Abstract:

The article provides an overview of the Czech approach towards the single currency. It analyses the obligation of the Czech Republic to adopt the euro, explains the exchange rate mechanism and describes the situation regarding preparatory steps that have already been taken as well as the current position of the Czech Government.

Keywords:

Introduction

The Czech Republic has always been reluctant to adopt the single currency euro and recent fiscal problems in the euro area and continuing increased volatility on the financial markets\(^2\) have caused this trend to become even more predominant. On 22 December 2010, the Czech government adopted a resolution which confirmed the conclusions of the Czech National Bank and the Ministry of Finance that a date should not be set for the adoption of the euro and therefore the Czech Republic should not seek to enter the Exchange Rate Mechanism II (ERM II) in 2011\(^3\), stating the following: “The main reasons for this decision are the impact of the world economic and financial crisis on the Czech economy, together with unresolved structural problems of local public budgets.”\(^4\)

I. Obligation to adopt the euro

The Czech Republic’s approach to the euro is sometimes misunderstood - it

---

\(^1\) This paper was researched and written through a financial grant for the scientific research project “Legal questions of tax, fiscal and monetary support of economic growth of countries of Central Europe in the years 2011-2015“, realized through the Faculty of Law of Charles University in Prague.


\(^3\) Ibid.

should not be regarded as a question of *whether* it will adopt the common currency (as sometimes indicated by President Václav Klaus\(^5\)), but merely a question as to *when* it shall do so. It must be noted that all Member States who entered the European Union in 2004, including the Czech Republic, are under obligation to join the euro area. This principle ensues from the Accession Treaty to the European Union,\(^6\) namely from Article 4\(^7\) of the Act on the conditions of accession.\(^8\) The Article states that each new Member State shall participate in the European Monetary Union from the date of accession as a Member with derogation within the meaning of Art. 122 of the Treaty establishing the European Community (currently Art. 139 of the Treaty on the functioning of the European Union). The Czech Republic thus participates in the third stage, but with the status of a Member State with derogation, which means that it is not a member of the euro area and is not subject to certain provisions of the Treaty on the functioning of the European Union.\(^9\) It is important to note however that this temporary derogation does not exclude the Czech Republic from its obligation to adopt the euro.\(^10\)

**II. Exchange Rate Mechanism as a waiting room for the Czech Republic**

As in the case of other countries, the path to adoption of the euro involves participation in ERM II and meeting the Maastricht Criteria.\(^11\) It is clear that contrary to the opinion of the European Commission that ERM II should not be regarded merely as a waiting room for adoption of the euro but as a useful regime\(^12\), the Czech Republic regards ERM II as a gateway into the euro area.\(^13\) For this reason the Czech government and the Czech National Bank agreed to enter ERM II after conditions have been established that would enable

---


\(^6\) Accession Treaty: Treaty concerning the accession of the Czech Republic, the Republic of Estonia, the Republic of Cyprus, the Republic of Latvia, the Republic of Lithuania, the Republic of Hungary, the Republic of Malta, the Republic of Poland, the Republic of Slovenia and the Slovak Republic to the European Union.

\(^7\) Act concerning the conditions of accession of the Czech Republic, the Republic of Estonia, the Republic of Cyprus, the Republic of Latvia, the Republic of Lithuania, the Republic of Hungary, the Republic of Malta, the Republic of Poland, the Republic of Slovenia and the Slovak Republic and the adjustments to the Treaties on which the European Union is founded.


\(^12\) European Commission: EMU after five years, 2004, P. 221.

the Czech Republic to adopt the single currency and to stay in the ERM II for no longer than the minimum required period of two years.\textsuperscript{14} The entry to ERM II will thus depend on the expected euro adoption date – it is predicted that the decision to join ERM II should be made approximately three years before entry to the euro area.\textsuperscript{15} The Czech Republic therefore sees in the timing of entry into ERM II the possibility to partially determine the timing for entry into the euro area.\textsuperscript{16}

