INEKO
Institute for Economic and Social Reforms
Bajkalská 25, 82718 Bratislava 212, Slovakia, tel: +4212 5341 1020, http://www.ineko.sk/

Workshop survey: Euro positives for Slovakia prevail; the economists recommend entering Eurozone also to other post-communist countries

The implementation of structural reforms is the most efficient solution to the public debt crisis in the EU

Press report, November 25th 2013

Together 16 out of 21 Slovak and foreign economists addressed by the institute INEKO think that after almost 5-year experience of Slovakia with euro the positives prevail over the negatives. Four economists think that the positives are more or less equal to negatives and one respondent did not know the answer. Not a one economist thinks that the negatives prevail over the positives.

These results were shown by a survey among participants in the workshop titled **"Crisis in the Eurozone: Slovak Experiences with the Common Currency"** taking place on November 22nd in Bratislava. INEKO organized the workshop in cooperation with partner organizations from the V4+ countries with the Polish Institute of International Affairs as a main partner.

From among workshop participants Lajos Bokros (former Minister of Finance of Hungary), Ivan Mikloš (former Minister of Finance of Slovakia), Ivan Šramko (former Governor of the National Bank of Slovakia, currently Chairman of the Council for Budget Responsibility), Juraj Kotian (Chief Economic Analyst at the Erste Bank Group in Vienna), Ľudovít Ódor (former Deputy Governor of the National Bank of Slovakia, currently Board Member of the Council for Budget Responsibility of the SR), Ján Tóth (Deputy Governor of the National Bank of Slovakia), Martin Barto (former Deputy Governor of the National Bank of Slovakia) and Martin Filko (Chief Economist at the Slovak Ministry of Finance) gave their presentations evaluating Slovak experiences with euro and/or possible solutions to the debt crises in some EU member states. In the last panel the representatives of four research institutes from Poland, Hungary, Bulgaria and Romania presented their views about the pros and cons of the entry from the viewpoint of potential entrants.

All presentations, survey results as well as workshop agenda and list of participants are available in English on INEKO web page: http://www.ineko.sk/clanky/pripravujeme-workshop-crisis-in-the-eurozone-slovak-experiences-with-the-common-currency.

In the survey, the workshop participants mentioned among positives of adopting euro in Slovakia lower transaction costs and higher stability in foreign trade after the elimination of the exchange rate risk as well as better conditions for refinancing the public debt. Among negatives they mentioned costs related to participation in Eurozone financial stability mechanisms and the uncertainty regarding the future institutional framework of the Eurozone.

Almost all respondents recommend to other post-communist members of the EU to adopt the euro as soon as possible or in several years. In case of Poland 17 out of 21 economists expressed such an opinion (8 think

Poland should adopt euro as soon as possible and 9 think it should adopt it after several years). In case of the Czech Republic it was 18 economists (with ration 8 to 10); in case of Hungary 20 economists (9 to 11) and in case of Bulgaria and Romania 14 economists (7 to 7 and 6 to 8 respectively).

The economists favoring the quickest possible entering argued that the candidate countries should directly influence the establishment of a new institutional framework of the Eurozone. Those favoring later entering think countries should wait until a new framework is established. However, almost all participants agreed that in the long run, the adoption of euro would be beneficial for all post-communist members of the EU. To gain the most of euro benefits the countries should introduce flexible labor and products markets.

Survey: What would be your recommendation for the EU post-communist countries that do not yet use euro?

	Enter the Eurozone as soon as possible	Enter the Eurozone later, in several years	Do not enter the Eurozone	I do not know
Poland	8	9	2	2
Czech Republic	8	10	2	1
Hungary	9	11	0	1
Bulgaria	7	7	2	5
Romania	6	8	2	5

Source: INEKO survey among 21 workshop participants

The workshop participants also evaluated the solutions to the debt crisis in some EU member states. They assigned marks to listed solutions on a scale 1 to 4 where 1 stands for the least efficient and 4 for the most efficient solution. **The respondents marked "implementing structural reforms" as the most efficient solution (the average mark was 3.81 out of maximum 4) followed by "completing banking union" (2.95) and "more austerity" (2.81).** Among less efficient solutions they marked "deeper fiscal union" (2.40) followed by the expansionary monetary policy (2.05) and more investment (1.95). The least efficient was the exclusion from the Eurozone (1.74).

