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Rethinking V4's Eurozone Dilemmas after the UK Referendum

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CONTENT

1. Recommendations

→ The principal interest of all V4 countries is a stable and prospering Eurozone governed by a clear set of rules. The economies of the Czech Republic, Poland and Hungary are closely tied to the Eurozone and thus influenced by its performance. Therefore, the plans for completing Europe's Economic and Monetary Union according to the Five Presidents' Report are in line with their interests. Nevertheless, several risks – such as political marginalization of the non-Eurozone countries or decomposition of the Single Market – are present in the whole process and it is in the V4's best interest to minimize them.

→ The future of Eurozone integration will be decided after the German and French elections in 2017, which may also determine the future shape of the EU. The V4 governments should work intensively to minimize the notion of exclusivity in Eurozone integration proposals. Mainly the positions of French presidential candidates and their advisors should be taken into account since Germany is more reluctant to push for exclusive Eurozone integration. A great deal of work could be done through the EPP and other European political parties' channels.

→ The non-Eurozone countries (including the Czech Republic, Poland and Hungary) should be careful not to position themselves as a semi-permanent club of non-Eurozone countries. That would only cement the exclusiveness of the Eurozone and thus highlight another dividing line in the EU. Moreover, the non-Eurozone countries will lose another partner on that issue after the UK's departure from the EU and their power in the Council will further decrease. It is also in the interests of Slovakia – a country integrated into the V4 regional framework and a member of the Eurozone – to diminish any potential risks associated with future Eurozone integration.

→ Eurozone-related expertise in the Czech Republic, Poland and Hungary should be cultivated. The three countries are obliged to join the Eurozone in the future, according to the Treaties, and should closely follow developments in the Eurozone. This must be the case not only of their governments, but also of academia, think-tanks and social partners. Slovakia could serve as a source of experience and information on that matter. The non-Eurozone members should insist on discussions about the future of the Eurozone to be as inclusive as possible, and carried out at multiple levels. As previous cases have shown, the European Commission and the Court of Justice of the EU back the concept of inclusiveness. Therefore, relations with the European Commission and the respective Commissioner should be enhanced.

The political weight of Germany will further increase with Brexit. However, the UK has favoured many policy areas which are also important for Germany (e.g. Single Market, trade policy, trans-Atlantic relations) and Berlin will probably be forced to take the "burden" of leadership in these areas. The priorities of the V4 countries in such areas are close to those of Berlin. The V4 positions are often closer to German interests than the priorities of the EU's southern flank. A constructive and proactive approach towards Germany in sectorial policies would help to improve the image of the V4 vis-à-vis Berlin (and the rest of the EU) which has been tarnished by the V4's approach towards the migration crisis.

The initiative of the Banking Union was initially seen as one of the necessary cures for the Eurozone's fragility, demonstrated by the financial crisis of 2008 and 2009. While the project has been kept open to all non-Eurozone EU member states, none of them has decided to join. The decision on joining involves a broad range of specific political, economic and administrative-technical aspects. Nevertheless, it should be based on a professional analysis of the pros and cons and fed by pragmatic rather than ideological arguments. Standing outside of the Banking Union project is a legitimate option for non-Eurozone states but it nonetheless requires professional capacities at ministries and central banks that would follow the pace of new developments in the Banking Union and thus keep the door open for a potential future accession. Slovak membership of the Banking Union could be conveniently used within the V4 also for this purpose. Programmes of staff exchange and internships within Slovak institutions could be an option to maintain such capacity.

It is a vital interest of the V4 to make the project of the Capital Markets Union an EU-wide project. The underdevelopment of capital markets is to a varying degree a problem of all V4 countries. Thus, while many details of the initiative still need to be clarified and evaluated, it should be seen as an opportunity by V4 countries. It is also important that they pull their weight in order to prevent the project from mutating into a Capital Market of the Eurozone, or only of some of its financial centres.

2. Introduction

The political reality of the EU has changed with the UK referendum and the EU will definitely undergo structural changes with Brexit. The process of reflexion, which started in September 2016, will culminate in spring 2017 in Rome, where a new impetus for European integration should be announced. Moreover, the Eurozone should further integrate according to the Five Presidents' Report approved in June 2015.

The Visegrad Group (V4) has (re-)appeared in EU-wide debates with the migration crisis and the negotiations prior to the UK referendum and is often perceived in some EU member states as a block of non-constructive nay-sayers. However, this description is neither accurate nor comprehensive. There are many characteristics of the V4 and its members which need a more detailed coverage.

