



THE EURO
and the Czech Republic



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FOREWORD BY PAVEL SVOBODA

Chairman of the Board of the Institute
for Christian Democratic Politics

Dear friends,

Currency is a sensitive issue. It is a language used to convey appreciation for the results of our daily work, to consider the economic welfare of our families and ourselves and to express our solidarity and generosity. It is simply part of our cultural identity. Moreover, those who think economically see currency not only as a common denominator of national wealth, but also as a tool for influencing the economy of the state, i.e. a tool of power, and therefore part of national sovereignty.

Exchanging a national currency for a supranational currency is, therefore, a matter with an extraordinary impact on our lives. From this point of view, currency is also a litmus test of whether and how we perceive the reality of today's world and a test of our Europeanness: by adopting the euro, we would be much more connected with the many European democracies that pay with the euro. But is it a disadvantage in today's era of pressure among the great powers – the United States, Russia and China – to strengthen Europe's own economic and political power?

Czechia is a very open economy at the heart of Europe, with all the prerequisites to make the most of this openness and location. This includes reflections on our sovereignty: our economy depends on exports to the eurozone, our energy supplies to Russia and the military defence of NATO. We should, therefore, have sound reasons for rejecting the common currency – given that we committed ourselves to its adoption in the Treaty of Accession.

This publication aims to enrich the debate about the euro by stating facts within context and to extricate it from populist discourse. I wish it every success.



FOREWORD BY MARTIN KASTLER

Representative and regional director of the Hanns Seidel Foundation in the Czech Republic, Slovakia and Hungary

Dear Sir or Madam,

On my business trips between Prague and Bratislava, between Brno and Košice, I keep asking myself why the Slovak double cross on euro coins is now commonplace whereas the euro with the Bohemian lion is still a long way off.

Three out of four of the Czech Republic's neighbouring countries use the euro. The Czech Republic has its closest economic ties with Germany; a third of Czech exports go to Germany, and the total bilateral trade volume reached a record value of 92.7 billion euros in 2019. Out of this, 21.4 billion euros account for the economic exchange between the Czech Republic and the Free State of Bavaria. With the accession of the Czech Republic to the EU in 2004 and the ratification of the Lisbon Treaty, the Czech government also

committed itself to introducing the single European currency, the euro, in the long term if the Maastricht criteria allow for it and society is ready.

I want to thank the IKDP for their cooperation in preparing a series of debates entitled 'The euro and the Czech Republic'. We had initially planned a traditional conference with guests speaking to a live audience, but these plans were shelved due to the measures implemented to contain the spread of the novel coronavirus. Especially in times when politics is dominated by short-term measures against the pandemic, it is important not to forget the long-term vision. As Czechs and Germans, as Europeans, we want to get out of the corona-related recession together, and the use of the single currency, the euro, could be instrumental in this process.



FOREWORD BY MIKULÁŠ DZURINDA

President of the Wilfried Martens Centre
for European Studies

Dear Sir or Madam,

I see the Euro, our common European currency, as one of the main pillars of the project of a united Europe. I still consider the introduction of the Euro in Slovakia, back in 2009, as a very positive and important step. It represented a certain culmination of our integration process. The Euro has undoubtedly brought Slovakia greater economic growth and stability, but it has also increased the country's attractiveness for foreign investors.

Of course, the introduction and use of a common currency does not mean that we no longer have to invest in it. On the contrary, the financial and economic hardships faced in the last decade, along with the ongoing COVID-19 pandemic and its severe impact on

our economies, have shown that the Euro currency will only be resilient if its members are disciplined by adhering to fiscal rules. Today, everybody is calling for increased spending in order to restart our economies, but the Eurozone countries' political economy is ill-suited to a decentralized monetary union, and it needs deep reforms. I am convinced that the bolder we are in providing reforms, the stronger the Euro will be. Only through such an approach will we prevent the common currency from becoming the denominator of the EU's failure.

I believe that the Czech Republic will, sooner or later, adopt the common European currency, as it will bring lower inflation and greater stability, and it enables taking full advantage of the EU's Single Market.



IF THE CZECH REPUBLIC ADOPTS THE EURO IN THE FUTURE, WHAT MOTIFS DO YOU THINK SHOULD APPEAR ON CZECH COINS IN THE EURO CURRENCY?

