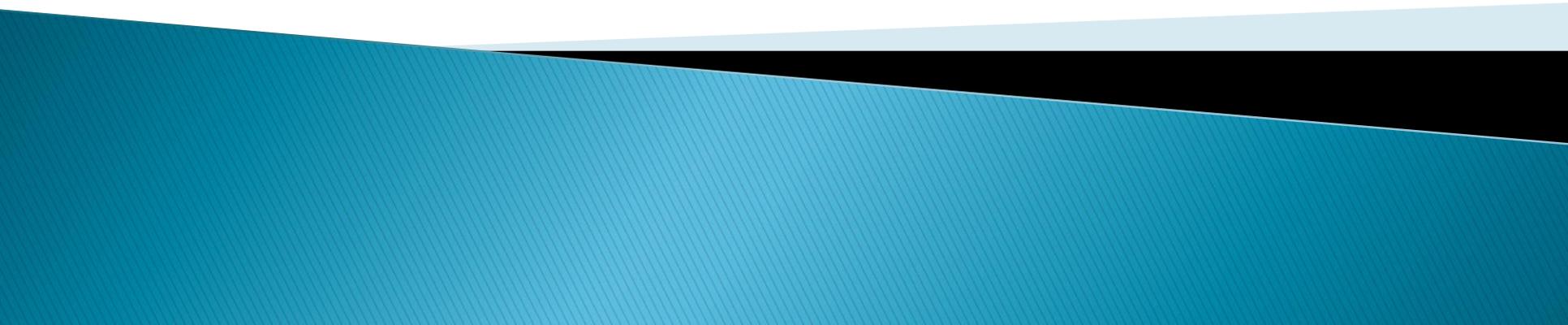


Was it a Mistake to Join the Eurozone?

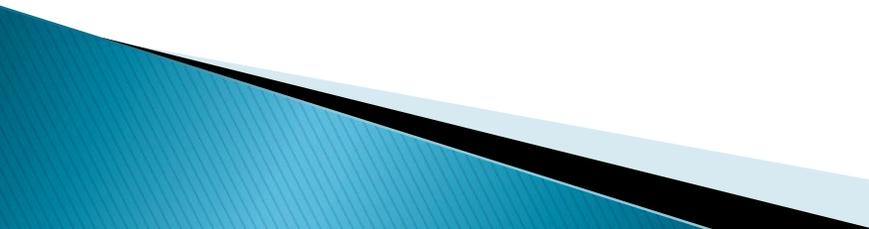
Ivan Mikloš



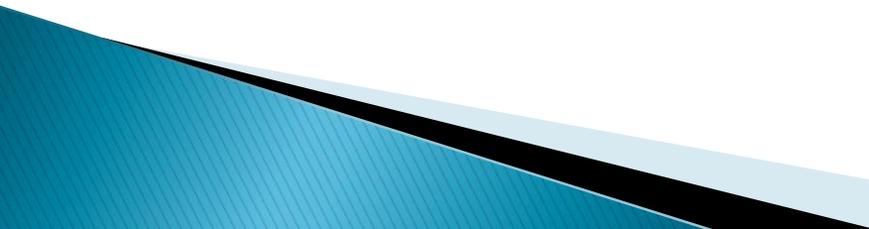
Pre accession period

- ▶ Without reforms, especially second Dzurinda's government reforms, it couldn't be possible for Slovakia enter eurozone
- ▶ Continuity in the eurozone strategy after 2006 elections was important insurance against canceling reforms
- ▶ First Fico's government was pressed to continue by markets reaction. Markets were afraid from risk of discontinuity and canceling reforms