Among desired solutions they also mentioned the need to "educate and inform public regarding the structural changes and risks attached", the need for "full implementation of the common market in both goods and services", the need for the "bank and sovereign debt resolution scheme which would allow debt restructuring with a limited contagion effect" and the need to "clean the European banking sector". To prevent moral hazard, several economists argued that it is necessary to "introduce a non-zero risk weight for domestic sovereign bonds".

Peter Goliaš, INEKO Director

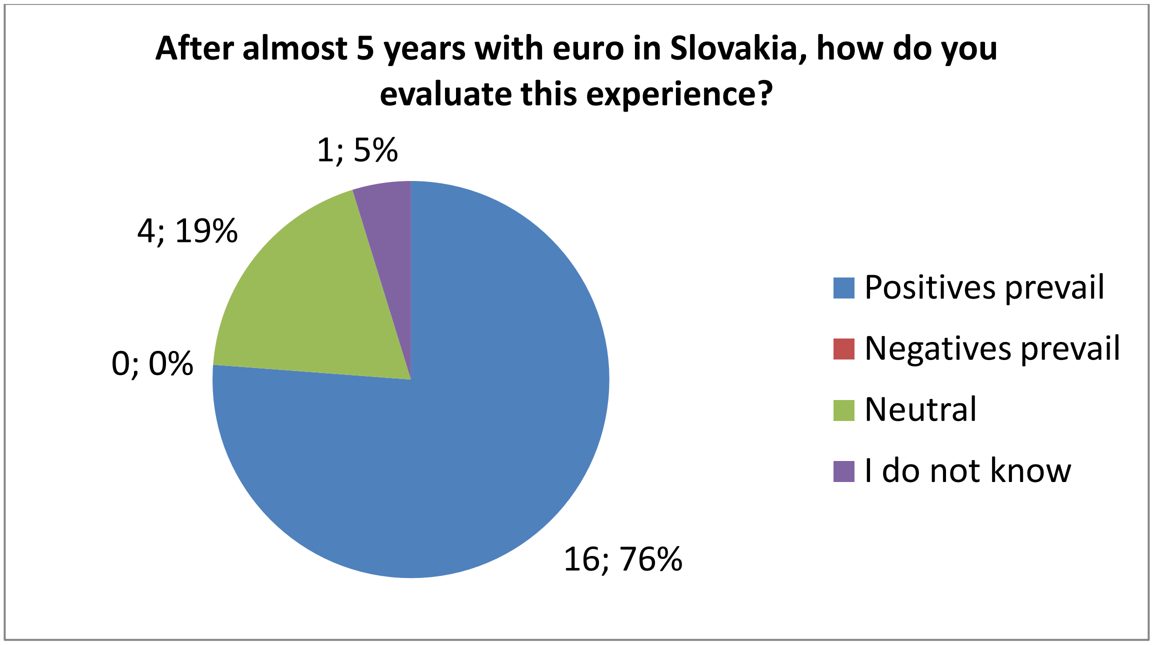
Attachments:
List of survey participants
Complete survey results