This paper deals with one of those nuances: the V4 countries' current approaches towards the Eurozone. Obviously, the Czech Republic, Hungary, Poland and Slovakia are uneven when it comes to Eurozone-related issues. Slovakia has been a member of the Eurozone since 2009 which makes it distinct to other V4 countries. Nevertheless, there are also differences between the other three countries' approaches, which need to be properly scrutinized.

The policy paper provides a list of seven recommendations for the Visegrad Group. Recommendations take into account current political reality within the V4, foremost the fact that the adoption of the euro over the coming years is – for various reasons – inconceivable in Poland, Hungary and the Czech Republic. The three countries will probably fail to join the Eurozone by 2025. None of them has set a firm target date and there is usually a lack of cross-party political consensus on the issue, not to mention weak support among public opinion.

Four country-analyses written by national V4 experts follow. The researchers were asked to answer three broad questions.

- The first dealt with the up-to-date discourse on euro adoption in a particular country. It aimed at recognizing the main supporters and opponents of this step. It also tried to examine whether the discourse on Eurozone membership has changed since the British EU referendum.
- The second question examined the relationships of the four countries with Germany and within the V4. Again, it tried to figure out if the dynamics of these relations have been influenced by the UK referendum and its consequences.
- The third issue was focused on a particular country's position on the development of the Banking Union and the planned Union of Capital Markets. Apart from describing the position, it also summed up the main arguments for joining and for not joining these projects. As Slovakia is (given its membership in the Eurozone) a member of the Banking Union, its related experience has also been depicted in this paper.

3. Czech Republic

Vít Dostál, Kryštof Kruliš

3.1 Euro adoption: Too Pragmatic an Approach?

The discourse on adoption of the euro has shifted from ideological stances to more pragmatic ones under the current Czech government which is composed of the Czech Social Democratic Party, the liberal and populist ANO Movement and the Christian and Democratic Union. The previous government was dominated by the Civic Democrats (a member of the Alliance of Conservatives and Reformists in Europe) whose primary approach was the rejection of euro adoption which has been seen by them as ideologically flawed. The Civic Democrats remain the strongest opponents of the adoption of the euro and repeatedly demand a permanent opt-out from it. The parties in the current coalition have a balanced and pragmatic approach to Czech accession to the Eurozone. The Social and Christian democrats tend to be more supportive of euro adoption, but they also hold pragmatically based reservations towards its timing. Social Democratic Prime Minister Sobotka stressed in July 2016 that, despite the result of the British referendum, the Czech Republic should not accede to the Eurozone earlier than in the vicinity of five to ten years. According to him, accession should be conditioned by an income approximation of the Czech Republic and the Eurozone.[1] Junior coalition partner ANO (member of Alliance of Liberals and Democrats for Europe) has adopted an even more pragmatic approach. Its leader, Minister of Finance Andrej Babiš, repeatedly stressed the problems of the Eurozone, including Greek debt, as a risk in the case of euro adoption in the Czech Republic and even played the card of a referendum on this issue. The opposition political party TOP09 (a member of the European Peoples Party) is the most visible entity supporting adoption of the euro, mostly with the political reasoning that the Czech Republic should not be left aside from the mainstream in the European Union. These arguments have been stressed even more urgently since June 2016 and the outcome of the referendum in the United Kingdom.

Overall, the strengthening gravity of the Eurozone after Brexit in the European Union is generally accepted. However, fast accession of the Czech Republic to the Eurozone is not considered as realistic for various political and pragmatic reasons. There is also a very low popularity for adoption of the euro which has fora long time period been under 25% support or lower. Thanks to heavy bank bail-outs paid by Czech taxpayers before the accession to the European Union, the Czech banking sector is currently in a relatively good condition in contrast to the situation in several other countries of the Eurozone, which also dissuades the Czech Republic from accession to the Banking Union prior to the adoption of the euro. The logical answer to that, and to the political situation in the European Union after the British referendum as well, are the Czech calls for a deeper integration in the area of security, including the establishment of the European Army. The Czech Republic thus turns its attention towards an area where the country can actually participate in a core layer of integration rather than facing an escaping train of deeper integration in the case of the Eurozone.

