

Analysis of the Czech and Slovak Different Strategic Choices Towards the Eurozone

Jiang Li¹

Abstract: *Czechs and Slovaks lived in a common country from 1918 to 1992, and in May 2004 the Czech Republic and Slovakia joined the EU together; nevertheless, these two countries took different paths towards the Eurozone. On January 1, 2009 Slovakia became the 16th member state of the Eurozone, while the Czech Republic has not yet determined a specific timetable to enter the Eurozone. In this paper, our main objective is to answer the following questions: Why did the Czech Republic and Slovakia make different strategic choices on the issue of euro introduction? How could Slovakia, a country with unfavourable initial conditions of transformation, quickly achieve the full compliance of the Maastricht convergence criteria? How is Slovakia's experience in the Eurozone? Compared with the Czech Republic, which has not introduced the euro, is the Slovak economic situation better or not? Which economic consequences did the Eurozone debt crisis bring to Slovakia and how does it affect the decision of the other Central European countries, including the Czech Republic, about euro adoption?*

Keywords: *Czech Republic, Slovakia, euro adoption, monetary policy, economic convergence*

JEL Classification: *E52, E58, O23, O52.*

1. Introduction

On January 1, 2009 the Slovak Republic, a small country in Central Europe introduced the euro and officially became the 16th member state of the Eurozone. It was not only the first country from the former Warsaw Treaty Organization to join the Eurozone, but also the second country among the new EU member states after Slovenia. However, the Czech Republic, which had a long-term coexistence in a common country with Slovakia and even joined the EU together, in 2004, made a completely different strategic choice: indefinite postponement of euro adoption. Our paper is organized around the answers to the following six questions: Why did the Czech Republic and Slovakia make different strategic choices on the issue of joining the Eurozone? How could Slovakia, a country with unfavourable initial conditions of transformation, quickly achieve the full compliance of the Maastricht convergence criteria? How is Slovakia's experience in the Eurozone? Compared with the Czech Republic, which has not introduced the euro, is the Slovak economic situation better or not? Which economic consequences did the debt crisis of the Eurozone bring to Slovakia

¹ Jiang Li is a senior researcher at the Institute of Russian, East European and Central Asian Studies, Chinese Academy of Social Sciences, Beijing. E-mail: jiangli@cass.org.cn.

and how does it affect the decision of the other Central European countries, including the Czech Republic, about euro adoption?

The argumentation begins with an historical evidence of the two countries' economic development and international status before joining the European Union. It continues with the analysis of the determinants which led to Slovakia's Eurozone accession, while the Czech Republic postponed the entry into the Eurozone. Our paper goes on with the introduction of Slovakia's experience in the Eurozone and a comparison between the Slovak and Czech economic developments since 2009. Finally, we present the main conclusions and discuss the effect of the Eurozone debt crisis on the attitudes of the Central and Eastern European countries towards the euro adoption.

2. The economic development and international status of the Czech Republic and Slovakia before joining the European Union

Before the breakup of the Czech and Slovak Federal Republic, the Czechs and Slovaks had already begun the process of transition to a market economy and the "return to Europe". The separation of the two entities accelerated the pace of change. Nevertheless, "the Velvet Divorce" and the subsequent economic changes took place "in the shadow of the war in the former Yugoslavia and the crumbling of the Soviet Empire" and it "received comparatively little attention" among scholars (Hilde, 1999).

Economic transformation in the Slovak Republic was even more difficult and caused a greater impact on Slovak people's life, leading to widening economic disparities between the two neighbouring countries. The disintegration of the Czech and Slovak Federal Republic on December 31, 1992 interrupted the economic recovery which had begun in the second half of that year. While it adversely affected the economic development of both the Czech Republic and Slovakia, the dissolution of the federal republic brought greater negative consequences to the Slovak Republic (Švejnar, 1997).

After the dissolution of the federal republic, the Czech Republic and Slovakia embarked on different paths of economic transformation. The Czech Republic continued with the radical transformation strategy which had been adopted in the federal period, while the Slovak Republic was gradually deviated from the transition path of the federal republic, with a new way of privatization, and slowdown of the transition speed. In the early times following independence, due to more favourable initial conditions for transition, such as a relatively balanced domestic market, skilled and educated labour force, less debt, low inflation and adequate domestic savings, the economic situation was better in the Czech Republic, and its pace of integration into the European economy was faster than Slovakia's.

The Czech Republic needed only a few years to achieve macroeconomic stabilization, privatization of state-owned companies and price and trade liberalization. It was internationally considered as a successful transition model among the Central and Eastern European countries with sustained GDP growth, surplus public finances, expanded foreign exchange reserves, increasing investment, falling inflation and unemployment rates. However, starting from the second half of 1996, the Czech Republic began to show signs of economic slowdown. The main reason was the lack of appropriate institutionalization

and regulation, with a number of reforms being considered a mere formality, in addition to the lack of reforms in some areas. But its successful performance in the early period of transition, coupled with a sustained, stable political situation and close relations with the United States and Germany, led to success in terms of European integration. In 1995, the Czech Republic joined the Organization for Economic Cooperation and Development (OECD), being the first one among the Central and Eastern European countries to do so. In December 1997 it received the invitation to begin the accession negotiations with the EU.

