The Divergent Attitudes towards Euro Adoption in the Czech Republic and Slovakia amidst European Integration: Historical, Political, Economic, and Civic Perspectives

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Abstract. As the European Union (EU) currency, the euro holds significant implications for participating countries. While the Czech Republic and Slovakia are among EEA countries, each nation has adopted varying approaches towards the euro. This study compares and analyzes both countries' respective attitudes towards the euro throughout the European Integration process. A comprehensive exploration of their historical backgrounds, economic development, EU eastern enlargement, and the factors behind the Czech Republic's refusal to adopt the euro provide the analytical framework for this research. The findings suggest that historical, political, economic, and civic factors have informed the divergent attitudes towards the currency held in each nation. While the refusal of the Czech Republic to adopt the euro lies in its anxieties around macroeconomic stability, exchange rate, and sovereign debt risks – Slovakia's adoption has solidified its economic development and integration with European markets. The study's conclusion emphasizes the need for a thorough, nationalistic evaluation of the euro adoption process, aligned with each country's distinct interests and not governed by the EU's political objectives.

Keywords: Euro, European Integration, EU Eastern Enlargement, The Czech Republic, Slovakia

1 Introduction

Continuous discussions among scholars and politicians surrounding the ongoing process of European Integration have placed significant attention on the adoption of the euro, a central component of economic and political integration within the European Union (EU). The Czech Republic and Slovakia provide a unique case study, offering a glimpse into the contrasting attitudes these EEA countries hold towards the adoption of

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the euro, despite sharing similar historical backgrounds. Prior to World War II, Czechoslovakia held one of the world's dominant industrial forces, though significant post-war changes led to the Velvet Revolution of 1989 and divided the region in 1993.

This paper aims to discern and compare the Czech and Slovak Republics' attitudes towards adopting the euro, considering each nation's history, EU experiences, and economic and fiscal performances. This paper will explore Slovakia's decision to adopt the euro, including its rationale and effects on the country's economy, while simultaneously assessing the Czech Republic's decision to abstain from joining the Eurozone, despite being a member of the EU.

Ultimately, the study highlights how these EEA countries' different approaches towards euro adoption can play a crucial role in the ongoing European Integration debates. Commencing with a brief history of Czechoslovakia's pre-war industrial development, the paper explores the causes behind the 1989 Velvet Revolution and further elaborates on the nation's division into independent the Czech Republic and Slovakia. The study then explores European Integration's economic implications for these regions and their readiness to join the Eurozone, comparing their convergence with EU averages. The study concludes by assessing the economic performance of the Eurozone in the post-epidemic era and offers a perspective on the likelihood of the Czech Republic joining the Eurozone in the future.

2 Historical Background

2.1 Czechoslovakia Prior to World War II

In 1867, Austria and Hungary instituted a reorganization of the once-vast Austrian Empire, culminating in establishing the dualistic Austro-Hungarian Empire, ultimately subsuming Czechia, and Slovakia under its aegis. Throughout the First World War, both Czechia and Slovakia actively campaigned to create an autonomous state.

Following the conclusion of the First World War, the collapse of the Russian, Habsburg, and Ottoman empires, as well as the containment of the German Empire, fueled nationalist aspirations across Europe, with various factions endeavoring to claim territory for their respective peoples. Amid the tumult surrounding the end of the First World War, the Austro-Hungarian Empire underwent a cataclysmic collapse in 1918, which culminated in a declaration of independence by Czechia and Slovakia on 28 October of the same year. This momentous event signaled the establishment of a new autonomous and sovereign state, Czechoslovakia.

The Paris Peace Conference of 1919 generated numerous peace treaties that precipitated a substantial redrawing of Europe's geopolitical landscape. Of particular significance was the recognition of newly formed nation-states that emerged within the territory once occupied by the Austro-Hungarian Empire, with two treaties extending independent status to these entities. Notably, the Treaty of Saint-Germain-en-Laye facilitated the partition of the Austrian half of the former Dual Monarchy, with multiple nation-states, including Czechoslovakia, Italy, Poland, Romania, and the Kingdom of Serbs, Croats, and Slovenes, attaining sovereign status.[1]

Prior to the First World War, Czechia boasted a robust industry, emerging as the most economically advanced region in the entire Austro-Hungarian Empire. Czechia's economic performance index at the close of 1913 indicated a figure that was three-quarters that of France, two-thirds that of Germany, and somewhere between one-third to one-half that of the United States. After Czechoslovakia's establishment in 1918, it became the first among all the countries situated in Central and Eastern Europe to achieve post-war reconstruction, with an impressive 1937 economic revenue index standing at eighty percent that of France, seventy-five percent that of Germany and around 40% to 55% when compared to the United States. Preceding the commencement of the Second World War, Czechoslovakia emerged as a highly industrialized nation in Europe, and subsequently, the world. Specifically, it ranked seventh in both size and scope of industrial output worldwide, standing only behind the United States, Germany (post-annexation of Austria), the Soviet Union, the United Kingdom, France, and Italy, but ahead of Japan, Poland, and Spain. The underlying reasons were not a fortuitous occurrence, but instead, an amalgamation of crucial factors. One such contributing factor can be traced back to the 19th century when the country was a significant industrial center under the Austro-Hungarian Empire. Additionally, Czechoslovakia's highly skilled workforce facilitated the nation's emergence as a cogent industrial player in Europe. Further, the nation's abundant reserves of natural resources, including coal, iron ore, timber, and hydropower resources, played a fundamental role in spurring the development of key industries like steel and electricity generation. Moreover, the nation enjoyed a respected standing owing to its position as one of Europe's historical nation-states, while upholding democratic ideals earned high regard from other European nations.[2] This situation lasted until the Munich Conference in 1938.