MOST OF ALL, I WOULD LIKE T. G. MASARYK, OR THE LINDEN MOTIF AS THE NATIONAL TREE OF THE CZECH REPUBLIC ON EURO COINS.



MILENA HRDINKOVÁ

State Secretary for European Affairs and Deputy Minister for the Management of the Section for European Affairs at the Office of the Government of the Czech Republic

POSSIBLE BENEFITS OF THE ADOPTION OF THE SINGLE EUROPEAN CURRENCY FOR THE CZECH REPUBLIC

The adoption of the euro could be an attractive economic impetus for the Czech economy and make a significant contribution to catching up with the economic level of the EU average.

Even so, thanks to the condition of our economy, we are already achieving and surpassing the economic level of several member states of the eurozone (Spain, Portugal, Italy, Slovenia, Malta). However, membership in the monetary union also comes at a price, in particular a significant reduction of sovereignty around monetary policy. In addition, the possible benefits of our membership must be considered against the backdrop of the overall condition of the eurozone,

its functionality as a political-economic entity and especially concerning its added value to the Czech Republic's membership in the EU.

Around ten years ago, the eurozone faced a serious financial crisis. It responded by consolidating its institutions but failed to complete this intention entirely. The eurozone, and in particular some of its member states, is still facing the debt crisis, despite the regulatory environment being significantly strengthened. A number of common banking regulations for supervisory authorities, the fiscal compact and other measures have been adopted. However, by far, not all of them have become an undisputed standard for the member states of the eurozone. The EU and the eurozone are now dealing with an extensive economic crisis caused by the coronavirus pandemic. Once again, it has turned out that both the eurozone and the banking union are incomplete and facing many shortcomings, most notably a significant gap between the prosperous northern states with budgetary discipline and the stagnating states in the south of Europe. The efforts to solve these severe economic problems are frequently and strongly permeated by politics, which exacerbates the economic problems even more.

The Czech economy is open and strongly export-oriented. The close intertwining with the market of the European Union and the markets of the eurozone is indisputable and determines our

success. However, this depends more on the overall stability of the eurozone than on whether we pay in korunas or euros.

That is why it is of vital importance to continue insisting on the budgetary discipline of all states within the eurozone. This will enhance the stability of the monetary union, and Czech citizens will also perceive the eurozone as an area of prosperity.

The adoption of the euro would definitively and immediately benefit exporters and foreign investors. In the long run. However, membership in a club where not everyone follows the rules can also be very risky for exporters and foreign investors.

For this reason, it seems more advisable to deal with the accession to the monetary union in times of economic growth.

At a time when we are not a member state of the eurozone but of the EU, we must be actively involved in shaping the rules governing the functioning of the monetary union as much as possible, since it is clear that sooner or later they will affect us, too.



HELENA HORSKÁ

Chief Economist
of Raiffeisenbank a.s.

THE SINGLE EUROPEAN CURRENCY, THE EURO: A POLITICAL PROJECT

While the European Union's project, the common market, has a strong economic basis, the 'euro' project, a single currency and single monetary policy, is a political rather than an economic project.

Economic factors did not play a primary but rather a secondary role in the creation and subsequent expansion of the eurozone. That is why I also think the key benefit of adopting the euro in the Czech Republic and renouncing our own currency, which has been with us for more than 100 years, is the political enshrinement and intertwining with developed Western European countries and less a safeguard of our economic prosperity. The political impact of our integration into the eurozone and how this political advantage translates to the

IF THE CZECH REPUBLIC ADOPTS THE EURO IN THE FUTURE, WHAT MOTIFS DO YOU THINK SHOULD APPEAR ON CZECH COINS IN THE EURO CURRENCY?

MY PERSONAL FAVOURITES INCLUDE HRADČANY AS A SYMBOL OF CZECH STATEHOOD AND A PORTRAIT OF T. G. MASARYK AS THE FOUNDING FATHER, POLITICIAN AND PHILOSOPHER SUPPORTING (CENTRAL) EUROPEAN INTEGRATION.

economic prosperity of this country cannot be predicted in advance. When Italy, Greece, Spain joined the eurozone, their governments and citizens were looking forward to a more stable currency, significantly lower debt costs, smarter economic policies, new foreign investment, etc.

