on the Czech economy without the euro

Once, the financial crisis strikes, it is prone to affect the majority of the countries. In 2008 it affected the entire world economy, including the countries within the eurozone as well as countries with national currencies. Therefore, if another financial crisis comes, it will influence all the economies, having a different impact on particular countries. Nevertheless, there will be different possibilities and impacts for the Czech Republic, depending on which currency the country will be using at that time.

Having the status of a “member state with a derogation” will enable the Czech Republic to maintain and use its monetary policy in case another financial crisis strikes. This implies that the Czech National Bank will have the possibility to respond either to external or internal shocks as well as the Czech economy will have floating exchange rate and therefore, ability to use basic mechanisms to deal with plausible economic shocks (Wiesnerová, 2017).

The Slovak Republic is an example of a peripheral euro area member, which suffered because of the financial crisis to a great extent and adopting the euro just before the economic crisis only worsened the situation. The Slovak authorities predicted that having the euro as a new currency will lead to many positive impacts, it will increase GDP and standard of living as well as the country will be able to survive the economic crisis in a better way than its neighbours. Despite the expectations, the situation in 2009 was different, and the Slovak economy experienced a considerable drop in GDP and among other things increase in the unemployment rate (Kupczyk, 2016). Because of the financial crisis, Slovakia had only limited access to international

financial markets. What is even more significant is the fact that the Slovak national bank could not use a macroeconomic stabilisation tool because the exchange rate has been abolished (Fidrmuc and Wörgötter, 2013).

Having the euro as a currency may be in specific cases even disadvantageous for the Czech Republic, especially if it relates to the financial crisis and the European Stability Mechanism. On the one hand, it brings certain benefits, but on the other hand, some countries perceive participation in ESM as a disadvantage. The reason is that all the participating members must contribute a certain amount of money to emergency loans. Therefore, if a financial crisis strikes and the Czech Republic is can cope with the crises using its instruments and measures, then participation and financial contribution to the ESM may be a burden for the country (ESM, 2019).

Thanks to the non-participation of the Czech Republic in the eurozone, the country is can avoid plausible economic problems which may be initiated by a specific risk country within the eurozone. Therefore, it means that if a euro area country suffers from economic distress, it may negatively influence the Czech economy and its stability. The case of Italy provides a great example. At the beginning of 2019, the government of Italy prepared a budget which was not in compliance with regulations of the European Union. The main problem is that the budget of Italy does not encompass measures, determined for support of the economic growth. Consequently, this situation makes Italy a risk country and this economic distress may spread further into the eurozone. The necessity to deal with such economic problems within the eurozone may greatly undermine the ability of an euro area country, such as the Czech Republic, to be well prepared and respond with all the possible means to the financial crisis. Therefore, the Czech Republic could be negatively influenced by such a situation, if the country was a member of the eurozone (TASR, 2019).

6.2 Resistance of the Czech economy with the euro

The Czech Republic has been considering to adopt the euro in the long-term. However, euro adoption would not provide only benefits for the Czech economy. It may undermine to a great extent the ability of the Czech economy to appropriately address the economic crisis if it occurs. There are several reasons for this to be the case. One of the crucial factors is the loss of independent the onetary policy. Although the

importance of monetary policy is not great for the Czech economy as it is not that important for the Slovak economy, in the case of a crisis the central bank of the Czech Republic would not have the capacity to propose measurements and solutions independently. Furthermore, being a part of the eurozone means that if a shock comes, it usually has an impact on all of the members. Therefore, in the case eurozone suffered from an economic crisis or shock, the Czech Republic would not be able to avoid this crisis or take desirable measures. Consequently, the European Union would be responsible for the impact of the crisis on the country. In addition, if the plausible shocks within the euro area were not identical, it would mean for the Czech economy rising macroeconomic volatility. In order to deal with the possible disadvantages resulting from having membership in the eurozone, the European Union possesses a set of fundamental mechanisms (NBS Research Department, 2006).

