

# UTOPIA OR REALITY? CZECH REPUBLIC ADOPTING THE EURO BY 2030

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The adoption of the euro is unpopular in the Czech Republic and yet it is a much-discussed topic. Politician Markéta Adamová Pekarová has recently brought the question to the forefront by claiming that she sees the adoption of the euro as possible by 2030. The Czech Republic agreed to as part of its accession to adopt it.

By joining the European Union on May 1st 2004, the Czech Republic gained access to the EU's common market and gained the Four Freedoms (free movement of goods, services, capital and people within the EU). Besides the Four Freedoms member countries also have common policies, which are managed by the EU as a whole. They are divided under the Lisbon Treaty. One of those areas is Monetary policy, which falls under exclusive competence of the EU. In some cases, the power to adopt legislation has been transferred to the EU, and Member States are responsible for implementing it.<sup>1</sup> Only a few countries have negotiated an exception in case of the euro adoption, and the Czech Republic is not one of them. It is therefore obliged to adopt the euro eventually.

In order to adopt the euro, a country must meet the so-called convergence criteria, which include price stability (inflation rate), government indebtedness, interest rate stability and exchange rate stability, and the country should participate in a program that will help with the difficult transition for at least two years.<sup>2</sup>

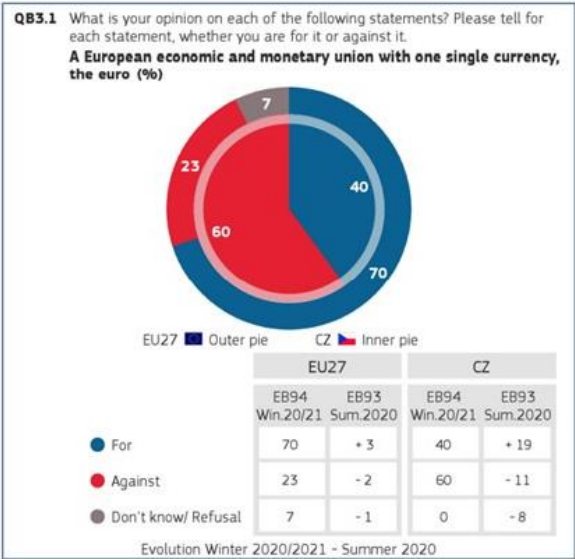
Currently, the Czech Republic fails to meet most of these criteria due to high inflation, excessively high lending rates and exchange rate stability. Moreover, the economic side of this issue is not the only one that needs to be resolved. The government would have to adopt several reforms, yet the crux of the issue lies in

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1 Politiky EU [online]. EUROSOKOP.CZ [cit. 2022-12-04]. Dostupné z: <https://eurosokop.cz/evropska-unie/politiky-eu/>

2 EVROPSKÁ RADA. Podmínky pro vstup do eurozóny – konvergenční kritéria. Evropská rada[online]. [cit. 2022-11-14]. Dostupné z: <https://www.consilium.europa.eu/cs/policies/joining-the-euro-area/convergence-criteria/>

public sentiment. At the moment, there is no appetite amongst the Czech population for Euro adoption, but it is progressively getting better, and according to the Eurobarometer’s data from last year, 40% of population of the Czech Republic would be in favor of adoption<sup>3</sup>.



Graph 1: EUROPEAN UNION. Standard Eurobarometer 94 - Winter 2020-2021

In addition, the Czech National Bank theoretically has more leeway in combating the current rampant inflation while the country has not adopted the Euro, though arguably this argument is not entirely salient given the CNB’s inability to do so thus far.