Delegates from four world powers - France, Germany, Italy, and the United Kingdom - signed the Munich Agreement after engaging in comprehensive negotiations between 29 and 30 September 1938. The protocol detailed that Czechoslovakia would relinquish all of its territory inhabited by Germans (Sudetenland). The talks unfolded in the absence of any Czechoslovak presence, with ambassadors stationed in Germany receiving notification that any form of opposition from their home state would leave their nation bereft of diplomatic and military support.[3] During the month of March 1939, Nazi Germany orchestrated a series of military operations aimed at taking control of the territory of Czechoslovakia. This military conquest yielded the establishment of the Protectorate of Bohemia and Moravia within the Czech region, as well as the creation of the Slovak Republic under the protective cover of Nazi Germany in Slovakia. Notable facets of this undertaking involved Nazi Germany ceding certain portions of Slovakia to an ally in Hungary's metropolitan fold.

2.2 Prague Spring in 1968 and Velvet Revolution in 1989

The May 1921 foundation of the Czechoslovak Communist Party was a product of the October Revolution in Soviet Russia, and consequent trends in communist movements experienced globally. On 9 May 1945, the Soviet Union intervened militarily, facilitating the entire liberation of Czechoslovakia—a development that reunited Czechia and Slovakia, with new agglomerations of territory, including vital areas ceded by Hungary

to Czechoslovakia. In February 1948, a monumental event known as the February Incident unfolded, during which the National Socialist Party as well as other parties in the coalition government, engaged the Czechoslovak Communist Party in a confrontation over the country's acceptance of the Marshall Plan from the United States. These belligerent overtures ultimately resulted in a triumph for the Czechoslovak Communist Party. The country consequently adopted a new constitution, renaming itself the Czechoslovak Republic in May of the same year, with Klement Gottwald emerging as the President of the newly rebranded nation. Later, in 1949, Czechoslovakia became a member of the Council for Mutual Economic Assistance (CMEA), a pact formed among socialist states, followed by its foray into the Warsaw Pact in 1955.

Over the ensuing decades, Czechoslovakia replicated the highly centralized Stalinist blueprint of the Soviet Union across all aspects of its governance structure. This modus operandi induced a significant detachment from Czechoslovakia and by extension further constrained the economic development of the country. What's more, the country was susceptible to Soviet pressures in its foreign policy and diplomatic overtures, manifesting in a significant recalibration of the country's diplomatic focus towards the Soviet bloc. Owing to these unfavorable conditions, attempts to attenuate Soviet control over Czechoslovakia resulted in the election of Alexander Dubcek as the First Secretary of the Czechoslovak Communist Party on January 5, 1968. Dubcek's reformist agenda, characterized by the democratization of governance, greater freedom for Czechoslovakian citizens, and decentralization of power alienated the Soviet Union, which interpreted these reforms as likely to exert a significant diminution of its territory and political influence. This reform was known as the Prague Spring. Consequently, the Soviet Union unleashed a formidable invasion operation on Czechoslovakia in August 1968, precipitating the loss of liberalization and reform momentum that Dubcek's leadership had engineered. Moreover, the Soviets' justification for the invasion, framed under the Brezhnev Doctrine, was founded on the rationale that the "situation in Czechoslovakia" endangered their security. However, this explanation was quite nebulous, and world leaders exhibited a tepid response, given the limited evidence from the Soviet Union that leaked out during the Cold War. Nevertheless, significant debates still exist as to whether Dubcek's proposed reforms could have taken hold if the Soviet Union had not invaded Czechoslovakia.[4]

After the Soviet suppression of the Prague Spring, Czechoslovakia became increasingly aligned with the Soviet Union, with any deviations from the Soviet model deemed antithetical to the socialist system. During the late 1980s, Czechoslovakia was viewed as one of the most oppressive countries in Central and Eastern Europe and a strong ally of the Soviet Union. In the wake of the Prague Spring of 1968, which had been stifled with Soviet assistance, the regime successfully quashed almost all dissidence. However, in the autumn of 1989, civil society activists spurred a popular uprising that terminated Czechoslovakian authoritarianism, birthing a transition to democratic governance. Notably, this dissident movement brought about regime change without accompanying violent conflict, thus earning it the appellation of the Velvet Revolution.[5]

2.3 Dissolution of Czechoslovakia in 1993

Despite linguistic and ideological commonalities, the historical trajectories of the Czech and Slovak peoples have charted divergent paths. On January 1, 1993, Czechoslovakia underwent a peaceful dissolution into two separate and sovereign states, the Czech Republic and Slovakia. However, this partition came as no surprise due to simmering political tensions and ethnic divides that had been mounting for some time.

In the early 1990s, Czechoslovakia wrestled with transitioning to a market economy, and tensions between the Czechs and Slovaks escalated. The Slovaks, historically marginalized within Czechoslovakia, sought greater autonomy and political representation, specifically calling for the reinstatement of the federal structure that the Czechs had weakened in 1968. Additionally, an intensifying sense of economic exploitation plagued the Slovak people, who constituted less than 40% of the Czechoslovak population yet contributed nearly half of the country's industrial output. The Slovaks believed the Czechs were unfairly siphoning most profits generated from their labor, leaving them with a disproportionately small share. It thus became an inevitability for Czechoslovakia to fracture along ethnic and political lines. However, compared to the violent disintegration of Yugoslavia during the same period, the peaceful dissolution of Czechoslovakia is a notable feat. Czechs and Slovaks coexist peacefully in the wake of the separation, with few large-scale clashes between the two nations. The establishment of a strong relationship between the Czech Republic and Slovakia has been critical in maintaining stability in the region. Despite political differences, the countries remain key strategic and trading partners. Both nations established embassies in each other's capitals soon after the separation, and each country serves as the first point of contact for the other's leader following elections. While occasional tensions can arise, the fact that their relationship remains close years after separation is evidence of the adaptability and resilience of their people. Moving forward, the contrastive paths of the Czech and Slovak peoples as sovereign states will likely continue to be shaped by their shared past.[6]