After independence, Slovakia embarked on a unique way to establish a market economy. Privatization was mainly opened for interest groups that had close relations with the government. This non-transparent way of privatization not only made the country lose significant revenues, but also caused a corporate restructuring lag. Despite the fact that between 1994 and 1996 the economic growth rate in Slovakia was high, economic growth was built on the basis of government and household consumption surges, and not on the basis of system innovation and structural reforms. Soon macroeconomic imbalances appeared, such as: widened fiscal deficits, rising debt and current account deficit.

A turbulent domestic political arena, a too close relationship with Russia, and unresolved Hungarian minority status issues resulted in Slovakia's failure in terms of European integration, gradually being excluded from the trend of joining the EU and NATO.

In 1998 the Czech Republic and Slovakia were in economic trouble, leading, in both cases, to politically changed governments. In the Czech Republic, the economic recession shattered illusions about the success of radical reforms. The long-ruling centre-right government collapsed, and the Czech Social Democratic Party, emphasizing the social market economy and the welfare state, came to power. In contrast, in Slovakia a centre-right government that advocated deepening reforms replaced the previous one.

The new Czech government took the resumption of economic growth as the priority target, adopting a series of measures for economic revival. Because the government chose to use the expansion of public consumption to stimulate economy, in addition to the continuously increasing spending on social welfare, the Czech Republic saw an expansion of the government budget deficit. From 1998 to 2002, the pace of economic reforms in the Czech Republic was relatively slow. On one hand, after beginning accession negotiations with the EU in March 1998, the external pressure forcing the country to make fundamental changes weakened. On the other hand, a part can be explained in the context of the domestic political situation. The minority government, consisting of only the Czech Social Democratic Party, maintained the country's governance on the basis of mutual compromise with the largest opposition party, the Civic Democrats. Although the two political parties could agree on most economic policy priorities, they had different views on specific implementation of the reform programme. Therefore the reforms were delayed and long-standing structural problems were not resolved. After the 2002 parliamentary elections, strife within the ruling coalition was not a rare occurrence, and, as such, the government failed to properly formulate and implement the concept of economic and social reforms. The health care, pension and educational reforms still remained at the planning stage.

The Slovak government headed by Mikuláš Dzurinda not only strengthened the political democratization construction, but also made efforts to promote economic reforms, in order

to catch up with neighbouring countries in the process of “returning to Europe”. Through unrelenting efforts, in December 1999 Slovakia received an invitation to start accession negotiations with the EU. Through austerity policies and structural reforms, the Dzurinda government successfully achieved macroeconomic stability. Low wages, corporate and financial sector restructuring, and the introduction of monetary policy measures to support trade enterprises in expanding exports prompted the Slovak economy to improve its competitiveness continuously. From 2002 to 2006, the second Dzurinda government continued to deepen reforms, so as to meet the Copenhagen criteria as soon as possible, and to be close to the Maastricht convergence criteria. With the improvement of the business and trade environment, and a stable inflow of foreign direct investment, the economic growth in Slovakia was faster than its Central European neighbours. On May 1, 2004 Slovakia, together with the Czech Republic, joined the European Union.

3. Why Slovakia entered the Eurozone while the Czech Republic remained outside?

While joining the EU is a milestone in the process of European integration of the Central and Eastern European countries, joining the European Economic and Monetary Union is a natural continuation of the integration process. Since the date of signing the Accession Treaty in 2003, the Czech Republic and Slovakia took on the obligation to introduce the euro. Although both countries pledged to enter the Eurozone as soon as possible, in order to fully integrate into western structures, there was a clear difference between their paths of preparing to join the Eurozone. In October 2003 the Czech Republic established a political goal to introduce the euro in 2009 or 2010, with repeated delays of the process of entering the Eurozone; up until the present moment, it has not identified a specific date to join the Eurozone.

Slovakia has not only determined the time of entering the Eurozone early, but also acceded to the Eurozone in accordance to the stated objectives. Indeed, the path of preparing to enter the Eurozone of each EU Member State is very specific, each being able to choose the timetable of euro adoption in accordance with their economic convergence conditions. However, the Czechs and Slovaks had long-term coexistence in a common country, with notable similarities in the economic and cultural aspects, and the Czechs had better initial transition conditions. In this case, why did the Slovaks introduce the euro and the Czechs did not? The reasons reside in the following three aspects.

3.1. The strength of the political will

Since the centre-right government came to power in the fall of 2006, the Czech leaders stressed that before considering entering the Eurozone they should implement the necessary economic reforms. In November 2007, Prime Minister Mirek Topolánek stated that, the Czech Republic should not hurry to join the European exchange rate mechanism before implementing the pension system and health care reforms, therefore a 2012 introduction of the euro was not realistic (EurActiv, 2007). Since the political will of entering the Eurozone was not strong, the economic and structural reforms which had to be carried out on the road leading to the Eurozone were delayed, and thus the Czech Republic could not meet

the Maastricht convergence criteria for a significant amount of time. This became the main reason for which the Czech political leaders emphasized that there was no hurry to enter the Eurozone.

Since the beginning of the global financial crisis and the Eurozone crisis, the Czech government leaders were more worried about the potential ways in which the introduction of the euro could damage national economy. In August 2011, Czech president Václav Klaus, who was famous for his critiques of the European integration process, claimed that the Czech Republic should follow the example of the United Kingdom, Denmark and Sweden, and begin to negotiate with the EU about a permanent exemption on the issues of introducing the euro (Klaus, 2011). In October 2011, Prime Minister Nečas stated on the occasion of the informal summit of Visegrad Group that the Czech Republic did not currently intend to determine a date to introduce the euro, for two main reasons: firstly, the Czech Republic still had not met the convergence criteria. Secondly, the Eurozone had been transformed from a monetary union to a “transfer and debt” alliance, consequently Czechs needed time to observe future trends in the Eurozone (Nečas, 2011).