The Czech approach to the decision of the European Council from February 2016 on the UK's claims regarding the non-Eurozone countries is rather dichotomous. On the one hand, there is certainly a demand to further clarify the relationship between the Eurozone and countries that are not its members,

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[1] K. Brožová," Sobotka: Evropa by měla přestat nasávat další pravomoci", Novinky.cz, July 3, 2016, https://www.novinky.cz/domaci/408322-sobotka-evropa-by-mela-prestat-nasavat-dalsi-pravomoci.html.

at least to cover the time before future adoption of the euro. On the other hand, there is a clear resistance to open again the Pandora's box of limits to the free movement of persons such as indexation of social benefits, which are also included in the conclusions of the European Council from February. The Czech Republic thus could live without establishing any additional guarantees.

3.2 Sophie's Choice: Germany or the Visegrad Group?

The fact that Germany's role in the EU would be strengthened with Brexit is widely acknowledged in the Czech Republic. At first sight, this development comes at a favourable moment. Czech-German relations are on a very good level. Germany remains the most important trading partner of the Czech Republic and historical disputes seem to be overcome. Moreover, political relations have been cemented by the launch of the Czech-German Strategic Dialogue in July 2015, which represents a new institutional framework for bilateral relations. The Dialogue includes inter alia a working group on the Future of Europe, so the ambition to deal with European issues is part of contemporary Czech-German relations.

On the other hand, Germany has returned into the Czech societal and political debate as a potential problem. The reason for that has been the criticism of the alleged handling of the migration crisis by Berlin. German "welcome culture" was not appreciated and did not meet with much understanding in the Czech Republic. Public opinion polls have shown that Germany was perceived positively in the Czech Republic only by 50% of the population in December 2015, a 13% drop from the previous year. Moreover, Czech-German relations were viewed as the worst out of all neighbouring relations and Angela Merkel was less popular in the Czech society than e.g. Viktor Orbán or Vladimir Putin.[2] Less favourable attitudes towards Germany were recorded in the Czech society only at the end of 1990's. The approach of the society was reflected and amplified by the political parties. Germany and German migration policies were harshly criticized not only by the major part of the opposition parties (except for the conservative TOP09) but also by coalition parties – ANO and its leader Andrej Babiš, as well as part of the Czech Social Democratic Party.

The Czech Republic's position within the Visegrad Group is another part of the Czech Central European puzzle. The Czech Republic held the presidency of the V4 from July 2015 until June 2016, so at the peak of the EU's migration debate, and Prague actively contributed to attaining for the V4 the image of a club of nay-sayers. On the other hand, the Czech Republic feels uncomfortable for being in one group with Poland and Hungary; countries where the national leaders call for a "European contra-revolution" and undermine the rule-of-law.

The Czech Republic holds the opinion that divergent voices regarding the EU's future coming from the V4 capitals cannot be attuned as there are contradictory ideological foundations for countries' positions. The Czech Republic does not believe that the result of the UK referendum should ultimately mean the path towards re-nationalization of some EU policies and Prague also thinks that there is no need to change the treaties. On the other hand, the Czech Republic will not block a common V4 position. Nevertheless, the exercise with the drafting of the V4 declaration before the Bratislava Summit has shown that Prague will water down the most radical proposals coming from Warsaw and Budapest and so hollow out the V4's position.

The Czech Republic is now torn between Germany and the Visegrad Group and post-Brexit developments only make this divide within Czech European policy

[2] J. Červenka, "Důvěra vybraným politikům v mezinárodním kontextu –prosinec 2015", CVVM, January 27, 2016, http://cvvm.soc.cas.cz/media/com_form2content/documents/c1/a7494/f3/pm160127.pdf.

more apparent. Moreover, nothing indicates that this division will reach any productive conclusion, as there are forces in the government supporting closer cooperation with Germany as well as voices underlining the importance of the V4. Thus, the dilemma could be solved only after the next Parliamentary elections planned for autumn 2017.

3.3 No Rush into the Banking Union

The creation of the Banking Union has been supported by the Czech Republic as a necessary tool which helps the Eurozone in coping with a global turmoil following the financial crisis in 2008 and 2009. The dominant portion of Czech exports goes to the Eurozone and its success is thus a pivotal interest of the Czech Republic. As a country standing for the time being outside the Eurozone, the Czech Republic, however, adopted for itself a wait-and-see approach as far as its own participation in the Banking Union is concerned.