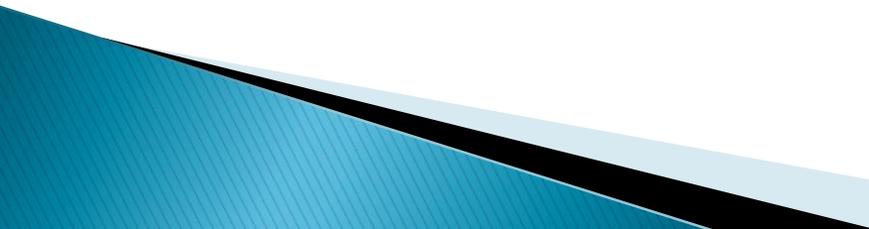
Eurozone membership expectations

- ▶ Lower transaction costs
 - ▶ No exchange rate risk and more stable currency
 - ▶ More stable inflation
 - ▶ Higher trade and investment
 - ▶ Reserve currency
 - ▶ Pressure to provide necessary reforms, especially sound public finance and flexible labor market
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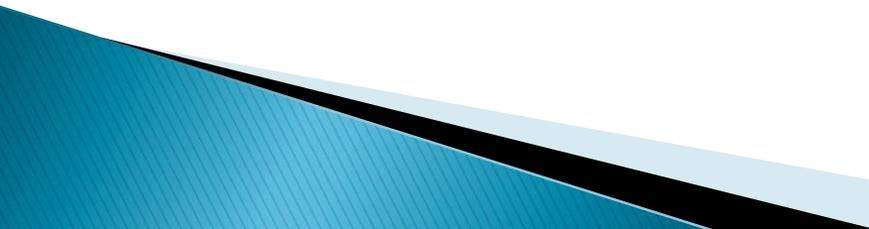
Results I

- ▶ Difficult to judge results, because we don't have and cannot have counterfactual analyses
 - ▶ Despite above mentioned it seems that positive effects work, although not in such amount as it was expected
 - ▶ There are other factors which could hamper or diminish positive eurozone effects (debt crises, unreasonable domestic economic policy, too high convergence currency rate etc.)
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Results II

- ▶ Fico's second government accepted under pressure of the EC necessary changes in the first pension pillar for strengthening long term fiscal sustainability
 - ▶ Stronger pressure from the EU and EC – six pack, two pack, fiscal compact, macroeconomic imbalance procedure
 - ▶ Higher importance of the sound public finance, flexible labor market and necessary structural reforms
- 

Has the Eurozone future?

- ▶ Milton Friedman said in 2000 that he gives eurozone around 10 years and that EA will not survive the first big crisis
 - ▶ Václav Klaus is even stronger opponent of eurozone but he argues that EA will survive, but price will be enormous – bureaucratic centralized and lagging behind system
 - ▶ It is almost consensus that monetary union needs fiscal union
 - ▶ But problem is – what kind of fiscal union
- 

Fiscal union yes – but what kind?

- ▶ The biggest problem of current monetary union is not a difference among member states in economic level and development but competitiveness divergence
 - ▶ Fiscal union has to be politically legitimate and has to motivate for competitiveness convergence
 - ▶ No way for fiscal union based on federalization, common taxes and strong transfers, no way for USE (United states of Europe)
 - ▶ What is only possible solution is fiscal union based on strict and enforced rules and principles forced fiscal responsibility and structural reforms
- 

Why USE are not solution?

- ▶ Lack of political legitimacy. Within EU and EA as well common European identity approving strong redistribution and transfers is and will remain very weak
- ▶ This type of fiscal union even if theoretically with political legitimacy is dangerous because would lead Europe lagging behind other parts of the world in current global competition

Reform fiscal union is only solution

- ▶ New EU and EA member countries are successful example of the reform convergence
- ▶ The most reform countries are also the most convergence economies
 - Estonia went from 36% in 1995 to 67% in 2011 and Slovakia from 47% to 73% (GDP per cap in PPP, EU 27=100%)
- ▶ Eastern Germany on the other side is the example of transfer fiscal union – very expansive and politically sensitive even in one nation country

What was or will be done

- ▶ 2 - pack
 - ▶ 6 - pack
 - ▶ Fiscal compact
 - ▶ Macroeconomic imbalance procedure
 - ▶ Banking union
 - ▶ ESM
 - ▶ Enhanced coordination
- 

What has to be done more

- ▶ Strict and automatically enforced rules for sound public finance and implementing structural reforms, especially in labor market flexibility
 - ▶ Completion of the real single market within EU, especially in services
 - ▶ EU, EC and EA institutional restructuring focused on business environment improvement, red tape reduction
 - ▶ Moral hazard reduction rules in banking union and in other areas
- 

Last but not least – exit strategy

- ▶ New EA rules will have to have also exit rules for the EA countries which will decide not accept and fulfill common strict rules pushing them for public finance discipline and structural reforms
 - ▶ It is very important for political legitimacy and for diminishing moral hazard
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Summary

- ▶ Reforms and reliable core eurozone membership are key preconditions for successful future
 - ▶ Eurozone membership creates pressure and incentives provide necessary structural reforms and responsible fiscal policy
 - ▶ Eurozone membership strengthens our chance to become one of the most developed European country
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Thank you for Your attention!