Although Miloš Zeman, who became the Czech President in 2013, supported the introduction of the euro as soon as possible, and the Bohuslav Sobotka government, which took office in January 2014, declared in its policy statement that it will prepare the Czech Republic for entry into the Eurozone, due to the rather eurosceptic electorate of the ruling Czech Social Democratic Party, the high levels of anti-euro sentiment among the public in general and the Greek crisis, the government has agreed not to make a decision on starting the euro introduction process (i.e., participation in ERM II) before its term ends in 2018 (Kačan, Toporowski, 2015). In fact, the Czech Republic has currently met the Maastricht convergence criteria in aspects such as government debt to GDP, budget deficit to GDP, long-term interest rates, HICP inflation rate and exchange rate volatility, and it is only due to lack of sufficient political will it has not met the final criteria – participation in ERM II. While in the report submitted to the government, the Czech National Bank and the Ministry of Finance repeatedly stated that the Czech Republic has not yet been ready to introduce the euro, the governor of the Czech National Bank, Miroslav Singer pointed out that the Czech National Bank was only a professional adviser in financial respect, the issue whether to introduce the euro was to be decided by politicians, not by economists (Singer, 2015).

By contrast, Slovakia had a strong political will for entry into the Eurozone as soon as possible. Because of consideration of the following factors: the size of the country, the openness of the economy, the close economic ties with countries in the Eurozone, the country’s economic transition and convergence process, the Slovak government leaders believed that Eurozone membership would bring Slovakia more good than harm. They considered that the benefits of entry into the Eurozone were prevailing, such as lower transaction costs, reduced exchange rate uncertainty, the elimination of currency risk of a speculative attack, lowering interest rates, strengthening of economic activity, increased foreign direct investment, price stability, healthier public finances and easier access to cheap credit.

From 2002 to 2006 the ruling Dzurinda government made necessary reforms, and did not hesitate to join the European Exchange Rate Mechanism. The change of government

in 2006 did not interrupt or delay the process of entry into the Eurozone, with the new Slovak government continuing to make efforts to push Slovakia closer to the door of the Eurozone. Although the Fico government paid attention to social protection measures and social assistance issues, it made only some adjustments in the field of tax reform taken on by the Dzurinda government, and never changed its priority of urging Slovakia to join the Eurozone according to the schedule. Prime Minister Fico considered that the combination of a modern social state model and fulfilment of the convergence criteria was a devil's plan and that the convergence criteria were a trap (Gonda, 2007a). Even so, the Fico government continued almost all reforms taken by the Dzurinda government. Strong political will helped resolve difficulties and problems on the road leading to the Eurozone. From 2004 to 2007 the Slovak economy grew rapidly and even though it was very difficult for the inflation rate to be reduced to the required level, through effort Slovakia managed to accomplish its goals.

3.2. The similarities and differences of economic characteristics

The Czech and Slovak economies have similarities, mainly in the following four areas. Firstly, they are small and open economies. Secondly, foreign trade and foreign direct investments are important for economic development. The financial and manufacturing sectors are dominated by foreign investors, while export destinations are mainly countries in the Eurozone. Thirdly, industrial output accounts for a high proportion of GDP, more than 30%. Fourthly, from 2004 to 2008 there was a trend of rapid economic growth, increasing foreign trade and investment activity. There are also some differences between the two economies; for example, in the Czech Republic the unemployment rate is lower, GDP per capita is higher and diversification of commodity production is higher than in Slovakia. In addition, another difference consists of the strength and effectiveness of the monetary policy system and economic reforms. Economic differences led to differing levels of social urgency to introduce the euro in the Czech Republic and Slovakia.

3.2.1. Monetary policy system

The Czech Republic implemented floating exchange rates, while the Slovak National Bank focused on the regulation of exchange rates. The Czech Republic achieved low inflation levels early on, while the process of decreasing inflation in Slovakia was longer and slower. Slovakia hoped that by entering the Eurozone it would improve the economic environment, so as to make borrowing costs decline and to promote investment and economic growth. However, this outcome is not attractive for the Czech Republic, because its long-term interest rates are well below those in the Eurozone, consequently the introduction of the euro will increase borrowing costs. Due to the relatively high current account deficit in Slovakia, it also hoped to guarantee monetary stability by joining the Eurozone. Already in possession of low inflation and interest rates, the Czechs have no illusions about the introduction of better monetary policy. Moreover, the Czechs do not want lose their exchange rate control mechanism in a situation where economic convergence is incomplete and synergy of the economic cycle is not so good (Vintrová, 2008).