List of survey participants

	Name	Institution
1.	**Braun Mats**	Institute of International Relations, Czech Republic
2.	**Dinga Ján**	Institute of Economic and Social Studies, Slovakia
3.	**Ganev Georgy**	Centre for Liberal Strategies, Bulgaria
4.	**Goliaš Peter**	Institute for Economic and Social Reforms, Slovakia
5.	**Ivan Valentina**	Associated Expert of the Expert Forum, Romania
6.	**Jurzyca Eugen**	Institute for Economic and Social Reforms, Slovakia
7.	**Karpiš Juraj**	Institute of Economic and Social Studies, Slovakia
8.	**Kotian Juraj**	Erste Bank Group, Vienna
9.	**Kovács Olivér**	ICEG European Centre, Hungary
10.	**Lehuta Michal**	Weekly TREND, Slovakia
11.	**Meravý Tomáš**	Slovenská demokratická a kresťanská únia - Demokratická strana
12.	**Mikloš Ivan**	Member of the Parliament, Slovakia
13.	**Mušák Michal**	Slovenská sporiteľňa, a.s., Slovakia
14.	**Novysedlák Viktor**	Council for Budget Responsibility of the SR
15.	**Ódor Ľudovít**	Council for Budget Responsibility of the SR
16.	**Prega Róbert**	Tatra banka, a.s., Slovakia
17.	**Slávik Luboš**	University of Economics in Bratislava, Slovakia
18.	**Tokarski Paweł**	Polish Institute of International Affairs
19.	**Tóth Ján**	National Bank of Slovakia
20.	**Valachy Juraj**	Tatra banka, a.s., Slovakia
21.	**Zavadil Tibor**	National Bank of Slovakia

Complete survey results

Question 1:



Mentioned positives:

- Lower transaction costs
- Stability, elimination of exchange rate risk
- Wider base of investors in government bonds in local currency improved condition in refinancing public debt

Mentioned negatives:

- Bailout costs
- Uncertainty about further evolution of monetary union with probably further increase of explicit and implicit guarantees of Slovak Republic

Comments:

"Mainly positive impetus, but it was mainly due to the preparedness of Slovakia not the sheer introduction of the euro. Slovakia joined the Eurozone in a time of recession, in 2009. Previously, the Slovakian fiscal and monetary policy were in tandem in supporting the accession (while monetary policy left the currency to appreciate and could maneuver without letting inflation to rise, fiscal policy was to pursue stability. The crisis revealed the weakness of the Slovakian budget which was disguised by the intensive growth performance for years."

"Despite costs of the bailouts, Slovak economy is doing relatively well also thanks to having the euro."

"At least transaction costs decreased."

"Positive influence of elimination exchange rate risk and decreasing transaction costs in foreign trade with Eurozone, wider base of investors in government bonds in local currency improved condition in refinancing

public debt. Negatives: fiscal costs of participation in ESFS and ESM, uncertainty about further evolution of monetary union with probably further increase of explicit and implicit guarantees of Slovak Republic."

"Slovakia is member of very strong group of countries, which can help each other in difficult times."

Question 2:

What would be your recommendation for the EU post-communist countries that do not yet use euro?

	Enter the Eurozone as soon as possible	Enter the Eurozone later, in several years	Do not enter the Eurozone	I do not know
Poland	8	9	2	2
Czech Republic	8	10	2	1
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Source: INEKO survey among 21 workshop participants

Comments:

"Wait for future euro framework (e.g. features of fiscal union, legitimacy of decision making)."

"Do not enter, just make euro second official currency. With the exception of Hungary, they can probably use common credit lines to their advantage. Profits from access to funds would overshadow probable huge membership costs in the form of future banking system restructuring costs."

"Only enter the eurozone if you want to be part of a European federation in the future, with everything it might entail."

"Transactions costs will decrease, stability increase. "

"As soon as possible should be understood from the perspective that this will still take a few years for all the countries, and for some many years. It, however, would make sense for them to work clearly in the direction of the introduction of the euro."

"Eurobailout policy raises the costs of countries for being a member of the eurozone. Fiscally broke country can be recommended to become a member as we can actually expect it to be a pure receiver of the eurobailout."

"In several years, not as soon as possible, because uncertainty regarding the future eurozone architecture, especially regarding fiscal union."

"With the currency board arrangement, Bulgaria stands nothing to lose in terms of monetary policy, so the positives from joining prevail towards quick accession. The size of the country also means that the appropriate moment is ASAP. For the other countries positives are most probably significantly greater than negatives from joining, but a more careful weighting of costs and benefits is needed, and with some attempt to pick the best moment. I do not believe in the long run any of the countries will benefit from being outside the EZ."