In order to take this decision, an extensive impact study on the pros and cons of Czech voluntary accession to the Banking Union was issued by the government. The study was conducted by four main state institutions in this field, i.e. the Ministry of Finance, Czech Central Bank, the Office of the Government and the Ministry of Foreign Affairs. Involvement of the four institutions allows the reflection of a broad range of arguments from purely technical issues of banking supervision to possible political gains connected with active participation on the development of the Banking Union from its early stages. The impact study also manifestly shows the positions of each institution. The Central Bank has been the institution with the most hesitant approach towards entry to the Banking Union before the adoption of the euro. The Ministry of Foreign Affairs and the Office of the Government are willing to consider several more factors as potential pros of an earlier participation while the Ministry of Finance usually takes the middle ground between these two approaches.

The impact study has already been amended once and its final verdict of the wait-and-see approach is to be regularly verified reflecting new circumstances and developments in the Banking Union in the meantime. This means that the decision on this issue has been largely institutionalized and a clear and professional procedure has been developed.

Despite this, there have been several calls for an impact study which would be carried out by an independent group of experts in order to overcome possible institutional biases. Arguments against such additional expert opinion refer to the fact that similar results to the current Czech impact study have been reached also in studies by independent international organizations. The International Monetary Fund in its study confirmed that membership of the Banking Union by EU member states before adoption of the euro could be disadvantageous for various reasons, including access to emergency liquidity from the European Central Bank. Additional independent studies in this light seem less necessary.

Moreover, the impact study was not conducted by the institutions without consideration of the outside world. The Ministry of Finance in the process of its development requested opinion from the relevant stakeholders, including the Czech Banking Association, which subsequently surveyed positions among its members in the banking sector. It has to be mentioned that the banking sector in the Czech Republic has been revitalised by a large state subsidy before the occurrence of the financial crisis in 2008 and 2009. Moreover, the biggest Czech banks are only subsidiaries of the banking houses from the Eurozone and as such they have largely never been exposed to high profit, high risk operations that caused problems to their mother banks abroad. The Czech banking sector is thus in a relatively good condition and supervision of the Czech Central Bank has a broadly accepted authority. These factors significantly reduce incentives for an early accession of the Czech Republic into the Banking Union and these practical aspects so far outweigh possible political gains. Overall, the Czech approach could be characterized as pragmatic and based on a refined decision making process.

In contrast to the Banking Union, the development of the Capital Markets Union could have large practical benefits for the Czech Republic. The Czech capital market is underdeveloped even by underdeveloped European standards. For several years the Polish Initial Public Offerings (IPOs) surpassed several times the number of IPOs at the Prague stock exchange. Czech companies have not learned how to come for equity financing to the capital markets and the dominant form of financing is through the banking sector. The Czech Republic's interest is to keep the project of the Capital Markets Union as a truly EU-wide project in which the Eurozone and non-Eurozone EU member states can fully participate.

3.4 Conclusions

The Czech economy is largely dependent on its exports to the Eurozone and a successful Eurozone is a vital Czech interest. Since interventions of the Czech Central Bank in November 2013, the exchange rate is artificially kept at or above 27 Czech crowns for one euro. This has provided for several years of exchange rate stability and allowed Czech exporters to function almost as if the euro currency had already been adopted in the Czech Republic. With the end of the intervention regime and an expected appreciation of the freely floating exchange rate this period could end. Calls from Czech exporters for a new exchange rate stability could then gradually change the negative approach towards the adoption of the euro. With the exit from the governed exchange rate, an old problem could reappear: what is the proper exchange rate for adoption of the euro? Czech exporters would find too strong an exchange rate largely damaging. The opposite would be opposed by the general public as it would determine households' income for the foreseeable future and depreciate savings.

The main opportunities of Czech integration into the Eurozone are connected with the possibility of bringing the Czech Republic into the mainstream of European integration and allowing it to influence this process as a full and active participant. The most pressing threats are seen in particular in the post 2008 financial crisis development of the Eurozone and surging of the sovereign debt of some of the Eurozone members as well as in the problem of moral hazard connected with some of the adopted steps. The situation is, however, sometimes wrongly perceived as though the Eurozone has not adopted any measures in the meantime or there is a lack of trust in proper compliance with the adopted reforms, such as in the case of the current problems of Italian banks.

4. Hungary

Tamás Szemlér

4.1 Tough Conditions for Euro Adoption

Hungary still does not have any official target date for the introduction of the euro. In recent years, government officials have several times emphasised that this makes Hungarian economic policy more "independent". This fitted well into the overall "fight for independence" rhetoric of the right-wing government and coincided with the crisis of the Eurozone (mainly with the Greek crisis).