3.2.2. The strength and effectiveness of economic reforms

Economic reforms can not only change the economic environment, but represent a step that must be taken before entry into the Eurozone. In terms of meeting the Maastricht convergence criteria, the fundamental problem for both the Czech Republic and Slovakia was public finance. In order to increase state budget revenues and to reduce budget expenditures, the Czech Republic and Slovakia carried out tax, health care and pension reforms etc., but the strength and effectiveness of these reforms were significantly different. In the same year of joining the EU, Slovakia carried out a tax reform. It abolished the gift, inheritance and real estate transfer taxes, simplified the income tax, implemented the single rate of VAT (19%) and adjusted the consumption tax. In the field of taxation, the Czech Republic did not carry out a fundamental reform, choosing to only partially change the tax system, therefore the situation of public finances was not significantly improved. In 2005 Slovakia carried out the pension system and health care reforms. Through the pension reform, part of the pension was paid by private funds, thus public expenditure was saved. The Czech Republic increased the retirement age and made a number of changes in the field of disabled pensions. In 2008 the Czech Republic carried out a health care reform, but in some regions reform was stopped, leading to medical expenses still being paid by the state rather than the patients. In contrast with Slovakia, the Czech Republic carried out reforms later, the duration was shorter, the intensity of reforms was lower, and there was less effectiveness in reducing the government budget deficit.

3.3. Euro adoption from the perspective of social needs

The issue of entry into the Eurozone, in addition to the political will of leaders and full compliance with the Maastricht convergence criteria also requires public support. In Slovakia, the euro was regarded as a tool to make the country's economy fully integrated into the EU's structure. In their eyes, entry into the Eurozone meant that Slovakia was further fixed in the developed economic structure. In the discussion on the issue of the introduction of the euro, the Slovak people were most concerned about how and when to meet the Maastricht convergence criteria, and rarely considered the negative impact of the introduction of the euro. The Maastricht convergence criteria even became an effective "whip" for the government to enforce budgetary discipline (Gonda, 2007b). According to the results of a survey conducted by pollster Focus in November 2008, about 60 percent of Slovak respondents had a positive attitude to the euro. In the process of "saying good-bye" to the Slovak Krone, the Slovaks did not show a significant "sentimental mood". For many Slovaks, the reputation of the euro was and remains more important than nostalgia for the Krone (Hospodářská Komora ČR, 2008).

The Slovak people actively supported joining the Eurozone as soon as possible and that was due to four factors. Firstly, after achieving independence in 1993, Slovaks committed to strengthening the international position and economic development of their nation in order to be on par with the developed Western countries. From 1994 to 1998, Slovakia gradually went into international isolation because of the authoritarian ruling style of the Mečiar government, and that negative experience subsequently made Slovaks all the more eager to integrate into the EU. It became one of the countries which most desired

to deepen cooperation with Western countries out of the states of Central and Eastern Europe. Secondly, the introduction of the Europe-wide used euro inspired Slovak national self-confidence. Joining the Eurozone earlier than neighbouring Central European countries made Slovaks very proud. Thirdly, historically the Slovaks were subject to Hungary, Nazi Germany and the Soviet Union, so national sovereignty does not affect Slovakia on the issue of entry into the Eurozone. Fourthly, the Slovak civil society was relatively weak, therefore non-governmental organizations were not able to promote and take part in necessary discussion on important civic issues such as entering the Eurozone. Therefore, Slovaks were insufficiently aware of the pros and cons of introducing the euro (Zachar, 2008).

By contrast, the Czech people did not share the Slovak enthusiasm for the introduction of the euro. Before the crisis in the Eurozone, they sustained the idea of introducing the euro after thorough preparations. The main reasons for which the Czechs did not hurry to the Eurozone also resided in four aspects. Firstly, the Czech nation is proud of its long history and splendid culture, so it is reluctant to give up even a measure of its national sovereignty. Secondly, the Czech civil society is more developed; there are many non-governmental organizations and independent organizations which actively participate in formulating national policy from different views and standpoints. Thirdly, Václav Klaus, Czech President from 2003 to 2013, who enjoyed a notable reputation in the domestic economic and political arenas, was a well-known eurosceptic. Fourthly, after the outbreak of the crisis in the Eurozone, economic uncertainty in the Eurozone increased, and the position of the euro weakened, which made the Czechs more hesitant to introduce the euro, fearing that the euro adoption would hurt the economy. At the beginning of the 2000s, more than half of the Czech population supported the euro adoption. Regrettably, the high public support was not properly used by the decision-makers. After 2005, the pros and cons regarding the introduction of the euro were almost equal. From 2010, the majority of the citizens were against the euro introduction. In May 2015, 24% of Czechs supported the euro adoption, with 69% of Czechs opposed to it. In the countries committed to introducing the euro, the Czech Republic has one of the most negative attitudes to the euro (Horáček, 2015).

4. The economic development of the Slovak Republic after the euro adoption, by comparison with the Czech Republic

Slovakia introduced the euro on 1 January 2009, at the beginning of the global financial crisis. At the end of 2009, the crisis in the Eurozone broke out. These two crises had a significant impact on Slovakia and the other Central European countries. The introduction of the euro made Slovakia lose its independent monetary policy and face more challenges from the perspectives of having more flexibility in the labour and product markets. While the other Central European countries could promote exports through the depreciation of their currencies, Slovak exporters could not benefit from a weaker currency. As Slovak products lost their competitive edge in price, exporters had to adjust by cutting production (mostly labour) costs and prices. As such, the Slovak economy declined sharply, and unemployment was rising faster than in other Central European countries. Since 2011, the currencies in the other Central European countries have appreciated towards the euro,

leading Slovakia to an accelerated growth in exports. It should be pointed out that as a member state of the Eurozone, Slovakia continues to bear a part of the cost of the Eurozone debt crisis: it participates in the financial aid programmes that currently provide assistance to Greece, Portugal, Ireland, Spain and Cyprus. Slovakia has taken part in almost all rescue programmes implemented in the Eurozone. Its total contribution exceeds €2.6 billion, or 3.6% of its GDP, and its total participation in the European Stability Mechanism accounts for 7.1% of its GDP (Kačan, Toporowski, 2015).