In this context, the situation in Sweden should be mentioned. Sweden fulfils the Maastricht Criteria but has chosen to stay out of ERM II to avoid joining the euro area. However, the Czech Republic is in a different position because it does not yet fulfil the Maastricht Criteria. If the tendency would be to remain outside ERM II after meeting the Maastricht Criteria, it should be reminded that this may be considered as a real opt-out which contradicts the spirit of the Treaty.\textsuperscript{17} There are also opinions that a special referendum on the euro adoption (similar to that in Sweden in 2003) should take place in the Czech Republic as well.\textsuperscript{18} However, from the legal point of view, such a referendum may have only a consultative character. It should be remembered that the Czech Republic already had a referendum in 2003 on the accession to the European Union with 77% acceptance of the Accession Treaty which contains also the obligation to adopt the euro.\textsuperscript{19}

III. Current situation

Already in 2003, a joint document of the Czech government and the Czech National Bank called “The Czech Republic’s Euro Area Accession Strategy” was published. The strategy summarised the starting points of the nation’s integration, discussed the expected benefits and risks and recommended that the Czech Republic join the euro area as soon as economic conditions allow for doing so.\textsuperscript{20} The Czech Republic’s Euro Area Accession Strategy was updated in 2007, summarising the latest developments and evaluating the progress made.

The 2003 strategy paper estimated that the Czech Republic could be expected to join the euro area around 2009-2010.\textsuperscript{21} However, further assessments of the

\textsuperscript{14} Ibid.
\textsuperscript{16} CNB: Summary of tasks, 2005, P. 1.
\textsuperscript{17} Ibid.
\textsuperscript{19} BOEHM, Bez nadšení, ale co nejdříve, in: Euro vs Koruna, 2008, P. 208-209.
\textsuperscript{21} Ibid.
Czech situation have so far always resulted in a recommendation not to attempt to enter ERM II.\textsuperscript{22} The situation in 2011 remains the same. The Czech government again decided in 2010 not to enter the ERM II in 2011 based on the findings of the report “Assessment of the Fulfilment of the Maastricht Convergence Criteria and the Degree of Economic Alignment of the Czech Economy With the Euro Area 2010”, primarily due to excessive deficit that creates a legal impediment to entry to the euro area, implying non-fulfilment of the fiscal convergence criterion.\textsuperscript{23}

The report noted that even though "the Czech Republic gradually diminished its difference from the average economic level of the euro area and shows some aspects of harmonisation within the course of the economic cycle, in the last two years the development was significantly influenced by the impact of the world economic and financial crisis. As a result there was an economic recession and deterioration of the state of public finance in both the Czech Republic and the euro area. Furthermore, the trend of bringing the local price level closer to that of the euro area was interrupted and cyclical and structural unemployment increased."\textsuperscript{24}

It will therefore be necessary to face the structural problems of local public budgets as well as increase the flexibility of the Czech economy, including the labour market, in order for the Czech economy to show a high degree of economic convergence, integration and alignment with the euro area.\textsuperscript{25} However, the flexibility of the Czech economy is also being compromised by substantial insufficiencies in its legislation and delays in resolving legal disputes.\textsuperscript{26} A fundamental reform will be needed to address these topics.

It is not only the internal problems of the Czech Republic that impede the process of euro adoption, but also the recent problems in the euro area itself, as suggested by Prof. Vladimír Tomšík, current vice-governor of the Czech National Bank in May 2011: „It is obvious that a potential Czech entry is not on the agenda“, he said.\textsuperscript{27} „It will be important to know how the euro area governance problems are resolved before making the additional commitment to membership of the euro area,“ Mr. Tomšík added.\textsuperscript{28}

IV. Preparatory steps – The National Coordination Group

Even though a specific date for the entry of the Czech Republic to the euro

\textsuperscript{24} Ibid.
\textsuperscript{26} Ibid.
\textsuperscript{28} Ibid.
area has not been announced to date, the preparatory work already started some
time ago. In 2005, the Czech Government established the office of National
Coordinator and National Coordination Group for the Introduction of the
euro.\textsuperscript{29} The National Coordination Group headed by the Ministry of Finance
is thus the central coordination and management body for the changeover
preparations in the Czech Republic.\textsuperscript{30} The National Coordination Group pre-
pared a document called “Choice of Scenario for the Introduction of the Euro in
the Czech Republic” which decided on a single-step transition to the euro,
approved by the Government in 2006.\textsuperscript{31} This means that the euro should be
adopted on a single date in both cash and non-cash form with no transitional
period (the so-called “big bang” scenario).\textsuperscript{32}