Being a part of the eurozone brings advantages as well as disadvantages at the same time. This is precisely the case of the European Stability Mechanism, which belongs to one of the biggest International Financial Institutions. This mechanism represents an international financial institution and was established by the euro area member state for the purposes of offering help to euro area countries when one or several countries will be in financial distress. This negative situation can be also caused by another financial crisis. The ESM is mainly based on the provision of emergency loans, but the receiving country must participate in reform programmes. In concerning the Czech Republic, the ESM may be very useful in the case the Czech Republic will adopt the euro, because it may provide emergency loans if another economic crisis would cause serious financial problems in the country. The usefulness of the ESM was proved during Europe's sovereign debt crisis when this financial institution lent money to several euro area countries such as Portugal, Spain or Greece (ESM, 2019).

Another significant advantage for the Czech Republic as well as an instrument to deal better with a possible financial crisis would be a membership in the Bank Union. After the financial crisis in 2008, which also showed lack of the cooperation of EU member states in the banking sector, the euro area countries aimed to ease its consequences by cooperating more deeply, what eventually led to the establishment of the Bank Union. The Bank Union is banking supervision and crisis management system at the EU level, which aims among other things to prevent similar financial crisis or to solve possible future economic crisis easier or ease the consequences of such crisis (Wiesnerová, 2017).

The Bank Union also focuses on the strengthening of the reliability of banks, financial stability in the eurozone as well as in the EU. Part of the Bank union's structure are two important mechanisms, namely a single supervisory mechanism and a single resolution mechanism. The single supervisory mechanism serves as the first pillar of the banking union, and it is based on the principle where the European Central Bank is the central supervisor of financial institutions located either in the eurozone or outside the eurozone, but participating in the SSM (European Commission, n.d.). The single resolution mechanism represents the second pillar of the banking union, and its primary role is to ensure resolution of failing banks, but with minimal costs and impact not only on taxpayers but also on the real economy. Therefore, the SRM is a vital tool because its procedures ensure that bank failure does not lead to financial instability or it does not harm the broader economy (European Commission, n.d.). Thus, the SSM and the SRM are both mechanisms which can help the Czech economy in case it experienced financial distress.

The Czech Republic would also benefit from the third pillar of the Banking union called the European deposit insurance scheme, which was set up in 2015 based on the suggestion of the European Commission. The goal of this scheme is to protect retail deposits in the banking union, and it should also provide a higher degree of insurance cover for the euro area countries. The EDIS is based on the system of national deposit guarantee schemes. Both DGS and EDIS will intervene when one of the banks within the Banking Union is placed in resolution or into insolvency, and it is obliged to pay out deposits (European deposit insurance scheme, n.d.).

The governor of the National Bank of the Slovak Republic, Jozef Makúch, emphasized the advantages of being a part of the Banking Union. Among other things, Makúch found especially important stronger degree of information flows and coordination of supervision over the banks as well as methods used in evaluation which deliver more precise and reliable results (European Commission, n.d.).

Other mechanism which is very beneficial for the Czech Republic and may be an excellent tool for identification of plausible economic crisis is the Macroeconomic Imbalance Procedure. The creation of this procedure was initiated by major macroeconomic imbalance in the EU, caused to a great extent by negative impacts of the financial crisis in 2008, but also by divergences in competitiveness, leading to restrictions ineffective use of monetary policy measures. Consequently, the MIP was set up in 2011 as both enforcement procedure and surveillance with an aim to identify in

advance and correct possible imbalances occurring in the Member States. This procedure puts particular emphasis on imbalances which are prone to cause a spill-over effect on other Member States. Part of this procedure is surveillance in the form of Alert Mechanism Reports prepared by the European Commission, preventive recommendations, corrective recommendations or corrective actions plans (Zoppè, 2018).

However, if the euro adoption should help the Czech economy to deal with another economic crisis more comfortable, then it would be necessary to adopt the euro long enough before the crises will be expected to come. As has already been mentioned, the case of the Slovak Republic provides a great experience. Although the Slovak Republic had similar problems as other countries which were hit by the recession, the Slovak economy responded better to the economic recovery in comparison with other countries, what can be credited to the euro adoption (Kupczyk, 2016).

7 Results

The research of this master thesis is based mainly on qualitative research, so it means that results are rather descriptive than outlined in a digital form. In addition, the research method consists to a great extent of document analysis and observations. Nevertheless, some parts of this work use quantitative research because, in order to be able to deliver desirable results, use of data and graphs was inevitable to examine the relationship between numerically measurable variables.