Slovakia has been in the Eurozone for seven years, compared to the Czech Republic which has postponed introduction of the euro; from this viewpoint it is important to answer the question: has the Slovak economic situation improved or worsened? We will address this issue in the following section.

4.1. Gross domestic product

In 2006 the Slovak National Bank stated in its analysis report that the contribution of the euro adoption on Slovak annual economic growth was about 0.7 percent, and long-term contribution rate would reach 7-20%. Obviously at that time the Slovak National Bank did not predict the global financial crisis would come.

The recession and recovery of the export-oriented Czech and Slovak economies are closely related to the demand of foreign markets, especially the demand of the larger EU market. Introduction of the euro in the period of economic crisis and the high exchange rate were unfavourable to Slovak exporters, as they could not obtain the support of national currency devaluation like the Czech exporters. Therefore, the degree of recession of the Slovak economy was larger than that of the Czech Republic in 2009. The reason for which the global financial crisis had a lesser impact on the Czech Republic's economy lies also in its relatively healthier financial system and better macroeconomic situation, with more balanced international payments, low inflation, higher economic growth, small proportion of foreign currency debt and lower household debt ratio etc. As the impact of the global financial crisis gradually subsided, the momentum of the economic recovery in Slovakia was stronger than that in the Czech Republic (**Table 1**).

Table 1: Comparative Czech and Slovak real GDP growth rates during 2008-2014 (%)

Economy/year	2008	2009	2010	2011	2012	2013	2014
Czech Republic	2.7	-4.8	2.3	2.0	-0.9	-0.5	2.0
Slovakia	5.4	-5.3	4.8	2.7	1.6	1.4	2.4

Source: Eurostat (2015a).

Slovakia has not only maintained a positive growth trend from 2010 to the present, but according to the forecast report of the European Commission released in spring 2015, the economic growth rate of Slovakia will greatly exceed the EU average in 2015 and 2016 (European Commission, 2015, p. 154), and in 2016 the economic growth rate of Slovakia is

also expected to be the second best in the EU just after Luxembourg's and Ireland's and the same as Poland's. Under the influence of the Eurozone debt crisis and the stringent fiscal austerity measures taken by its government, from 2012 to 2013 the Czech economy fell by two percentage points, returning to the level it previously saw at the turn of 2009 and 2010. Before the end of 2013, as the economic situation of major trading partners improved, the new government took a series of measures to support economic growth, the National Bank executed a series of interventions in the foreign exchange market, strong growth gradually emerged in the automotive industry, therefore the Czech economy began to expand.

4.2. Foreign direct investment

Before joining the Eurozone, the Slovak National Bank pointed out that the euro adoption would have a positive impact on attracting foreign direct investment. There were two reasons: on one hand, transaction costs and exchange rate risks would be lower, on the other hand sovereign credit rating would be raised. In the context of the global financial crisis, foreign direct investment in both the Czech Republic and Slovakia declined in 2009. In 2010, due to the low level of foreign debt, and a better withstanding of the impact of the global financial crisis, the Czech Republic attracted foreign direct investment most successfully of the Central and Eastern European countries, accounting for 4% of GDP. By comparison, total foreign investment in Slovakia accounted only for 1% of GDP (TASR, 2011). In 2011, the total foreign investment in Slovakia was four times higher than in 2010. Andrea Gulová, the director of the section for direct foreign investment of the Slovak Investment and Trade Promotion Agency declared that, in addition to assets such as skilled workforce and the highest labour productivity of the Central and Eastern European countries, the introduction of the euro was an important reason for foreign investors to choose Slovakia (Rychtárik, 2012). Being affected by the Eurozone debt crisis, the Czech Republic attracted less foreign direct investment, which fell by 26% compared to 2010. In 2012, due to the foreign investors' expanded investment in Slovakia, in particular in the automotive industry, Slovakia managed to avoid a second wave of recession in the Eurozone. Introduction of the euro was one of the reasons why foreign car manufacturers decided to invest in Slovakia.

In spite of that, from 2009 to 2013, except 2011, the Czech Republic attracted much higher foreign investment per capita than Slovakia. In other words, introduction of the euro failed to help Slovakia surpass the Czech Republic in terms of attracting foreign investments.

4.3. The overall financial situation

In 2008, the Czech public debt-to-GDP ratio was 28.7%, and the Slovak public debt-to-GDP ratio was 28.2%, well below 60%, the reference value predetermined in the Maastricht convergence criteria. From 2009 to 2013, the Czech public debt-to-GDP ratio increased more than 10 percentage points, while the Slovak public debt-to-GDP expanded even more (19 percentage points) (**Table 2**). Nevertheless, these levels remain well below those recorded by the old member states (EU-15) and, besides, in 2014 the public debt-to-GDP ratio began decline in both countries.

Table 2: Comparative Czech and Slovak public debt-to-GDP ratio during 2008-2014 (%)

Economy/year	2008	2009	2010	2011	2012	2013	2014
Czech Republic	28.7	34.1	38.2	39.9	44.6	45.0	42.6
Slovakia	28.2	36.0	40.9	43.4	52.1	54.6	53.6

Source: Eurostat (2015b).