3 Economic Development after 1993 and EU Eastern Enlargement

3.1 Economic Development of the Czech Republic and Slovakia before EU Eastern Enlargement

Before the dissolution of Czechoslovakia, the Czech Republic and Slovakia had commenced their pursuit of a market economy and integration into Europe. On January 1, 1991, the Czechoslovak federal government put in motion a far-reaching economic reform strategy intended to facilitate the transformation from a centralized system to a market-based one. The measures implemented included the liberalization of most commodity prices, the elimination of certain enterprise subsidies, the adaption of standardized tax guidelines, unlimited access to commercial credit, the abolishment of the state monopoly on foreign trade, changes to the koruna's exchange rate, and the institution

of demanding budgetary policies. Despite the good intentions of the resultant price liberalization, koruna devaluation, privatization, economic structural adjustments, and alterations to the terms surrounding foreign trade, the impact on the economy was jarring. This was evidenced by a precipitous decline in production, escalating inflation, rising unemployment, and decreased living standards.[7]

Following the separation of Czechoslovakia, the Czech Republic sustained its rapid and radical transformation approach initiated during the federal era, whereas Slovakia gradually diverged from the federal trajectory of transformation, embracing a novel privatization approach and decelerating the pace of change. However, the economic transition proved to be more arduous for Slovakia and had a more profound impact on the lives of the Slovak population, thereby further widening the existing economic disparity between the Czech Republic and Slovakia.

Compared to other transition countries located in Central and Eastern Europe, the Czech Republic demonstrated a superior capacity to evolve and merge with Europe, consequent to having exhibited better financial performance, lower external debt, a relatively well-balanced domestic market, a more skilled and educated populace with greater adaptability, and lower inflation rates, coupled with optimal domestic savings.

After the Czech Republic's attainment of independence in 1993, it sustained its prior speedy and sweeping conversion approach implemented during the federal period, culminating in foreign trade liberalization, price liberalization, privatization, and macroeconomic stability within a few years. Internationally, the Czech Republic has gained recognition as the most successful prototype of transformation in Central and Eastern Europe, with growing GDP, public finances operating at a surplus, drastically expanding foreign reserve stocks, progressive growth in investment activity, decreasing inflation, minimal unemployment rates, and the onset of export growth. The republic became the pioneer Central and Eastern European nation to join the Organization for Economic Co-operation and Development (OECD) in 1995. Moreover, in December 1997, the European Council offered the Czech Republic permission to partake in accession discussions, with the Czech Republic's accession process being officially established in March 1998. The Czech Republic's economy subsequently sustained moderate growth from 2000 to 2004, characterized by steady export expansion within the EU and a significant increase in foreign direct investment, with the growth rate outpacing EU-15.[8]

The Slovak government, meanwhile, endeavored to catch up with the pace of the Czech Republic's return to Europe, chiefly by strengthening the country's political democratization and promoting economic reforms. On December 1999, Slovakia gained admission to the EU after a sustained and concerted effort, accelerating its economic reforms to meet the joining criteria set forth in the Copenhagen Accord and move closer to the Maastricht Convergence Criteria.[9]

The highest percentage of affirmative votes in an EU accession referendum to date was recorded by Slovakia in May 2003, albeit with a voter turnout that barely exceeded the required 50 percent threshold., albeit with a voter turnout that barely exceeded the required 50 percent threshold. The consensus on the imperative to join the EU that emerged among all major parliamentary parties after a period of intense political polarization in the 1990s resulted in the first referendum in Slovak history where neither the

appropriateness of conducting the plebiscite nor the result itself was the subject of rancorous political discord. Although there were commendable civic efforts to mobilize voters during the previous two national elections, the absence of vigorous competition made it difficult to stimulate enthusiasm among the entire population of pro-EU voters for the referendum. Moreover, inadequate leadership and the anticipation of a sub-50 percent turnout motivated the Eurosceptic minority to refrain from active participation.[10]

On May 1, 2004, the Czech Republic and Slovakia became whole members of the EU, alongside Poland, Hungary, Slovenia, Estonia, Latvia, and Lithuania, culminating in the most comprehensive eastern enlargement of the EU since its formation.

3.2 Economic Impacts of EU Eastern Enlargement on the Czech Republic and Slovakia

Since the Eastern Enlargement of the European Union (EU), the Visegrad Group countries, namely the Czech Republic, Slovakia, Poland, and Hungary have benefited from their membership by gaining access to several advantages, such as expanding their exports, reducing income, and price level gaps with the established EU member states, and boosting their gross domestic product (GDP) growth rates. This has led to a significant improvement in the quality of life within these countries. However, despite their endeavors to match the living standards of developed Western European nations, this objective is yet to be fully realized. For example, the Czech Republic has experienced two economic downturns since joining the EU, mainly due to its poor absorption of EU funds and inconsistent approach to EU policies, impeding its economic convergence with the EU. Nevertheless, in 2006, both the Czech Republic and Slovakia were included in the World Bank's developed countries list.

After accession to the EU, the empirical evidence has dispelled concerns among the Czech and Slovak people about the adverse effects of their membership, such as sluggish economic growth, skyrocketing inflation, increased unemployment, closed local companies, decreased industrial production, and soaring food prices. Notably, the prices of commodities have remained relatively stable, with no significant inflation fluctuations, abiding by the inflation target set by the Czech Central Bank. Besides, the unemployment rates have declined significantly, and there has been a surge in exports soon after gaining membership, coupled with a relatively swift emergence of trade surplus, contributing significantly to the economic growth and development of these countries.