Czechs are already enjoying many of these gains without the euro. The cost of public and private debt is not (yet) significantly higher than in some eurozone countries, a lot of foreign investment has flown into the Czech in the past, and an increase of foreign investment is hindered more by the labour shortage, incomplete infrastructure, etc. than by non-membership in the eurozone.

Nevertheless, there is room for a further decline in the cost of debt, among other things, due to the expected improvement of the country's sovereign credit rating after joining the stable and prosperous eurozone.

In recent months, there has been increasing criticism of the faster growth of prices in the Czech Republic than, for example, in Germany or Italy. However, our convergence with the price level in the eurozone (or rather the price level dispersion) will not end with the accession to the eurozone – as the example of Slovakia

shows. A more prosaic advantage of adopting the euro would be the savings from the necessary exchange of money. Czechs and local companies would not have to worry about exchanging or converting funds to the euro. The exchange to other currencies such as the US dollar, Turkish lira, Japanese yen, etc. would remain. Even so, we could save a considerable amount of the hundreds of millions of crowns paid by the Czech Republic for the exchange of money.

Many companies are trying to eliminate these costs: one in six to seven companies in the Czech Republic pays its suppliers or customers in euros. Thus, Czechia is stealthily introducing the euro even today.

Businesses prefer the euro, but public and political support is lacking. Development in the eurozone itself, which raises the legitimate question 'What will the eurozone look like in five or ten years?' is one thing, and our approach – do we want or do we not want the euro? – another. Aren't politicians so often opposed to the adoption of the euro just because its adoption would necessitate some unpopular reforms? On the contrary, Slovakia used the euro to obtain public support for fundamental reforms. And Czechia? We are possibly rejecting the euro out of convenience.



DID YOU KNOW THAT...

... THE FIRST EURO TRANSACTION WAS MADE AS EARLY AS 1 JANUARY 1999?

Although banknotes and coins could only be used for payment in the countries that adopted the euro on 1 January 2002, the first non-cash transactions had been made three years earlier. In the meantime, legislative preparations were underway for introducing the cash use of the euro, as well as printing banknotes and minting coins.

... IT IS POSSIBLE TO PAY BY EURO EVEN IN COUNTRIES THAT ARE NOT PART OF THE EUROPEAN UNION?

The euro is the second most important currency in the world and is used as the official currency in several countries that are not members of the European Union but are closely linked to it. These include Montenegro, Andorra, Kosovo, Monaco, San Marino and the Vatican City.

... THERE ARE SEVEN SIZES OF EURO BANKNOTES?

The various denominations of euro banknotes are distinguished not only by colour but also size. This is one way that can help blind people discern the value of a banknote: the larger the size, the greater the value. In addition, the banknotes are printed using plastic printing technology, which can be easily verified by touch.



EOIN DREA

Senior Research Officer of the Wilfried Martens Centre for European Studies

BENEFITS OF EUROZONE MEMBERSHIP FOR CZECHIA

For small member states of the European Union, the loss of a national currency is often a key worry when discussing potential membership of the Eurozone. However, what the example of states as diverse as Ireland, Slovakia, Portugal and Estonia have shown is

that the benefits of Eurozone membership far outweigh those initial concerns.

The advantages for small states include the elimination of financial transaction costs, the reduction of administrative costs, the removal of exchange rate risk and the and increase of price transparency and competition across large Eurozone economies.

The maximization of these benefits particularly suit states, such as Czechia, who are heavily dependent on trade within the single currency area.

Czechia is already deeply integrated with the Eurozone. This occurs through both local companies whose main export markets and clients are within in the single currency area, or through subsidiaries and branches of foreign companies (mainly German, but also French or Italian) established in Czechia. Entering the Eurozone would mean abolishing the exchange rate risks facing Czech companies trading with Eurozone members. Many Czech business have already unofficially adopted the Euro for business purposes. According to data released by the Czech Chamber of Commerce, more than a fifth of all payments to domestic suppliers are now carried out in euros, severely minimizing their exchange rate risks.

It is also important to understand that the Euro is not just an economic instrument, but also retains significant symbolic value.

Afterall, what could represent Czechia's place in the heart of Europe more than sharing a single currency with the vast majority of other EU member states.



IF THE CZECH REPUBLIC ADOPTS THE EURO IN THE FUTURE, WHAT MOTIFS DO YOU THINK SHOULD APPEAR ON CZECH COINS IN THE EURO CURRENCY?