According to Eurostat data, in 2008, the Czech Republic recorded a government budget deficit equal to 2.1% of GDP, while in the Slovak Republic the numbers went up to 2.4% of GDP; both of them were less than 3%, the reference value specified in the Maastricht convergence criteria. In 2009, the government budget deficit to GDP ratio in both countries increased dramatically, reaching 5.5% and 7.9%, respectively. Consequently, both governments adopted state budget austerity plans in order to reduce the government budget deficit. From 2010 to 2013, the government budget deficit to GDP ratio in both the Czech Republic and Slovakia sharply decreased, while in 2014 this indicator increased again, but only slightly (**Table 3**).

Table 3: Comparative Czech and Slovak budget deficit to GDP ratio during 2008-2014 (% of GDP)

Economy/year	2008	2009	2010	2011	2012	2013	2014
Czech Republic	2.1	5.5	4.4	2.7	3.9	1.2	2.0
Slovakia	2.4	7.9	7.5	4.1	4.2	2.6	2.9

Source: Eurostat (2015b).

After the global financial crisis, the Czech Republic implemented a fiscal consolidation policy earlier and faster than Slovakia, so its public finance was improved more quickly and significantly, while at the same time, austerity policies, especially the earlier increased VAT hindered economic growth, resulted in the second economic recession after the Czech Republic's accession to the EU.

4.4. Inflation rate

Before entering the Eurozone, scholars in Slovakia and abroad worried that introduction of the euro would lead to the increase of inflation. In fact, with the exception of 2011-2012, Slovakia had no problems in this regard (**Table 4**). This situation was partly due to the weakening of the global economic activity and the consumer demand impact on the price development in Slovakia, partly explained by the government's appropriate measures to prevent the increase of inflation. The law on introduction of the euro expressly stipulated that any steep rise in price connecting with the transition to the new currency will be severely punished (Cvrček, 2010).

Table 4: Comparative Czech and Slovak harmonised index of consumer prices (HICP) during 2009-2014 (%)

Economy/year	2009	2010	2011	2012	2013	2014
Czech Republic	0.6	1.2	2.1	3.5	1.4	0.4
Slovakia	0.9	0.7	4.1	3.7	1.5	-0.1

Source: Eurostat (2015c).

Between 2009 and 2010 the inflation in Slovakia was at a low level, owing mainly to weak domestic activity. Between 2011 and 2012 inflation sharply rose due to increases in indirect taxes and food prices, and higher oil prices respectively. In 2013 to 2014, the inflation rate declined because the domestic demand was weaker and food and fuel prices on global markets continued to be moderate. During 2009-2014 the evolution of the inflation rate in the Czech Republic was similar to that of Slovakia.

According to the Czech News Agency, from 2000 to 2014, the average inflation rate in the Czech Republic amounted to 2.2 percent, which in Slovakia amounted to 3.6 percent (ČTK, 2015). The evolution of the inflation rate in the Czech Republic and Slovakia was on the whole similar to that in the EU, but larger differences exist on the expenditures. Compared with the average level of the EU countries, the prices fell more in terms of clothing, footwear and home facilities in the Czech Republic and Slovakia, while expenses in housing, water, electricity and natural gas and other aspects significantly increased.

4.5. Unemployment rate

After joining the EU, with the expansion of the labour market and the enhancement of its flexibility, the Czech unemployment rate decreased obviously, from 8.3% in 2004 down to 4.4% in 2008. By contrast, high unemployment became a major issue for Slovakia, which was difficult to be resolved after its independence in 1993, and only in 2008 the Slovak unemployment rate was reduced to below 10% (9.6%). After the global financial crisis, unemployment rose both in the Czech Republic and Slovakia. It should be mentioned that the unemployment rate in Slovakia is twice the level of that of the Czech Republic (Table 5). The euro adoption did not help Slovakia to reduce unemployment.

Table 5: Comparative Czech and Slovak unemployment rate during 2009-2014 (percentage of the labour force)

Economy/year	2009	2010	2011	2012	2013	2014
Czech Republic	6.7	7.3	6.7	7.0	7.0	6.1
Slovakia	12.1	14.5	13.7	14.0	14.2	13.2

Source: Eurostat (2015d).

According to figures released by the Czech Statistics Office in August 2014, the Czech Republic had the fourth lowest unemployment rate in the EU, after the Netherlands, Germany and Austria. In 2013 the Czech Republic had an average 7 percent unemployment rate, compared to the EU average of 11 percent (Lazarová, 2014). The unemployment rate in the Czech Republic decreased to 6.20 percent in June of 2015. The average unemployment rate in Slovakia, calculated by the Central Office of Labour, Social Affairs and Family amounted to 12.79 percent in 2014, down by 1.32 percentage points compared to 2013 (Minarechová, 2015). From 2009 to 2014 the average unemployment rate in Slovakia was always above the average unemployment rate of the EU and the Eurozone.

5. Conclusions

During the first years after independence, Slovakia lagged behind the Czech Republic in regard to political and economic changes and integration into the European economy. Later it was struggling to catch up with the Czech Republic. In 2004 they met in the Euro – Atlantic structures. When the two countries joined the EU, both of them were committed to introduce the euro as soon as possible in order to accelerate the European integration process, however their paths of preparing to join the Eurozone were different: Slovakia chose a smoother and shorter track, while the Czech Republic underwent a longer and more tortuous process.