This is because this scenario corresponds the most with the current conditions
taking into account that the euro already exists in both cash and non-cash form.
Moreover, this type of scenario was practised by the last entering countries
without difficulties. Also, the Czech Republic already experienced the chan-
geover of its national currency in 1993, similarly like the Slovaks and Slove-
nians did.\textsuperscript{33} It is accepted that the overall costs will thus be lower but, on the
other hand, the demands will be higher.\textsuperscript{34}

The scenario is divided into the following phases: In the pre-preparation
phase prior to the decision to abrogate the derogation, when the Czech crown
(CZK) will still be in use for all activities, the efforts should be concentrated on
technical preparations.\textsuperscript{35}

After the decision on the abrogation of the derogation but prior to the euro
area entry date, a preparation phase of about 6 months will follow with fixing
the irrevocable conversion rate and the dual display of prices and production of
euro banknotes and coins.\textsuperscript{36}

With the euro adoption date, the euro will become legal tender in the Czech
Republic and the dual circulation period lasting two weeks will commence,
meaning that during this time both euros and Czech crowns may be used for
cash payment, however scriptural payments must be made in euros only.\textsuperscript{37} It
should be noted that the two-week dual circulation was also introduced by
Slovenia and proved to be a success.\textsuperscript{38}

\textsuperscript{29} \textit{CNB/ Czech Government}: The CR’s Updated Euro-area Accession Strategy, 2007, P. 3.
\textsuperscript{33} \textit{National Coordination Group}: The choice of Scenario, 2006, P. 1.
\textsuperscript{34} \textit{National Coordination Group}: National Euro Changeover Plan, 2007, P. 18.
\textsuperscript{35} Ibid.
\textsuperscript{36} Ibid.
\textsuperscript{38} \textit{Deloitte}, Review of the Slovenian Changeover to Euro, 2007, P. 5.
The Czech crown will gradually be withdrawn from circulation and retailers will be required to give change to customers in euros only.\(^{39}\) After expiration of the dual circulation period, the dual display of prices will still continue until the end of the year.\(^{40}\) After that period the dual display may continue on a voluntary basis, like in the case of Slovakia, which will form the final phase of euro adoption.\(^{41}\)

The significance of dual display is stressed in Art. 2 (1) of the “Commission Recommendation on measures to facilitate future changeovers to the euro” from 2008, which stipulates that the dual display of prices should be imposed by law.\(^{42}\) This approach is different from the first wave of Member States, which - in most cases - left the practice on a voluntary basis only.\(^{43}\)

V. National Euro Changeover Plan for the Czech Republic

In 2005 the Czech Government ordered the preparation of a “National Euro Changeover Plan for the Czech Republic” in its “Resolution No. 1510 on the institutional arrangements for the introduction of the euro in Czech Republic”.\(^{44}\) The National Coordination Group then prepared the National Changeover Plan, which was approved by the Government in 2007.\(^{45}\) It was decided that the Plan would be further amended on the basis of reports on the fulfilment of the National Plan\(^{46}\), which took place in 2008, 2009 and 2010. Most recently, a report on the activity of the National Coordination Group and the fulfilment of the National Plan for the period of January to December 2010 was published in January 2011.

The National Plan is based on the above mentioned Commission Recommendation which states in Art.1 (2) that a national changeover plan covering all aspects of the organisation of the euro changeover should be prepared, discussed and regularly updated.\(^{47}\) Therefore the National Plan is not a document unique to the Czech Republic – similar plans have also been adopted in other countries, such as the National Euro Changeover Plan for the Slovak Republic.\(^{48}\)

\(^{40}\) Ibid.
\(^{41}\) Ibid.
The Czech National Plan is a general document which covers technical, organisational, legal and communication aspects related to the introduction and use of the euro for business, the public and the state administration and for that it sets up the corresponding tasks.49) The Plan is structured independently of the specific changeover date but it starts from the premise that preparation well in advance should reduce potential associated problems and costs.50) This is commendable since it proved crucial to start preparations as soon as possible as confirmed by the experience in Slovenia where it was stressed many times that “the key lies in preparation”.51)