I WOULD ANSWER THIS QUESTION BY REFERRING TO SLOVAKIA'S EXPERIENCE. IN SLOVAKIA, THE BANK BOARD OF THE NATIONAL BANK OF SLOVAKIA ANNOUNCED A PUBLIC AND ANONYMOUS COMPETITION FOR THE SLOVAK SIDES OF EURO COINS. THEY NARROWED IT DOWN TO TEN MOTIFS AND INCLUDED THEM IN A GENERAL SURVEY. PUBLIC INTEREST WAS HIGH. THE BANK BOARD OF THE NATIONAL BANK OF SLOVAKIA FINALLY SELECTED THREE WINNING MOTIFS WITH THE LARGEST NUMBER OF VOTES.



THE THREE MOUNTAINS AND THE DOUBLE CROSS MOTIFS WERE USED FOR THE 1- AND 2-EURO COINS, BRATISLAVA CASTLE FOR THE 10-, 20- AND 50-CENT COINS AND KRIVÁŇ FOR THE 1-, 2- AND 5-CENT COINS. THESE ARE IMPORTANT SLOVAK SYMBOLS. I WOULD RECOMMEND A PUBLIC VOTE ON THIS ISSUE IN THE CZECH REPUBLIC, TOO; THE SURVEY WILL ALSO STIMULATE PEOPLE'S INTEREST IN THE PROCESS OF INTRODUCING THE EURO AND ENCOURAGE ACTIVE ENGAGEMENT.



ELENA KOHÚTIKOVÁ

Vice Chairwoman of the Supervisory Board of Všeobecná úverová banka a. s. (Slovakia)

REFORMS AND A CLEAR PLAN

The process before deciding whether to adopt the single currency also includes an analysis of the conditions under which a single currency can benefit the country, and is usually associated with the introduction of the necessary reforms to ensure longer-term economic stability. Slovakia, too, implemented significant economic reforms, culminating in the accession to the EU and the subsequent adoption of the euro.

A reformed economy and stable public finances are the first benefits of adopting the single currency for smaller and very open economies.

If this process is designed clearly, credibly and transparently, with a defined deadline and with defined steps leading to the adoption of the single currency, the economy usually

grows at a faster pace even before the adoption of the euro.

The exchange rate stability is another benefit. It is a signal to investors that the country is embarking on a path of exchange rate stability and that investors can invest in it without exchange rate risk.

Although many businesses use mainly the euro in their business contracts, they still pay wages, levies and taxes in the national currency. The cost of converting the euro to koruna and vice versa is still high. The adoption of the euro will remove this uncertainty for businesses, make them stronger amid international competition and may encourage them to innovate faster.

In this scenario, banks will lose part of their revenues from the conversion and exchange rate hedging in the first phase, but will subsequently have stronger clients, which is a positive signal.

In most countries, the process of adopting the euro is accompanied by citizens' fears of rising inflation and losing the banknotes and coins to which they are accustomed and having to get used to new prices and new wage slips. That is also why the whole process of introducing the single

currency must be accompanied by continual communication, especially with the population, and also ongoing monitoring, so that the process of introducing the euro is not misused to usher in price hikes. In Slovakia, similar concerns turned out to be unwarranted, and today, even 11 years after its adoption, the euro has the support of over 70% of the population. Inflation is low and is not affected, for example, by the depreciation of the national currency.

Citizens will save on conversion and transaction costs when making foreign payments and have banknotes accepted in other countries around the world at the same time. They will thus become full-fledged Europeans.

An equally important benefit is that countries that pay with the single currency can be actively involved in shaping the economic and monetary union.

The adoption of the single currency is accompanied by many fears and myths. A strong economy, sound finances, a strong banking sector and introducing the euro transparently are the best response to these concerns.



IF THE CZECH REPUBLIC ADOPTS THE EURO IN THE FUTURE, WHAT MOTIFS DO YOU THINK SHOULD APPEAR ON CZECH COINS IN THE EURO CURRENCY?

I THINK THIS IS A GREAT QUESTION FOR A PUBLIC POLL. FROM MY POINT OF VIEW, HRADČANY, VLTAVA AND VELEHRAD SYMBOLISE THE CZECH REPUBLIC.