Based on a strong political will, a wide range of social support and economic interests, Slovakia steadfastly struggled towards the political goal of entering the Eurozone as soon as possible. In order to achieve full compliance with the Maastricht convergence criteria, Slovakia implemented reforms in related fields very early, and achieved remarkable results. By contrast, with the government's replacement in 2006, Czech political elites gave up the strategic goals of joining the Eurozone in 2009-2010 and instead slowed down the pace of preparing to enter the Eurozone. In addition to the nominal convergence with the Eurozone, the Czech Republic placed more emphasis on real convergence. Czech leaders were worried about the perspective of introducing the common currency in the case of incomplete preparation, which would have been disadvantageous to domestic economy. Due to the lack of urgency in the implementation of the reforms, some of them were delayed or interrupted, and as such the desired results could not be achieved. With the arrival of the global financial crisis, the economic situation in the Czech Republic worsened and full compliance with the Maastricht convergence criteria became more difficult. The ensuing Eurozone debt crisis brought along a dramatic drop in the Czechs' confidence in the euro. It can be asserted that, in the process of preparing for the introduction of the euro, the Slovaks were definitely euro-optimists, while the Czechs became more and more eurosceptic.

After entering the Eurozone, the Slovak economy was deeply affected by the global financial crisis and the Eurozone debt crisis in different degrees, and the benefits of the euro adoption have not yet been fully displayed in seven years, which is why it is difficult to state whether introduction of the euro has improved Slovakia's economic status and improved its growth potential or not. However, by comparison to a series of macroeconomic indicators, we can still find that in terms of GDP growth Slovakia is better off than the Czech Republic. Although the Czech Republic could in times of global financial crises ease the short-term impact of weaker external demand by devaluating the national currency, from a long-term

perspective it is not conducive to improving the overall national competitiveness. From 2009 to 2014, labour productivity in Slovakia was improved significantly more than in the Czech Republic. According to Eurostat data, during 2009-2014, the Slovak GDP per capita increased from 11800 EUR to 13900 EUR, while the Czech GDP per capita grew only marginally, from 14100 EUR to 14700 EUR (Eurostat, 2015e). This indicates that the gap between the two countries has been continuously shrinking. In the field of attracting foreign direct investment, the two countries recorded different trends in different years. The overall financial results and employment situation are better in Czech Republic than in Slovakia. The evolutions of the inflation rate in the two countries are similar. In this context, we agree with the former governor of the Slovak National Bank, Mr. Šramko, who considers that the *'euro is not a panacea and the key of economic growth is to implement proper economic policies and continue to deepen reforms'*.

Although new EU member states are obliged to adopt the euro, besides the convergence criteria it is not specified when and under what conditions they should enter the Eurozone. Slovakia's experience in the Eurozone provides mixed feelings for other Central European countries and it can hardly help them make decisions about when to join the Eurozone. Since the beginning of the Eurozone debt crisis, the negative developments in the Eurozone caused Central European countries to adopt a more cautious and hesitant attitude to the euro. In view of the fact that some institutional changes have been taken to secure the future of the Eurozone, the economic situation in the Eurozone seems to be improving. Moreover, the Eurozone is still an attractive offer for Central European countries (Toporowski, 2015). Nevertheless, most of them, including the Czech Republic, will wait for a better time to adopt the euro, maybe after the shadow of the Eurozone crisis disappears.

References

- Cvrček, M. (2010), *Slovensko; rok s eurem*, in Reflex, č.1., s. 16 ~ 17.
- ČTK (2015), ČSÚ: Průměr inflace za posledních 15 let je podobný jako v EU, 09.02.2015, available at: <http://www.financnioviny.cz/zpravy/csu-prumer-inflace-za-poslednich-15-let-je-podobny-jako-v-eu/1179142> (accessed on August 27)
- EurActiv (2007) *Budeme s eurem poslední?*, 19.11.2007, available at: <http://www.euractiv.cz/print-version/clanek/budeme-s-eurem-posledni> (accessed on July 21, 2015).
- European Commission (2015), *European Economic Forecast*, Spring, European Economy 2.
- Eurostat (2015a), *Main tables on national accounts*, available at: <http://ec.europa.eu/eurostat/web/national-accounts/data/main-tables>
<http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=teC00115&plugin=1> (accessed on August 10, 2015).
- Eurostat (2015b), *Main tables on general government finance statistics*, available at: <http://ec.europa.eu/eurostat/web/government-finance-statistics/data/main-tables>

<http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tsd410&plugin=1>

<http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tc00127&plugin=1> (accessed on August 10, 2015).

• Eurostat (2015c), *Main tables on harmonized indices of consumer prices (HICP)*, available at: <http://ec.europa.eu/eurostat/web/hicp/data/main-tables>

<http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tc00118&plugin=1> (accessed on August 10, 2015).

• Eurostat (2015d), *Main tables on unemployment*, available at: <http://ec.europa.eu/eurostat/web/lfs/data/main-tables>

<http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tsdec450&plugin=1> (accessed on August 10, 2015).

• Eurostat (2015e), *Main tables on GDP and its main components*, available at: <http://ec.europa.eu/eurostat/web/national-accounts/data/main-tables>

<http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tc00001&plugin=1> (accessed on August 10, 2015).