Despite the numerous advantages of joining the EU, challenges remain, particularly in realizing the objective of matching Western European standards. A significant obstacle to achieving this aim is poor absorption of EU funds due to insufficient utilization of these funds, coupled with a lack of infrastructure and mechanisms to deal effectively with the issue. In addition, regional innovation systems exhibit weakness, and institutional and policy capacities require modernization in these countries. Furthermore, the productivity gaps between the more advanced EU members and these countries remain wide, making it unlikely to change in the short term.[11]

4 Effectiveness and Efficiency in Slovakia's Eurozone Accession Process: A Critical Appraisal

4.1 Political Motives: Optimism over Pessimism

EU accession marked a significant milestone in the process of integrating Central and Eastern European countries into the European Integration process. The European Economic and Monetary Union membership served as a logical progression in this direction.

Slovakia assumed the obligation to adopt the euro as soon as it signed the EU accession treaty. The Slovak government implemented the "Strategy for the Introduction of the Euro in Slovakia" in July 2003 and a more detailed version of the same was adopted as the "Strategy for the Introduction of the Euro in Slovakia in Detail" in September 2004, with the explicit political objective of becoming a member of the Eurozone from January 1, 2009. In July 2005, the Slovak Government articulated a National Plan for the Adoption of the euro in Slovakia, which laid out the fundamental principles, institutional arrangements, and a timetable for adopting the euro. Slovakia became a part of the European Exchange Rate Mechanism (EERM) on November 28, 2005.[12]

Considering Slovakia's size, economic openness, strong economic ties with Eurozone countries, and ongoing economic transformation and convergence, Slovak political leaders have expressed their conviction that the advantages of joining the Eurozone surpass the disadvantages. They argue that joining the Eurozone results in numerous benefits, such as reduced transaction costs, eradication of exchange rate uncertainty, lower risk of speculative currency attacks, decreased interest rates, higher economic activity, elevated foreign direct investment, stable prices, improved public finances, and more convenient access to economical credit facilities. Conversely, the costs and risks of joining the Eurozone revolve mainly around the loss of independent monetary policy, the absence of the exchange rate as a tool for macroeconomic management, and the absence of a currency exchange rate. Additional concerns have been raised regarding inflationary pressures and "asymmetric shocks," primarily due to the high degree of heterogeneity within the Eurozone.[13]

In May 2008, the European Commission published a report indicating that Slovakia satisfied all the necessary criteria for joining the Eurozone in various areas, such as inflation, state fiscal position, long-term interest rates, exchange rate stability, as well as legal alignment with EU standards. The report further recommended Slovakia's inclusion as the 16th member of the Eurozone, which came to fruition on January 1, 2009, making Slovakia the second Central and Eastern European country to join the Eurozone after Slovenia.

4.2 Economic Reforms: Stable Social Environments

In the context of monetary policy, the National Bank of Slovakia places great emphasis on macro-regulating the exchange rate. This is due in large part to the arduous and protracted process of reducing Slovakia's inflation rates. Prospective members of the Eurozone, including Slovakia, perceive their accession as a means of transitioning to

an economic environment that includes a less expensive loan structure and an expanded range of investment opportunities, both of which are viewed as key drivers of economic growth. The Czech Republic has also been motivated to pursue Eurozone membership, recognizing the importance of currency stability as a critical source of economic vitality. It is also noteworthy that the Czech Republic's current account deficit was significantly high, reaching nearly 8% of GDP between 2005 and 2006.[14]

Economic reforms not only play a vital role in the transformation of the economic landscape, but they are also a crucial precondition for entry into the Eurozone. Shortly after Slovakia's accession to the European Union, the country launched an extensive tax reform campaign that included the elimination of taxes on gifts, inheritance, and real estate transfers, the simplification of the income tax system, and the restructuring of consumption taxes. The introduction of a single standard VAT rate of 19% was a prominent feature of the reforms. Additionally, Slovakia implemented sweeping reforms in the healthcare and pension sectors of the economy in 2005. Of note, the pension reform strategy involved redirecting a portion of pension funds from private sources to achieve cost savings in public expenditure.

4.3 Civic Support: A Firm Cornerstone

Besides meeting the Maastricht Convergence Criteria and demonstrating the necessary political will, garnering civic support is essential when considering membership in the Eurozone.

Following an extensive struggle culminating in the definitive conclusion of the national liberation process in 1992, Slovaks initiated efforts to enhance their international standing and economic development, thus aligning with the developed Western European countries. After Slovakia's 1998 parliamentary elections, the country exhibited a strong inclination for rapid and profound integration into the European Integration process, exemplifying the Central and Eastern European countries most actively seeking cooperation with the West. Under the Austro-Hungarian Empire, Nazi Germany, and the Soviet Union's influence, Slovakia's longstanding vision of national sovereignty has been difficult to realize. Nevertheless, the aspiration of joining the Eurozone has not wavered, and Slovakia remains resolute in pursuit of admission to the Eurozone at the earliest opportunity, undeterred by the issues of national sovereignty. In Slovakia, the euro represents a tool for the complete integration of its economy into EU structures, with membership serving as a stabilizing factor in the economy's progression towards continued development. Debates on Slovakia's adoption of the euro reveal a widespread sense of 'euro-optimism' among citizens, with an increasing number of individuals actively pursuing membership in the Eurozone. Primary concerns revolve around meeting the Maastricht Convergence Criteria of the Eurozone, with minimal attention paid to the potential negative consequences of Eurozone membership on national life.[15]

The Slovak koruna had a brief lifespan of six years, initially between 1939 and 1945, when it was used to support the autonomous Slovak state under Nazi Germany. Additionally, the koruna was in circulation between 1993 and 2009, within the years following Slovakia's independence.