The comparative case study was chosen as a method used for the examination of the research questions. By applying this method, a detailed examination of the studies subject was required. The process of research followed several steps. First of all, analysis of various documents, studies and academic literature served as the basis for the detailed examination of the observed phenomenon, namely the process of euro adoption in the Slovak Republic as well as in the Czech Republic and its consequences on both economies. Secondly, it was necessary to collect the necessary quantitative evidence in the form of graphs and tables related to a particular phenomenon, what was the core for reaching sound results preceded by an examination of particular aspects and consequent evaluation. Another part of the research focused on the comparison of several different phenomena between the Czech Republic and the Slovak Republic. By comparing GDP, the balance of trade, export and import and other areas between the Czech Republic and the Slovak Republic, it was possible to evaluate the development of economy in Slovakia after the euro adoption and to what extent was situation different or similar in the Czech Republic which has not adopted the euro yet. The use of comparative research sometimes represent a problem, because some categories may be perceived differently, but aspects and categories which are related to the euro adoption are already defined, and they are same for the Czech Republic and the Slovak Republic so it is unlikely that categories used in data sets would be different.

By applying the aforementioned methods, it was possible to analyze the research questions and come to particular results. The first hypothesis stated that the adoption of the euro in Slovakia led to positive impacts on the Slovak economy. After analyzing and examining several documents and studies, especially documents issued by the Slovak National Bank or the Slovak government, the first hypothesis can be confirmed. In addition, the quantitative evidence in the form of graphs and tables also confirms this hypothesis and indicates that the euro adoption led to the creation of a more favourable

environment for the development of the Slovak economy. The currency changeover in Slovakia has led to many positive benefits such as the considerable increase of GDP, growth of trade, elimination of transaction costs, exchange rate risks, higher price transparency or many positive impacts in the business sector. Nevertheless, the euro adoption does not bring only advantages, but negative effects must be expected as well. To the most significant drawbacks belong the loss of independent monetary policy, one-off costs, specific costs in the banking sector or administrative and technical issues related to the currency changeover.

The second hypothesis deals with the euro adoption of claiming “*The possibility of adoption of the euro in the Czech Republic would not be beneficial for the Czech economy.*” This hypothesis can be disproved, because based on the results, euro adoption will be beneficial for the Czech economy although, there will be some disadvantages as in the case of the Slovak Republic. The Czech Republic will experience the same benefits of currency changeover as the Slovak Republic has experienced, some of them having a greater impact such as foreign direct investment or more significant benefits in the area of the business sector. Naturally, the Czech Republic can expect the same or similar negative effects of the euro adoption as those which impacted the Slovak Republic. Nevertheless, there are some areas in which the Czech Republic is at the same or even higher level as the Slovak Republic such as trade and therefore, it is questionable if the euro adoption will bring as many benefits as in the case of the Slovak Republic.

The thorough analysis was required in order to address the last hypothesis. It states that “*In the case of plausible economic crisis, the Czech economy will be more resistant to this crises without adopting euro.*” But this hypothesis cannot be proved or disproved, because both options, namely keeping the current currency or adopting euro, bring advantages as well as disadvantages in case of economic distress. Both possibilities provide specific mechanisms in order to deal with an economic crisis. When taking into account the example of the Slovak Republic, joining the euro area significantly helped the Slovak economy in the recovery process after the financial crisis hit the country in 2009, but on the other hand, having euro as a new currency undermined to a great extent the ability of the Slovak Republic to fight against the financial crisis, because the measures which were the part of the monetary policy were restricted. To sum up, in order to enjoy the benefits of euro adoption straight after currency changeover and at the same time being able to deal with the possible financial

crises in the most suitable way, then it would be beneficial for the Czech Republic to adopt euro in a sufficient time period before the expected crisis. In case the Czech Republic adopted the euro in a period when the crisis is expected or even in the year the crisis breaks out, then the Czech authorities may expect the similar scenario as in the case of the Slovak Republic.

Conclusion

The issue of euro adoption has different degree of importance in each country of the European Union. Some EU member countries are determined from the beginning that they will adopt the euro. On the other hand, there exist countries which have rather ambiguous approach toward euro adoption. The Czech Republic belongs to such countries. Majority of population as well as politicians express negative attitudes toward this topic. But the fact is that since the Czech Republic became a member of the European Union since 2004, it has been bound by the treaty to join the eurozone when the country will be able to meet the Copenhagen convergence criteria.