Instruments of the Czech national bank would be transferred to the European bank. It would not be able to devalue or revalue the currency or decide how much money would be in circulation or the level of interest rates. These tools are very

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<sup>3</sup> EUROPEAN UNION. Standard Eurobarometer 94 - Winter 2020-2021. Eurobarometer [online]. 2021, 4 [cit. 2022-12-09]. Dostupné z: file:///C:/Users/Z004DEKE/AppData/Local/Temp/MicrosoftEdgeDownloads/6fa6d69f-e4e4-4c78-bbd7-0416885b866f/eb94\_fact\_cz\_en.pdf

useful in moderating economic cycles and reducing the severity of recessions.<sup>4</sup> However, the CNB has not always been successful in these tasks, and it is quite possible that the ECB could have done a better job of ensuring stability. Looking at the inflation in the Czech Republic, the fourth highest inflation rate in the EU at 18% in September, in comparison with the Eurozone, where the highest inflation rate stopped at 9,6%, it is clear that ECB managed this crisis better than CNB.<sup>5</sup>

Another economic aspect of adopting the euro would be the facilitation of foreign trade. This simplification could improve the Czech Republic's net exports and positively affect GDP growth. It would also increase the competitiveness of Czech firms on foreign markets.

Doubts may stem from a lack of confidence in the stability of euro area member states. Stability is related to the economic convergence of the Member States. The less divergent countries are, the easier it will be to find a common monetary policy. The other thing that matters is that the national debt criterion is respected, because otherwise there is a risk that these countries will accumulate debt, with the other member states then taking it over. It is quite possible that in the future more powers may need to be transferred to supranational institutions and the fiscal union elements strengthened. This could carry the potential for threats to state sovereignty.

Last but not least, the argument for or against the euro is that citizens are often afraid of rising prices. In the medium term, with a fixed exchange rate, it is possible

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4 ČNB. Měla by Česká republika přijmout euro?. Česká národní banka [online]. [cit. 2022-11-14]. Dostupné z: [https://www.cnb.cz/export/sites/cnb/cs/o\\_cnb/galleries/cena\\_cnb\\_2018/download/eo\\_2018\\_esej\\_08.pdf](https://www.cnb.cz/export/sites/cnb/cs/o_cnb/galleries/cena_cnb_2018/download/eo_2018_esej_08.pdf)

5 Eurostat: Czechia had fourth-highest inflation in the EU. Expats\_cz [online]. web, 2022 [cit. 2022-12-09]. Dostupné z: <https://www.expats.cz/czech-news/article/today-in-czechia-july-18-2022>

that nominal prices will rise faster compared to an environment with exchange rate flexibility<sup>6</sup>.

Is the adoption of the euro a utopia or a reality? There is great importance in reopening the debate on Euro-adoption. One of the parties that realizes its importance and sees it as a pressing theme is TOP09. Luděk Neidermayer, an MEP for TOP09, has repeatedly described the course of action the Czech government should take to make eurozone entry realistic by 2030.<sup>7</sup>

To conclude, adopting the euro will bring some negatives, but the long-term positives will outweigh them. Another important fact is that the Czech Republic has committed itself to adopting the euro, and given the interest of politicians in opening discussions about this theme, it is imperative that the politicians begin laying the discursive foundation for an informed public debate about the eventual adoption. From a long-term perspective it is an inexorable obligation whose benefits and drawbacks largely depends on the generation of political will and public awareness – or lack thereof. Hence, for Euro-adoption in 2030 to be a reality, the long-overdue groundwork has to be laid now.

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6 BOROVIČKA, Jaroslav. Ekonomické argumenty pro (a proti) přijetí eura. New York university[online]. [cit. 2022-11-14]. Dostupné z: <https://www.borovicka.org/personal/euro-a-ceska-republika.html>

7 LinkedIn [online]. In: . LinkedIn, 2022 [cit. 2022-12-09]. Dostupné z: [https://www.linkedin.com/posts/top09\\_euro-top09-miloagpnovaet-activity-7006899339964862464-Smll?utm\\_source=share&utm\\_medium=member\\_desktop](https://www.linkedin.com/posts/top09_euro-top09-miloagpnovaet-activity-7006899339964862464-Smll?utm_source=share&utm_medium=member_desktop)

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