Given the short-lived existence of the Slovak koruna, it did not pose a substantial psychological obstacle for individuals when it came time to phase it out. Moreover, the Slovakian public displayed little sentimental attachment to the Slovak koruna during its phasing out, emphasizing the importance of the euro currency's reputation over nostalgia for the previous currency. A survey by Fox in November 2008 underscored this trend, indicating that over 60% of Slovak respondents possessed a favorable outlook towards the adoption of the euro.[16]

5 Complexity and Struggle in the Path of the Czech Republic's Eurozone Membership

5.1 Euroscepticism: Rethinking the Gains of Eurozone Membership

Euroscepticism is a phenomenon that can be observed in several European countries which reflects the attitudes and beliefs towards European Integration and membership in the European Union. Euroscepticism is best described, according to Paul Taggart's definition from 1998, as a "conditioned or limited opposition to the concept of complete and unconditional support for the European Integration process." When political parties with Eurosceptic views gain political power, either in government or parliament, their ideology may directly impact their policy decisions or parliamentary voting. The source of Euroscepticism could emerge from a political party's ideology or from the development of a successful electoral strategy. [17]

The Czech Republic is widely known as one of the most Eurosceptic countries in the European Union. Data from Eurobarometer surveys indicate that 58% of Czechs do not hold trust in the EU, whereas 32% place their confidence in the EU, and the remaining 10% hold no clear opinion. The Eurosceptic views of the Czech Republic's political parties strongly influence the country's European policies.[18]

Despite the Czech Republic's fulfillment of the Maastricht Convergence Criteria in 2006 pertaining to public debt, budget deficit, inflation, and long-term interest rates, the country's political elite remains non-convinced about the merits of joining the Eurozone. The absence of a consensus among the primary political parties within the country has led to the government's hesitation in deciding to enter the European Exchange Rate Mechanism (EERM), and the adoption of the euro remains unknown. However, following the center-right government's inauguration in 2006, Czech political leadership has evinced their appreciation for joining the Eurozone. They emphasized the significance of possessing a fully prepared and powerful economy as a prerequisite to Eurozone integration. The impact of Eurosceptic political parties on the Czech Republic's EU policies highlights the pivotal role that domestic factors play regarding a country's stance on European Integration. It demonstrates that even after meeting critical prerequisites that allow a country to join the Eurozone, domestic political dynamics are crucial. To align with the Eurozone and the EU, a clear political consensus on key issues and an agreement encompassing various political parties are essential.

5.2 Unfinished Economic Structural Convergence with the Eurozone

The Czech Republic presents a distinctive set of economic circumstances as a transition economy pursuing Eurozone membership. In this quest, the Maastricht Convergence Criteria, although the primary benchmarks for assessing Eurozone eligibility, may not suit transition economies due to their unique characteristics. Consequently, the Czech Republic's path towards Eurozone membership persists in facing peculiar challenges. Advantages derived from a stable common currency could boost foreign investment in the country, but potential obstacles such as an overvalued exchange rate could impact exports and result in a negative balance on the current account crucial for maintaining balance or surplus.

Given this situation, it remains essential to develop tailored policies and assessments that address issues unique to the Czech Republic. To mitigate challenges such as the overvalued exchange rate and negative current account balance, policies to encourage diversification away from price competitiveness, improvements in the investment climate, and rectifying the primary income outflow show potential as solutions. If successfully implemented, these policies could help ensure that the Czech Republic's Eurozone membership proceeds with greater stability and sustainable growth.

According to the Czech National Bank (CNB), the unfinished process of economic convergence remains one of the most prominent concerns in considering the Czech Republic's adoption of the euro. Price level discrepancies between the Czech Republic and Eurozone also raise doubts about the implications of rapid price level growth following the currency switch. The CNB predicts a real exchange rate appreciation of the Czech koruna at 2% per year. However, without the exchange rate channel, the real appreciation process would transpire through an increase in the price level, which raises further complications.[19]

The Czech National Bank has been designated as a self-sufficient monetary organization charged with ensuring price stability. Unlike the Slovak National Bank's macro-regulation approach to exchange rates, the Czech Republic has implemented a flexible exchange rate system. Due to the state's proficient management of inflation rates, the nominal exchange rate has been bolstered. However, lengthy periods of low-interest rates and low inflation rates have dampened Czech citizens' enthusiasm for euro adoption. The upswing of the nominal exchange rate has encouraged households to spend in a domestic context and to prioritize their currency over prompt Eurozone inclusion. Given the situation where the economy is still hesitant to achieve full convergence and the economic cycle has yet to synchronize, Czech citizens are wary of giving up their exchange rate autonomy.[20]

5.3 Civic Opposition: A Robust Stance on National Sovereignty

The enthusiasm of the Czech population for joining the Eurozone is comparatively lower than that of the Slovak population, and they prefer to adequately prepare themselves before becoming a part of the Eurozone.

In the context of the Czech Republic's reluctance towards Eurozone accession, sev-

eral factors emerge as key contributors. Firstly, Czech citizens place a significant emphasis on maintaining their cultural and historical traditions, leading to a pronounced preference for maintaining their national sovereignty. Secondly, the legacy of national rebellion embedded in the Czech Republic's history, evident in movements like Jan Hus in the 15th century and the 1618 Czech nobles' revolt against the Habsburgs, has instilled a sense of skepticism towards the European Union and the idea of a shared currency. Thirdly, Czech Republic's diverse civil society is prominently populated by non-governmental and independent organizations that play a fundamental role in shaping national policies from different perspectives. Fourthly, President Vaclav Klaus's status as a well-known economist has earned him a significant position in national and international economic and political circles, though his views on euro adoption are a source of contention among Czechs, prompting extensive discourse on the subject within the country. Consequently, the Ministry of Finance and the National Bank have developed comprehensive opinions on the prospects and feasibility of embracing the euro. Lastly, since its induction into the European Union in 2004, the Czech koruna continues to maintain its high value, playing a pivotal role in offsetting the effect of the euro's depreciation during the 2008 global financial crisis. This experience has led Czechs to display more hesitation towards the adoption of a shared currency in their economy.