The Czech Plan is divided into two Parts, Part 1 - Basic Introduction and Part 2 – Specification of Tasks in Individual Sectors. The Basic Introduction underlines crucial principles of the changeover in accordance with the Council Regulations, such as continuity of legal instruments, price neutrality or principle of not harming the citizen.52) It was decided that fees and taxes shall be rounded down while tax refunds, on the contrary, shall be rounded up.53) This will however lead to a budgetary reduction estimated at minimum of 2.6 billion CZK.54) This principle will not apply in case of breach of legislation such as fines, penalties or other sanctions.55)

Regarding the Individual Sectors, the Plan sets up tasks in the following areas: firstly, banks and other financial sector institutions will have important tasks in the cash changeover, such as the delivery and distribution of euros, withdrawal and destruction of Czech crowns or the introduction of euros for non-cash transactions.56) By an agreement with the European Central Bank, it was decided that banknotes required for the changeover will be lent to the Czech Republic by the Eurosystem’s national central banks and that they will be repaid later on by means of production arranged by the Czech National Bank in the years following the changeover.57) According to estimates, it will be necessary to ensure about 230 - 250 million euro banknotes and roughly 1 billion euro coins for the cash exchange and to withdraw around 300 million banknotes and 800 million coins.58)

50) Ibid.
53) Ibid.
56) Ibid.
57) Ibid.
The Plan also regulates tasks related to public finances and central and local government. A large number of legal regulations will need to be amended due to denomination in euros - the budget system, including state budget, will need to be redefined so that it is prepared in euros.59)

Next, it is the non-financial sector and the protection of consumers that also play an important role in the changeover process, concentrating mainly on price conversion, price monitoring and transparency.60) It has proven effective by the euro area Member States to establish an agreement between consumer groups and professional associations and businesses under the assistance of the state.61) It is also important that the national legislation sets obligations for businesses to provide relevant information and lays down adequate powers for performing inspection, including the possibilities to impose penalties where necessary.

The section devoted to information sources and communication includes the preparation of communication campaigns and tasks to be accomplished in the fields of information and statistical systems in relation to the changeover in IT systems.

Finally, the legislative requirements for the changeover are of great importance since it will be needed to pass a comprehensive system of generally binding legal regulations in individual areas of the Czech law.62) This system will include adopting new legal regulations as well as amending the regulations which are already in force.

VI. New Legislation

In order to assess the impacts on legislation, a comprehensive document called the "Preparation of the legal environment for the adoption of the euro in the Czech Republic" was drafted in 2009. According to this document, approximately 450 regulations, including 270 acts, will be affected.63)

Substantial changes are to be done which will require acts to be amended or new acts to be adopted.64) The two main acts that need to be adopted are the General Act on Introduction of the Euro and the new Act on the Czech National Bank. Apart from these acts, a “Changing Statute” will most likely be adopted as well. This is related to the fact that all provisions that refer to the Czech currency and state individual amounts in Czech crowns will have to be amended.65) Whereas the General Act will have a relatively short or transitory

61) Ibid.
62) Ibid.
65) Ibid.
function, the Act on the Czech National Bank will perform the role of the monetary act in the long term.66)

Work on the Act on the Czech National Bank has been under way since 2006, when the statement of intent, officially acknowledged by the Government in 2007, was drawn up.67) This new act, which aims at regulating the position, competences and activities of the central bank following the Czech Republic’s entry into the euro area and the adoption of the euro as its currency, is scheduled to take effect on the date of adoption of the euro.68)

The General Act on Introduction of the Euro as a binding legal regulation is in the phase of preparation. There are many references to the General Act in the National Plan and the document on the preparation of the legal environment. However the core of the General Act is contained in a document about the General Act and its basic principles, which was adopted in 2007, prepared by the Ministry of Finance.69)

The General Act will be the principle legal act laying down the groundwork for a smooth transition to the euro, based on main European regulations, other related acts and judgements of the European Court of Justice.70)

The General Act should cover all the significant legal aspects of the introduction of the euro in the Czech Republic and the aspects that are common to more than one area, including provisions associated with the adoption of the euro as the legal tender in the Czech Republic, reference to conversion rates and the method for converting, the main rounding principles, the conversion of monetary amounts on accounts, guarantee of continuity of existing legal obligations, rules for dual display, dual circulation, exchange and also provisions on inspections, supervision and penalties in the event of a failure to comply with the act.71) The General Act will also serve as a starting point for amendments of other legislation needed in relation to the changeover.72)