However, in July 2016, the Minister for National Economy, Mihály Varga, made a statement about the possibility of the introduction of the euro by 2020 and spoke about the initiation of a professional discussion about this process.[3] He was not very clear about the preconditions of introduction (from the Hungarian side) but he said that the economy has to be well prepared (i.e. strong enough) in order to be ready for that step.

In September 2016, the President of the Hungarian Central Bank, György Matolcsy also spoke about the possibility of the introduction of the euro.[4] In contrast to Varga's statement, he specified two very clear and very strict preconditions of euro introduction in Hungary:

- Hungary's per capita level of GDP should reach 100% of the average of the Eurozone (not clear whether at market prices or at purchasing power parity – in both cases this is a very strict criterion taking into account the present indicators: 36.0% at market prices, 64.2% at purchasing power parity in 2015). Such a criterion has never been mentioned before. Prime Minister Viktor Orbán signalled the necessity to reach 90% of the Eurozone's average per capita GDP in April 2013.[5]
- Hungary's debt/GDP ratio should drop under 50%. This is another strict criterion as the level of this ratio by the end of 2016 was 75.3%).

In recent years, there has been no lively debate about the introduction of the euro in Hungary. From time to time, scientific publications and conferences have dealt with the issue, but we cannot talk about a broad public debate. The lack of discussion is true for party politics as well – the introduction of the euro is not a topic in itself, it arises only (and not often) as one of the components in general debates on EU-related issues.

Regarding public opinion, according to the latest available Eurobarometer survey (April 2016) on the "Introduction of the euro in the Member States that have not yet adopted the common currency"[6], 61% of respondents in Hungary thought that the introduction of the euro had had positive effects in the countries that had already introduced it. Moreover, 57% of respondents in Hungary

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[3] "Hungary EcoMin Varga not too clear about euro adoption intentions", Portfolio, July 22, 2016, http://www.portfolio.hu/en/economy/hungary_ecomin_varga_not_too_clear_about_euro_adoption_intentions.31610.html.
[4] "Hungary cenbank chief talks euro adoption", Portfolio, September 14, 2016, http://www.portfolio.hu/en/economy/hungary_cenbank_chief_talks_euro_adoption.31820.html.
[5] "Orbán: Hungary will keep forint until its GDP reaches 90% of Eurozone average", Politics.hu, April 26, 2016, http://www.politics.hu/20130426/orban-hungary-will-keep-forint-until-its-gdp-reaches-90-of-eurozone-average/.
[6] "Flash Eurobarometer 440: Introduction of the euro in the Member States that have not yet adopted the common currency", European Commission, 2016, http://ec.europa.eu/economy_finance/articles/pdf/fl440_en.pdf.

would support the introduction of the euro; this is the second highest support (the first was measured in Romania) in the countries that have not yet adopted the euro and have no opt-out regarding its adoption.

Brexit had no specific impact on opinions related to Hungary's accession or non-accession to the Eurozone. The issue has appeared more generally in the discourse, focusing on the weakening of "Europe", both (geo)politically and economically (but not directly related to the Eurozone). József Szájer (MEP, Vice-Chair of the European People's Party) said in a radio interview on 19 September[7] that with Brexit, Hungary has lost an ally, with whom it was possible to fight together on many issues (e.g. against the nomination of Jean-Claude Juncker for the President of the European Commission). He also said that as a consequence of Brexit, the issue of sovereignty of the nations will be less represented in the European Parliament. Regarding the economic consequences of Brexit for Hungary, he noted that these are not decided yet, as these depend to a great extent on the ability of Hungary to engage with the possibilities opening up with Brexit (e.g. the capability of attracting foreign investments from the UK to Hungary).

4.2 The Key role of Germany

As EU-related political discourse during the last year has been focused on the refugee crisis, the role of Germany is also discussed – first of all – in that context. Criticism regarding German power and its use has been quite harsh. The tone of the criticism from Hungary reflects basic differences with regard to the migration issue[8], as well as party group differences between the governments in Germany and Hungary.

Regarding the effect of Brexit on the role of Germany, Brexit can mean that a third, "balancing" power (beyond the Franco-German axis) will be absent. If there is no "replacement" of the UK, the power of the Franco-German axis may increase or be less "controlled". In this respect it is interesting to consider what József Szájer said about losing an ally and about the weakening of the representation of the issue of sovereignty of nations as a consequence of Brexit (see above).