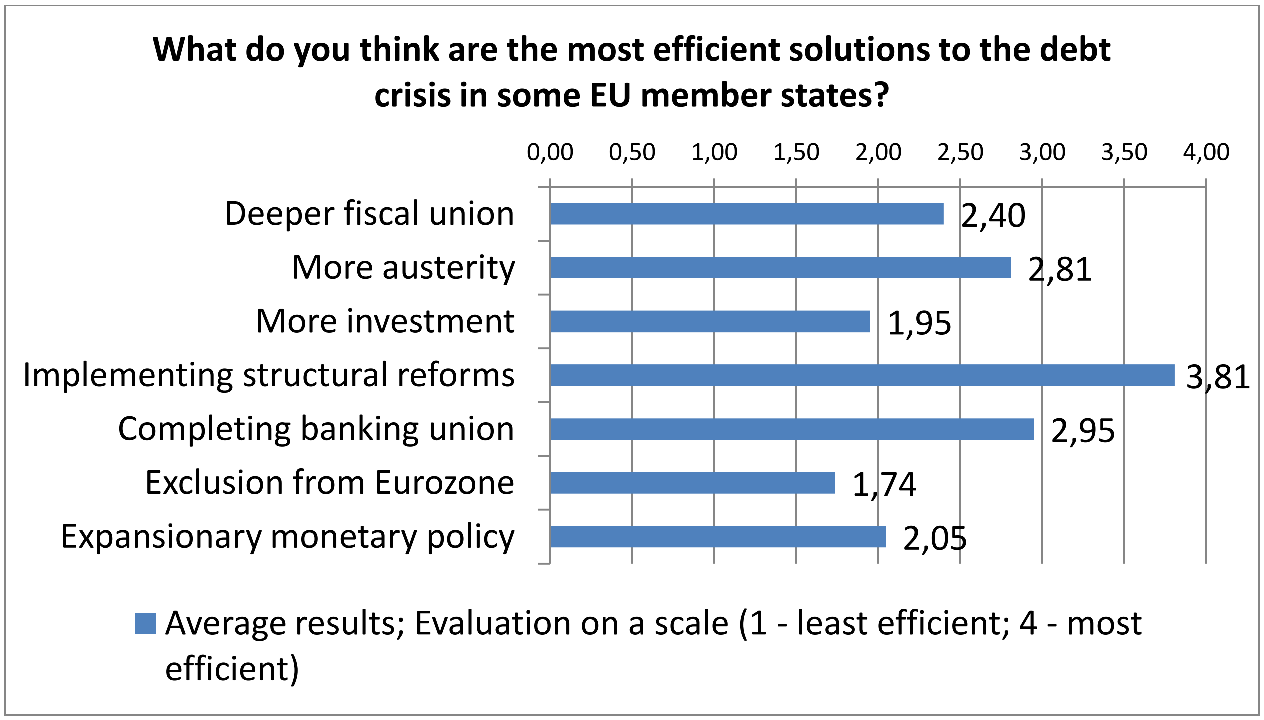
"Hungary, Bulgaria and Romania need to deal with their structural weaknesses and fully liberalise the energy prices before entering the Eurozone. The Czech Republic is economically ready. It also realized that it does not get so many benefits from its own currency as many economists thought couple of years ago. The only

drawback of the early Euro adoption is that nobody knows at this moment how the Eurozone will look like in the future as it has been changing dramatically and this process is not over. But it would be in interest of Poland and Czech Republic to be part of team which will decide on future shape of the Eurozone."

"Most of countries represents small open economies for which at some stage of real convergence is reasonable become member of monetary union. Development in the last years also confirms that room for independent monetary policy is rather limited. Nevertheless example countries like Greece suggests also risk of early entry of Eurozone. Moreover that is large amount of uncertainty about future development of Eurozone. Therefore I consider Wait and see policy as the most meaningful policy for the next years."

"Poland, Czech Republic and Hungary have to consolidate public finances and then they can enter to the Eurozone."

Question 3:



Other solutions proposed:

- Educate and inform public regarding the structural changes and risks attached
- Full implementation of the common market in both goods and services
- Bank and sovereign debt resolution scheme which would allow debt restructuring with a limited contagion effect
- Cleaning of the European banking sector