Since the Council Regulation No 1103/97/ES contains only minimal provisions, thus allowing Member States to set more detailed rules, the General Act will contain rules for rounding to lower decimal places, and consequently three

---

71) Ibid.
to four decimal places, for certain specific commodities such as electricity or fuels.\textsuperscript{73)}

In addition to the General Act, legislation will need to be adopted in the areas of competence of individual government departments to regulate specific aspects of the changeover in the areas concerned.\textsuperscript{74)}

It is necessary to decide on the method of changing provisions relating to the reference to national currency. It may either form a part of the General Act as a way of gradual adaptation of the legal environment, enabling the adjustment of legal rules in the period before and after the introduction of the euro, or it may be contained in a separate “Changing Statute” as a way leading to one-off adaptation.\textsuperscript{75)}

According to EU law, extensive amendments of the legal order of a Member State are not necessary given that Council Regulations shall directly apply, pursuant to which reference in the national currency unit shall be read as references to the euro unit according to the respective conversion rates, as stated in Art. 14 of Council Regulation No 974/98. However, most of the Member States, in order to retain the principle of legal certainty, decided to change the amounts and references to national currency in their legal regulations.\textsuperscript{76)} Such a statute may form a part of the General Act, as in the case of the Slovak General Act, or it may be submitted separately.\textsuperscript{77)} The Czech Republic is more in favour of a separate statute, which means that, apart from the General Act, a “Changing Statute” will be prepared to amend the individual legal regulations containing references to national currency.\textsuperscript{78)} Citizens will thus always see references already in euro and will not need to recount the amounts.\textsuperscript{79)}

However the report on the accomplishments of the National Plan stressed the demanding character of such an attitude and also stated some arguments against it.\textsuperscript{80)} These are based on the fact that the conversion rate will be known only six months before the introduction of the euro which means it would not be possible to complete the works of replacement of the Czech currency with the euro equivalent earlier.\textsuperscript{81)} Additionally the time left for the consideration of the Act will be very short.\textsuperscript{82)}

\textsuperscript{73)} Ibid.
\textsuperscript{75)} Ibid.
\textsuperscript{76)} Ministry of Finance: General Act on the euro adoption in the Czech Republic - Basic principles, 2007, P. 2.
\textsuperscript{77)} Ibid.
\textsuperscript{78)} Ibid.
\textsuperscript{79)} Ibid.
\textsuperscript{80)} National Coordination Group: Report on the fulfilment of the National Plan, 2008, P. 16.
\textsuperscript{81)} Ibid.
\textsuperscript{82)} Ibid.
This explains the reasoning behind other approaches such as, for example, in Slovenia which prepared only a very brief General Act on the adoption of the euro that simply included a provision stating that any references to national currency shall be regarded as references to the euro, in accordance with the Council Regulations.  

Conclusions

The current reservations of the Czech Republic towards adoption of the euro, voiced especially by the leading politicians, but shared by the general public (according to a recent survey from April 2011, 74% of Czechs do not support the euro), stem from a combination of economic and political reasons within the country and external developments in the euro area - the Greek problems have caused even the supporters of quick Czech accession to the euro to diminish their enthusiasm.

According to the current Prime Minister Petr Nečas, the euro area is now different compared to its state in 2003 when the Czech Republic decided to join the European Union. However, arguments based on the doctrine of clausula rebus sic stantibus are mostly being rejected as not applicable in the case of the European Union and the euro area.

The Prime Minister also emphasized that his government would not set a date for adoption of the euro before its four-year mandate terminates in 2014 and that the Czech Republic will consider joining the euro area at the moment when the costs of maintaining the Czech crown outweigh the costs for adoption of the euro. Recently, the Czech Republic distanced itself even further from the single currency when the government decided not to participate in the Euro-Plus Pact.

It is thus mainly the community of the largest Czech exporters who support the adoption of the euro in the long run, since the strong Czech crown lowers their income from abroad.

84) Ibid.
87) Ibid.
As the reputed world banker Hans Joerg Rudloff points out: "For small countries economically dependent on exports towards the EU, there is no other solution than to join the closely connected Europe. In the case of the Czech Republic, it is the strong Czech crown, not the indebtedness, that may finally undermine its competitiveness."\(^91\)