As time went on, the support for joining the Eurozone became considerably low among the Czechs. In 2003, the Czech Republic's population appeared to be overwhelmingly in favor of joining the Eurozone with 58% of those surveyed expressing support for the euro's adoption. Subsequent to joining the European Union in 2004, support for the Eurozone accession was 56%, which dropped to 52% in 2005. In April 2012, only 19% of the population supported the adoption of the euro, while 76% were opposed to it. [21]

6 Assessing Slovakia's Economic Performance Following Eurozone Accession in Comparison to the Czech Republic: A Promising Start or a Faltering Beginning?

6.1 Gross Domestic Product (GDP)

The GDP growth of Slovakia and the Czech Republic exhibited contrasting patterns from 2009 to 2011. While Slovakia experienced year-on-year GDP growth of -4.9%, 4.2%, and 3.3%, the Czech Republic fared somewhat less favorably with GDP growth of -4.7%, 2.7%, and 1.7% during the same period. [22]

Slovakia and the Czech Republic have economies that largely depend on exporting, especially within the European Union. When Slovakia joined the Eurozone, it became more susceptible to outside economic shocks, like the global financial crisis of 2008-2009, which affected both countries significantly. However, Slovakia recovered more efficiently than the Czech Republic due to focused restructuring efforts that included labor market reforms and investing in infrastructure, making it more competitive and efficient. This enhanced recovery exemplifies Slovakia's economic resilience and ability to handle challenging situations.

6.2 Inflation Rates

Before Slovakia joined the Eurozone, some domestic and international stakeholders harbored concerns about the potential inflationary risks associated with euro adoption. However, post-entry, Slovakia has maintained a relatively stable inflationary environment, without experiencing any significant surge in inflation. The reasons for this outcome are multifaceted and different underlying factors that contribute to this stable outcome.

Firstly, Slovakia's stable inflation outcomes are underpinned by the interplay between global economic activities and domestic consumer demand, which regulates price development in the country. This dynamic equilibrium of external and internal factors offsets price shocks stemming from any significant shifts in external and domestic demand. Secondly, the Slovak government implemented robust price stabilization measures to augment this equilibrium and reinforce price stability. The combination of factors ensures that inflation remained in check, hitting the government's target levels while maintaining economic stability in the country. Moreover, Slovakian legislation embeds explicit provisions that promote measures to prevent any spikes in prices that may result from euro adoption. The legal provisions amount to coordinated policy actions to stifle price hikes that could lead to undesired inflation. The implementation of strict measures that mandate rigid punishment for any deviations from the price trajectory underpins a stable economic environment conducive to sustainable economic growth.[23]

The inflation rates of Slovakia and the Czech Republic from 2009 to 2011 depict contrasting patterns. Slovakia's inflation rate increased steadily from 0.9% to 4.1%, while the Czech Republic exhibited a less volatile trend with inflation rates ranging from 0.6% to 2.1%. In the period after 2011, inflation in Slovakia rose slightly due to the country's recovering domestic demand and the government's fiscal stabilization measures. However, inflation remained within an acceptable range, affirming the government's policy continuity in achieving price stability.[24]

6.3 Unemployment Rates

It is crucial to understand the contextual nuances of the labor market in the Czech Republic and Slovakia. Since its accession to the European Union, the Czech Republic has experienced significant progress and flexibility in the labor market, resulting in substantial reductions in the unemployment rate from 8.3% in 2004 to 4.4% in 2008. In contrast, Slovakia has been grappling with high unemployment rates, even in periods of robust economic growth. This persistence was observed between 2009 and 2011 when Slovakia's unemployment rate was recorded at 12.1%, 14.4%, and 13.5%, respectively, significantly higher than the EU and Eurozone averages. However, in the same period, the Czech Republic experienced a relatively lower unemployment rate of 8%, 6.7%, and 7.2%, respectively, below the EU and Eurozone averages. The slower economic growth and amplified market uncertainties within the Eurozone since 2012 have continually impacted the employment situations of both countries adversely.

The divergent trajectories of the Czech Republic and Slovakia's labor markets despite their geographical proximity raise several questions about the factors that underpin differences in labor market performance. A possible explanation could be the differences in each country's institutional and policy frameworks, which affect factors like employee protection, social welfare benefits, and wage negotiations. An alternative explanation is the different market conditions, such as the availability of labor, capital investments, or technological advancements, which may have contributed to the observed imbalances. Therefore, detailed studies that account for these and other relevant factors can provide valuable insights for policymakers and stakeholders interested in improving labor market outcomes within and outside the Eurozone. [25]

6.4 Foreign Direct Investments (FDI)

According to a study by the National Bank of Slovakia, the adoption of the euro in the Slovak economy has been identified as a significant factor in the country's ability to attract foreign direct investment (FDI). In particular, the study highlights two main factors that foster the country's ability to attract FDI: reduced transactional costs and exchange rate risks, resulting in a more attractive investment proposition for foreign investors; and an improvement in the country's credit rating.[26] Due to the global financial crisis, both Slovakia and the Czech Republic faced challenges with FDI in 2009. However, the two countries experienced different outcomes - the Czech Republic was able to recover from the crisis and maintain a low external debt level, leading to FDI amounting to 4% of its GDP in 2010. Despite the local political and international financial market instabilities in 2011, Slovakia attracted a significant amount of FDI, four times that of 2010.[27]

This is attributable to factors such as high labor productivity, a skilled workforce, and adoption of the euro, which create a favorable environment for foreign investors. Slovakia’s favorable investment climate can be attributed to these internal factors that directly contribute to higher returns for foreign investors. On the other hand, the Czech Republic's appeal to foreign investors can be attributed to a combination of better markets and the euro. However, the country faced a 26% decline in FDI year-on-year, which can be attributed to investors finding better markets and the Eurozone's debt crisis affecting the capital of foreign companies. [28]

7 The Eurozone's Post-Epidemic Economic Trajectory and the Future for the Czech Republic's Aspirations to Join the Eurozone

The European Union has implemented many experimental policies in its integration process, including the establishment of the Eurozone, which deepened the level of European Integration to a new phase of the common currency and economic policy. The history of euro can be found in the **Table 1.** below.