IVAN ŠTEFANEC

Member of the European Parliament
and member of the Committee on the Internal
Market and Consumer Protection

THE STORY OF INTRODUCING THE EURO IN SLOVAKIA

When we were thinking about introducing the euro in Slovakia in 2005, the most serious obstacle we faced was public distrust in this project. Our currencies had been historically stable; they had not been affected by inflation, as was the case in most of the surrounding states, they were and are perceived by the citizens as one of the symbols of statehood. In June 2005, 46% of citizens in Slovakia supported the introduction of the euro while 32% of citizens were opposed to this step.

Our primary task, therefore, was to convince all parties involved and the public, in particular, that a common European currency would be of benefit to them.

In addition to professional events, we also went out into the field and prepared information campaigns aimed at individual groups of the population.

Lectures on the euro were held at schools and for senior associations, and special programmes were also developed for socially excluded communities and handicapped citizens.

Thanks to our efforts, in October 2008, on the eve of the introduction of the euro, up to 88% of the population stated that they had sufficient information about the introduction of the new currency. Support for the single European currency rose to 58%, while the proportion of respondents against the measure rose only slightly to 35% compared to three years earlier. The success of the information campaign is also reflected in the fact that no major problems were reported by citizens or traders in the conversion process, i.e. between 1 and 16 January 2009.

Political agreement was just as important as public opinion.

The process of introducing the euro spanned two legislative periods in Slovakia: 2002–2006, when the right-wing coalition was in power, and 2006–2009, when the government was formed by left-wing populists led by Prime Minister Robert Fico. The new government took over the systems we had set up, including the information campaign, and the process continued without major disruption.

I believe that the Czech Republic can also be inspired by the Slovak story of introducing the euro.



IF THE CZECH REPUBLIC ADOPTS THE EURO IN THE FUTURE, WHAT MOTIFS DO YOU THINK SHOULD APPEAR ON CZECH COINS IN THE EURO CURRENCY?

THIS IS REALLY A VERY PREMATURE QUESTION. BUT THE ANSWER IS VERY SIMPLE: WE HAD THE GREATEST CZECH CONTEST. SO, THE SELECTION IS CLEAR AND, IN MY OPINION, GREAT AND REPRESENTATIVE. THE ONLY THING IS THAT JÁRA CIMRMAN CANNOT BE DEPICTED ON THE COIN SINCE WE DO NOT KNOW WHAT HIS FACE LOOKS LIKE. ON THE OTHER HAND, THIS PROBABLY BEST ILLUSTRATES THE NATIONAL DEBATE ON THE INTRODUCTION OF THE SINGLE EUROPEAN CURRENCY IN THE CZECH REPUBLIC.



ZBYNĚK FROLÍK

Founder of the LINET Group

EURO VS. KORUNA? IT IS NO LONGER ABOUT FACTUAL ARGUMENTS

The euro debate is becoming increasingly complex; fewer genuine and logical arguments are being used while appeals to emotion are being promoted. The euro has truly become an instrument of political fight, which is a great pity. And also a mistake.

After all, no one has yet relevantly calculated whether it is more advantageous to dramatically reduce the cost of using one's own currency (transaction costs) or to use the cushion that the koruna offers us when the economy is faltering.

If I were to vote for something, it would be for a rational debate.

The euro is not a threat.

If we look at Slovakia, for example, we can think anything, but we really cannot accuse the euro of harming Slovaks.

At the same time, this year's development of the koruna clearly answers the question of how unpleasant it is to be an exporter when the koruna shifts from one extreme to the other:

The euro cost CZK 25.4 in January, CZK 27.8 in March, dropping two crowns again in August; now it is now gradually rising again above CZK 27 per euro. And we hear almost every day that exports are the key driver of the economy.

On the other hand, the euro is not an unconditional plus, either.

The whole structure of the European Union, which has allowed some countries to adopt the single currency without the corresponding results, is a minus. In recent years, the Czech Republic has perhaps been in the more successful camp that would have had to contribute to the southern countries. But how will it be in the post-COVID era?

However, this political issue must not hinder the rational debate.

Recently, a significant proportion of voters responded with a preference for the whole country to be guided by the principle of the careful manager. Then I have to ask myself why, in such a key debate, we cannot act in line with this principle to perform a thorough analysis and make a decision based on that.