• Horáček, F. (2015), *Proti přijetí eura je 69 procent Čechů. Odpůrců ubývá, ukázal průzkum*, 12.5.2015, available at: http://ekonomika.idnes.cz/proti-prijeti-eura-je-69-procent-cechu-dsb-/eko-euro.aspx?c=A150512_165621_eko_euro_fih (accessed on July 21, 2015)

• Gonda, P. (2007a), „*Europretekz“ a „Europasce“(nielen) na Slovensku*, available at: <http://www.cdk.cz/rp/clanky/355/europreteky-a-europasce-nielen-na-slovensku/> (accessed on July 21, 2015).

• Gonda, P. (2007b), *Kritériá ne/výhodnosti členstva Slovenska v eurozóne*, 05.02.2007, available at: <http://www.konzervativizmus.sk/article.php?1302> (accessed on July 21, 2015).

• Hilde, P. S. (1999), *Slovak Nationalism and the Break-up of Czechoslovakia*, *Europe-Asia Studies*, Vol. 51, No. 4, pp. 647-665.

• Hospodářská Komora ČR(2008), *Slovensko vystupuje ze stínu sousedů, od 1. ledna přechází na euro*, 31.12.2008, available online: <http://www.komora.cz/aktualni-zpravodajstvi/aktuality-1/slovensko-vystupuje-ze-stinu-sousedu-od-1-ledna-prechazi-na-euro.aspx> (accessed on August 12, 2015).

• Kačan, D. ,Toporowski, P. (2015), *Eurozone Enlargement Frozen:The Deepening Crevasse between Central Europe and the EU*, September 2015, available at: http://www.pism.pl/files/?id_plik=20769

• Klaus, V. (2011), *ČR by si měla vyjednat opt-out z přijetí*, 31.08.2011, available at: <http://www.euractiv.cz/cr-v-evropske-unii/clanek/klaus-cr-by-si-mela-vyjednat-opt-out-z-eura-009088> (accessed on July 21, 2015).

- Lazarová, D. (2014), *Czech Republic has fourth lowest unemployment rate in the EU*, 4.8.2014, available at: <http://www.radio.cz/en/section/news/czech-republic-has-fourth-lowest-unemployment-rate-in-the-eu> (accessed on July 27, 2015).
- Minarechová, R. (2015), *Unemployment in decline*, available online: <http://spectator.sme.sk/c/20056325/unemployment-in-decline.html>, February 27 (accessed on July 27, 2015).
- Nečas, P. (2011), *Nečas: ČR nestanoví termín přijetí eura, eurozóna se mění*, available online: http://m.lidovky.cz/byznys/clanek.A111014_141501_firmy-trhy_apa.iln (accessed on July 21, 2015).
- Očko, P. (2008), *Slovensko ano, Česko ne*, 10.07.2008, available at: <http://www.finmag.cz/cs/finmag/penize/slovensko-ano-cesko-ne/> (accessed on July 26, 2015).
- Rychtářík, M. (2012), *Ako zahraniční investori v roku 2011 pomohli Slovensku*, 1.1.2012, available at: <http://www.investicne.sk/2012/01/01/ako-zahranicni-investori-v-roku-2011-pomohli-slovensku/2/> (accessed on July 26, 2015).
- Singer, M. (2015), *Singer: Česká přihláška do eurozóny může být i odmítnuta*, 7.6.2015, available online: <http://www.ceskatelevize.cz/ct24/ekonomika/313953-singer-ceska-prihlaska-do-eurozony-muze-byt-i-odmitnuta/> (accessed on July 21, 2015).
- Šramko, I. (2009), *Euro nie je všeliek, tvrdí guvernér NBS*, 14.12.2009, available online: <http://hn.hnonline.sk/ekonomika-a-firmy-117/sramko-euro-nie-je-vsieliek-video-360009> (accessed on July 29, 2015).
- Švejnar, J. (1997), a kolektiv autoru, *Česká republika a ekonomická transformace ve střední a východní Evropě*, ACADEMIA, s.105 ~ 106.
- TASR (2011), *Zahraničné investície sa vracajú do strednej a východnej Európy*, 30.3.2011, available at: <http://openiazoch.zoznam.sk/cl/103164/Zahranicne-investicie-sa-vracaju-do-strednej-a-vychodnej-Europy> (accessed on August 12, 2015).
- Toporowski, P. (2015), *A Post-Crisis Eurozone: Still an Attractive Offer for Central Europe*, July 2015, available at: <http://www.pism.pl/Publications/PISM-Policy-Paper-no-124> (accessed on December 20, 2015).
- Tvardzík, J. (2014), *Prečo naša ekonomika rastie viac ako česká*, 07.04.2014, available at: <http://www.etrend.sk/ekonomika/preco-nasa-ekonomika-rastie-viac-ako-ceska.html> (accessed on July 26, 2015).
- Vintrová, R. (2008), *Vývoj české a slovenské ekonomiky v letech 1993 ~ 2007*, in: *Mezinárodní politika 1/2008*, s.12.
- Zachar, M. (2008), *Česko - Slovensko a euro: příklad politického optimizmu a skepticizmu v nových štátoch EU*, 06.05.2008, available online: <http://www.amo.cz/publikace/cesko---slovensko-a-euro-priklad-politickeho-optimizmu-a-skepticizmu-v-novych-statoch-eu.html> (accessed on July 21, 2015).