Table 1. The History of the Euro

Time	Events
1957	Treaty of Rome (EEC): On the 25th of March in 1957, the European Economic Community (EEC) and the European Atomic Energy Community (EAEC or Euratom) were established by means of two separate treaties. The decision-making process of both communities was under the jurisdiction of the Council upon receiving a proposal from the Commission, which entailed advisor consultation by the Parliamentary Assembly and the delivery of recommendations to the Council. As a result of these developments, the European Parliamentary Assembly commenced its inaugural session on the 19th of March in 1958 with an increased membership of 142 individuals. The Treaties of Rome explicitly created a provision for members to be directly elected, which eventually came to fruition in 1979.[29]
March 1969	The European Economic Community's (EEC) Hague Conference proposed a European Monetary Union, with the responsibility of drafting substantive proposals for it delegated to Pierre Werner, the Prime Minister of Luxembourg at that time.[30]
March 1971	The adoption of the Werner Plan represented the initial stride towards a singular European currency. The plan proposed a European economic and monetary union, which was anticipated to be achieved in three successive stages over a decade. Despite its ambitious design, the subsequent financial turmoil and oil crisis led to an indefinite postponement of the Werner Plan.[31]
March 1979	The establishment of the European Monetary System (EMS) and the creation of the European Currency Unit (ECU) were undertaken due to joint efforts from the nations of France and Germany. As the European Monetary System (EMS) commenced its operations, a significant milestone was achieved in the economic history of the region.[32]
June 1989	The Delors Report, with its proposal of building a European Economic and Monetary Union in successive phases, was approved. The proposal entailed three stages, with the initial phase targeting the unrestricted mobility of capital. The second stage aimed to establish the European Monetary Agency, which served as a precursor to the European Central Bank. Finally, the third stage entailed the development and implementation of an Economic and Monetary Union, incorporating the use of a common currency that would supplant the national currencies of member states.[33]
10 December 1991	The Treaty on European Union, also referred to as the Maastricht Treaty was ratified by the EC Summit, leading to the transformation of the EC into the European Union. The Maastricht Treaty endorsed the initiation of the single currency project, with a timeline for its launch of January 1, 1999, provided the convergence criteria were met by more than seven member states as verified by the European Council.[34] The Treaty on European Union came into

	effect in 1993.
1 January 1994	During the second phase of the European Economic and Monetary Union, the European Monetary Agency (EMA) was established, entrusted with the responsibility of harmonizing monetary policy, improving coordination between the central banks of member states, and laying the groundwork for the creation of the European System of Central Banks. Governments of member states were responsible for formulating and executing monetary policy while retaining the authority.
15 December 1995	At the Madrid Summit, a crucial decision was taken to christen the European single currency as the 'euro.' This decision represented a significant achievement towards the consolidation and integration of the European economy.[35]
1998	The inception of the European Central Bank (ECB) marked a crucial milestone in the development and implementation of the shared currency. Subsequently, in May of the same year, the Brussels summit announced the 11 nations that constituted the first wave of the euro's founding members, thereby cementing the currency's launch.[36]
1 January 1999	As a supranational currency, the euro boasted independence and comprehensive legal tender status within the confines of the member states of the European Union.
2002	The emergence of the euro in the global financial markets marked a historic milestone in the realm of international currency systems. The official currency of 11 European countries, the euro superseded the national currencies of Eurozone member states, and their simultaneous withdrawal from circulation culminated in a definitive conclusion to their coexistence.
December 2018	The European Union implemented an action initiative aimed at bolstering the global prominence of the euro. Measures such as intensifying scrutiny of national budgets within the Eurozone, amplifying the role of the European Stability Mechanism (ESM), and exploring opportunities for increased employment of the euro in international energy agreements were all stipulated in this initiative. Additionally, the euro was deemed as a potent symbol of solidarity, sovereignty, and stability in a statement articulated by European Commission President Jean-Claude Juncker.
1 January 2019	As it marks its 20th anniversary, the euro has undergone a transformation from a mere virtual currency confined solely to accounting and financial transactions to a tangible means of exchange employed by more than 340 million individuals in 19 European Union countries as of 2019. Its evolution has been characterized by periodic turbulence, with the currency facing relentless scrutiny and encountering numerous crises over the past two decades.

However, the EU faced several difficulties in the process of deepening integration, such as the Eurozone debt crisis and the COVID-19 epidemic, which significantly impacted the EU's common economic policy and resulted in an unstable state of the Eurozone. Joining the Eurozone for the Czech Republic's significance lies in whether it can bring concrete benefits, but the current Eurozone cannot meet the Czech Republic's needs and may even impose new burdens.[37]

Throughout the epidemic, there has been a persistent sense of uncertainty surrounding the Eurozone's economic development. Eurostat released a flash estimate indicating that the annual inflation rate in the Eurozone is expected to rise to 8.9% in July 2022, which exceeded last month's record of 8.6%. Additionally, Eurostat data demonstrated that the rate of inflation in terms of energy was predicted to decrease to 39.7%, down from 42% in June, whereas food, alcohol, and tobacco prices were rising by 9.8%, indicating a growth of 0.9% from June. [38]

Related data can be found in the **Fig. 1.** below.