The government should clearly explain why, when and under what conditions we will adopt the euro - or not - in a way that most of our citizens will understand.



IF THE CZECH REPUBLIC ADOPTS THE EURO IN THE FUTURE, WHAT MOTIFS DO YOU THINK SHOULD APPEAR ON CZECH COINS IN THE EURO CURRENCY?



VARIOUS IDEAS ARE PRESENTED IN SCHOOL DEBATES: SCHNITZEL OR A FOOT IN A SOCK IN A SANDAL OFTEN WINS THE VOTE. MY PERSONAL CHOICE WOULD BE THE FOLLOWING: A CZECH LION ON THE 1- AND 2-EURO COINS, PRAGUE CASTLE ON THE 10-, 20- AND 50-CENT COINS, AND A TWIG OF A LINDEN TREE ON THE 1-, 2- AND 5-CENT COINS.



TOMÁŠ PROUZA

President of the Confederation of Trade and Tourism of the Czech Republic and Vice President of the Czech Chamber of Commerce

WHY SHOULD WE FINALLY ADOPT THE EURO?

The main arguments for the euro are well known to all: stabilisation of the economic environment, significant savings for companies that do not have to deal with currency conversion and hedging against exchange rate risks, and the guarantee that the Czech National Bank will not start gambling with the economy again.

All this has already been explained, documented and described many times – and even the biggest opponents of the euro cannot question the billions Czech businesses would save by switching to the euro.

Instead of paying money to banks, Czech companies could invest these monies in their modernisation, research or, for example, higher salaries every year.

But for some strange reason, most Czech politicians are reluctant to help Czech companies.

Although maybe it is little wonder; risking the displeasure of some voters with the decision to accept the euro is not the main problem, not to mention that this may not be true, as the experience of the countries that have adopted the euro in recent years shows.

The true problem is the necessity to prepare the whole economy for the adoption of the euro, so that it really is competitive and can withstand economic shocks by itself without the need for artificial manipulation of the exchange rate.

But utter words like 'pension reform', 'social system reform', 'real digitalisation', 'significant reduction of bureaucracy', 'education reform' and 'tax reform' to most politicians today, and you will probably hear a long answer about how much these changes are needed. But if you take a close look, what you will see in the eyes of the politician is the sheer horror of having to enact any of these

reforms. Or, more precisely, that they would have to carry out all of them because none of them alone makes sense, as one area significantly affects the others.

So, if a future government decides to adopt the euro at one of its first meetings, it will have a lot of work to do.

The government might be pleased to know that if it implemented the reforms mentioned above, it would finally move Czechia into the 21st century. Czech businesses will heave a sigh of relief because they will not have to waste money on unproductive payments to banks. And, eventually, we will all be able to focus on the future and not fight the legacy of the past as we must today.



IN CONCLUSION: MARIAN JUREČKA

Deputy Chairman of the Economic
Committee of the Chamber of Deputies
of the Czech Parliament

In various discussions in the Czech Republic, often over a beer, I hear examples of 'what the Germans or Austrians do' in many different areas. They are portrayed as our smart neighbours who prosper and perform well. And they certainly would not want to make decisions that would harm their nations or economy. And these countries have already adopted the euro and are now member states of the eurozone. I think that we should think about this simple parallel. And at the same time ask the question: Why did the Austrians give up the shilling and the Germans the mark? Here in the Czech Republic, too, we should think rationally about the benefits of the euro.

In my opinion, one of the most significant benefits is increased economic stability for our strongly export-oriented economy. Nowadays, many companies have difficulty planning their production and revenues because they must work with several accounts. In euros, dollars, zlotys or Chinese yuans, etc. Being able to work with euro accounts directly would significantly alleviate the workload, reduce risks and create a more stable environment for employment in the individual regions of our country.

That is why I am convinced that the Czech Republic should join the eurozone in the future. And not only because of the economic advantages for the economy and the population but also because it is a community of countries that share their national economic security. This brings enormous value for the stability of this region – for our Europe. I would like the debate on the euro to be more fact-based rather than using misleading or emotional arguments.

My wish is that all discussions about the euro would be level-headed, rational and would draw inspiration from the states that have already made such decisions. They often had far stronger currencies with a greater tradition, but nevertheless, it turned out that the euro encouraged the significant development of these countries.



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