This master thesis focuses on this vital issue, dealing with the euro adoption in the Czech Republic and comparing it with the experience of the Slovak Republic. The main research question cannot be expressed in one sentence because it consists of several crucial sub-questions. The first hypothesis aims to explicate whether the euro adoption has positively impacted the Slovak economy. After analyzing the process of euro adoption in Slovakia and its many consequences, it can be concluded that the number of advantages after joining the eurozone is much higher in comparison with disadvantages. Among the essential benefits are trade and GDP growth, elimination of transaction costs, exchange rate risks which used to cause a lot of distress, but euro adoption has also led to higher price transparency and several advantages in the business sector. Although the number of positive impacts of euro adoption is high, disadvantages are also part of a currency changeover. The Slovak Republic suffered from several of them, including loss of independent monetary policy, which contributed to the disability of the Slovak Republic to efficiently deal with the crisis in 2009. Moreover, several costs, such as specific costs in the banking sector or one-off costs were incurred, and specific sectors had to bear the excessive expenses.

Chapter 4 focuses on the Czech economic alignment with the euro area member countries and shows that the Czech economy is not completely aligned with these countries and some sectors require further improvement and development. Apart from that, the chapter described the steps which have already been taken in the Czech Republic in order to prepare the country for the euro adoption as well as steps which still need to be taken.

The comparison of advantages and disadvantages of euro adoption in the Slovak

Republic and in the Czech Republic is analyzed in *Chapter 5*, dealing with the real impact of euro on the Slovak economy in the beginning and in the following part focusing on the possible benefits as well as drawback of euro adoption for the Czech Republic. Based on the evidence, the effects of euro adoption on the Czech economy will be similar as in the case of the Slovak Republic and in certain areas the same. If the Czech Republic adopted the euro, the number of advantages would be higher compared to plausible disadvantages. Nevertheless, one of the problems which remains and strongly influences the process of euro adoption in the Czech Republic is a rather negative and skeptical attitude toward the possibility of joining the eurozone. Therefore, it is inevitable to change approach in order to speed up the process of preparation and make steps necessary for adopting the euro.

The last part of this work is dedicated to an issue which has not been examined into depth so far, and at the same time it also represents the last research question. The economic crisis which hit not only Europe in 2009 caused economic distress in the majority of countries. Following this rapid deterioration of economies, the countries influenced by the crisis decided to take measures which would help them in the future to indicate if another crisis was coming and deal with this possible financial crisis more efficiently. Consequently, there arises a dilemma for the Czech Republic concerning the economic crisis. Will the Czech Republic deal better with a possible future economic crisis with euro or with the Czech crown? The *Chapter 6* analyzes this topic, taking into account both options. There is not a clear answer to this dilemma and both having the euro as a new currency or keeping the Czech crown brings advantages and disadvantages in the case another economic crisis will come.

If the Czech Republic decided to use still its currency, there is a great benefit of having the possibility to apply monetary measures. The Slovak Republic did not have this opportunity and that was the reason why the financial crisis impacted the Slovak economy. Moreover, not being a part of the ESM saves the Czech Republic a lot of money because if the country joins the eurozone, then it will be obliged to help financially those countries which will considerably suffer from economic distress and will not be able to cope with that situation on their own. On the other hand, membership in the eurozone will enable the Czech Republic to use several mechanisms which will help the country to fight against the financial crisis such as the European stability mechanism. Besides, being a part of the Bank Union helps countries to deal with possible economic crisis more effectively, and it also serves as an instrument to prevent

and predict an economic crisis. As can be seen, both possibilities are intertwined with positive as well as negative effects. Nevertheless, based on the experience of the Slovak Republic, the Czech Republic should not adopt the euro shortly before a financial crisis is expected because, as in the case of the Slovak Republic, the country significantly suffered and could not use monetary policy which would help to deal with the crisis more easier.

By analyzing and answering all the determined hypothesis, this master thesis provides an overview of positive and negative effects of euro adoption in the Slovak Republic and at the same time, it shows which negative and positive benefits may be expected if the Czech Republic adopted euro. In addition, this work expands the literature and studies which focus on the resistance of the Czech economy in case an economic crisis hits the country since the amount of literature analyzing this issue is limited.

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