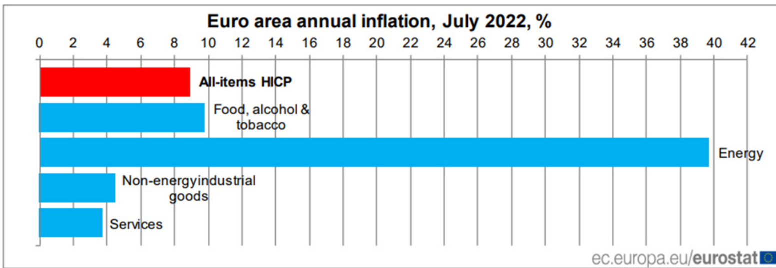

Fig. 1. Euro area annual inflation, July 2022, %

In 2023, inflation rates in the European Union decreased to 8.3% in March from 9.9% in February, representing its lowest value since May 2022. Similarly, the inflation rate in the Czech Republic has dropped to 16.5% from 18.4% in February, although it remains approximately double the EU average. Additionally, inflation rates in the Eurozone reduced to 6.9% in March 2023, as opposed to 8.5% in February 2023. Month-on-month prices have increased by 0.9% in both the EU and Eurozone. Inflation rates in the EU and Eurozone for March 2022 were 7.8% and 7.4%, respectively.[39]

Nevertheless, in April 2023, the highest rate of inflation was observed in Hungary (24.5%), followed by Latvia (15.0%), and then the Czech Republic (14.3%).

Related data can be found in the **Fig. 2.** below.

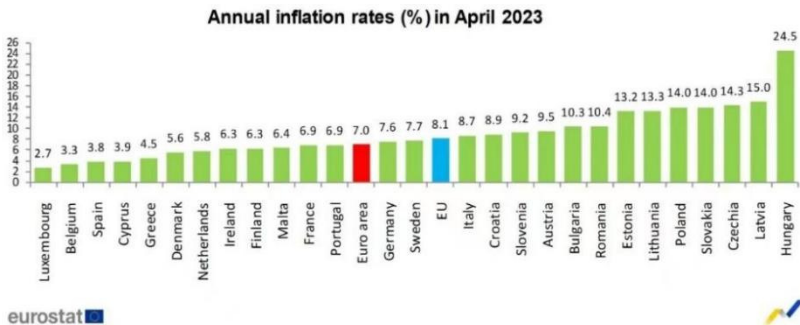

Fig. 2. Annual inflation rates (%) in April 2023 of the European Union

After the dissolution of Czechoslovakia, the Czech Republic implemented radical economic reforms that resulted in some short-term achievements. Still, gradually surfaced potential problems after twenty years, leading to an unstable economic structure and stagnation. Despite being closest to the Western European countries' economic situation among Central and Eastern European countries, the Czech Republic faces structural issues in responding to integration problems, lack of tax policy coordination, and de-alignment of interest groups that make the government reluctant to make significant policy adjustments. The pandemic worsened the pre-existing economic weakness, increasing inflation problems, dividing interest groups, and making it challenging for the government to play a macroeconomic control role. Therefore, the Czech Republic is walking a tightrope, and any error could result in economic collapse.

Recently, the Czech government continued not to prescribe a specific accession date to the Eurozone. In 2022, the Czech National Bank and the Ministry of Finance of the Czech Republic collaborated to evaluate the extent to which the Maastricht Convergence Criteria had been fulfilled and the degree to which the Czech economic policies aligned with the Eurozone. The evaluation's findings converged to recommend that the Czech Republic should for now not adopt the euro.[40] During the 2022 Czech presidential election, candidates held divergent opinions on the optimal date for the Czech Republic to join the Eurozone. The Speaker of the Czech House of Representatives proposed that 2030 be the target year, while Tomas Zima, on the other hand, urged caution as he noted that the Czech Republic had not yet met the Maastricht Convergence Criteria of joining the Eurozone. At present, the timeline for the Czech Republic's accession to the Eurozone remains uncertain.

According to a recent survey, most Czech citizens still do not agree with the adoption of the euro by the Czech Republic. [41]

This survey can be found in the **Fig. 3.** below.

Fig. 3. Survey on the Czech public's attitude towards the euro adoption

8 Conclusion

The present comparative study examines the attitudes of the Czech Republic and Slovakia towards achieving euro convergence, drawing attention to the intricacies of the ongoing European Integration process. This research analyzes the latest trends in the economic performance of the two countries with different approaches towards the adoption of the euro. Such policies reflect their unique histories and experiences with EU Eastern Enlargement, which warrants scrutiny.

Following the Velvet Revolution in 1989, the separation of Czechoslovakia led to distinct economic trajectories. Slovakia displayed more support for the Eurozone and eventually adopted the euro in 2009, resulting in increased foreign direct investments and economic growth. Despite this, concerns about unemployment rates were raised.

In contrast, the Czech Republic remains cautious about joining the Eurozone, even with its inclusion in the Maastricht Convergence Criteria. Their decision was influenced by potential losses of monetary independence alongside its economic performance. This decision, consequently, led to drawbacks such as reduced foreign direct investments and bleak participation in Eurozone-based decision-making.

Our comparative research shows that the euro's adoption has its share of merits and demerits, with implications on economic development, political preferences for monetary independence, and goals for EU participation. Notwithstanding, the Czech Republic and Slovakia's differing policies towards adopting the euro illustrate diverse identities, approaches to the EU, and experiences since the Velvet Revolution.

Due to individual contexts, recognizing the divergence in euro adoption decisions among EU member states is pivotal. Thus, informed decisions regarding economic policies such as euro adoption require a critical evaluation of such policies' benefits, drawbacks, and outcomes. Due to the European sovereign debt crisis and the epidemic, the remaining three nations (Hungary, Poland, and the Czech Republic) in the Visegrad Group have yet to establish a specific timeline for joining the Eurozone and do not intend to expedite the pace of adoption of the euro. While these states assert that the delay stems primarily from their inability to fulfill the Maastricht Convergence Criteria, they harbor deeper reservations about the Eurozone's transformation from a monetary union to a debt union. As such, they seek to observe future developments within the Eurozone and avoid imperiling their economic potential through premature accession. We expect future research to explore European Integration's impacts on other countries and regions and the resulting influence on the integration process.

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