As Viktor Orbán said in a speech at the Hungarian Parliament on 12 September 2016: "Brexit is a failure of European policy, the fiasco of Brussels, and furthermore we are now pretending to be oh-so-sensitive instead of engaging in self-analysis. European politicians had every tool to keep the EU together but they didn't use them."[9]

Regarding the self-analysis Orbán mentioned, he spoke about the main aspects of necessary strengthening of the EU and mentioned:

- the need for revisiting the concept of "A Europe of nations";
- the need for regaining Europe's competitiveness;
- considering seriously the setting up of an EU army.

Germany is the most important economic partner of Hungary, therefore its role is not neglected by any of the economic and political actors. The importance of Germany in Europe from a political point of view is clear.

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[7] P. Boros, Z. Németh, "Szájer József: Szövetségest veszítünk a Brexittel", September 19, 2016, http://inforadio.hu/kulfold/2016/09/19/szajer_jozsef_szovetsegest_veszitunk_a_brexittel/.
[8] "Germany is to blame for current migrant crisis in Hungary – Lázár" Portfolio, June 2, 2016, http://www.portfolio.hu/en/economy/germany_is_to_blame_for_current_migrant_crisis_in_hungary_lazar.30164.html.
[9] "Hungary is not the UK, plans no exit from EU, Orbán says", Portfolio, September 12, 2016, http://www.portfolio.hu/en/economy/hungary_is_not_the_uk_plans_no_exit_from_eu_orban_says.31812.html.

What is more, it is not the weight, but the way (or, more precisely: the perception of the way) Germany is acting that is criticised by government actors.

4.3 A Wait-and-see Approach vis-à-vis the Banking Union

The Hungarian position can be interpreted as a wait-and-see approach. A couple of studies prepared and published by the Hungarian Central Bank present the various elements of the Banking Union and discuss potential gains and losses. Key elements of the debate are enhanced stability and security potentially guaranteed by the Banking Union on the one hand, and the possibility of manoeuvres by national authorities (notably Central Banks) on the other hand. It is interesting to see that most studies, articles and statements on the Banking Union were published in 2014 or before – the issue has been pushed to the background by other issues (first of all, the refugee crisis).

Regarding the Capital Markets Union, the Hungarian approach is overall positive. According to an article published in April 2015[10] , Mihály Varga "noted that this initiative enjoys the full backing of the Hungarian government, because it is also in the interest of the country to enhance movement of capital between markets that could benefit the countries of this region." The Minister "also said that the cabinet would like to make recommendations as to how the capitalisation and borrowing environment could be improved especially for small and medium-sized enterprises and and how aspects of smaller capital markets could be taken into account when bringing down the barriers."

At the moment, though, there is no available detailed impact study and no clear framework for development of the decision to join the Banking Union and the Capital Markets Union.

4.4 Conclusions

In Hungary, the debate on engaging with a closer economic and monetary integration is centred around the country's economic interests. According to recent statements (already mentioned), Hungary has to be strong enough in order to be able (and willing) to join the Eurozone.

Regarding the future of European economic integration, Brexit raises the question of whether its importance is declining. This may have negative effects on the Eurozone as well; however, given the fact that the UK was not – and never truly intended to become – a member of the Eurozone, this effect should not be overestimated. There are observers who think that Brexit makes the picture clearer: without the eternal "specific" British problems. Countries that are willing and can proceed in various fields of integration – among them in economic and monetary integration – are able to do so more easily than before.

Regarding the Report of the Five Presidents, some of its elements of deeper integration (e.g. fiscal union) are at first glance not in line with the current Hungarian position emphasising the importance of national interests. However, recently revealed attitudes towards other issues (e.g. the proposal for creation of a European military force) may suggest that in the case that such a deeper integration would serve European (including Hungarian) interests (like stability, growth and competitiveness), the approach could become positive.

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[10] "Hungary EcoMin Varga meets Commissioner Hill in Brussels", Portfolio, April 28, 2016, http://www.portfolio.hu/en/economy/hungary_ecomin_varga_meets_commissioner_hill_in_brussels.29447.html.

Strengths of the future Eurozone integration are relatively rarely mentioned in the discourse. In fact, after the UK referendum, the diminution of strengths (if not of the Eurozone, but of the EU) is one of the elements that appears in the discourse. On the other hand, weaknesses of the Eurozone are present in the discourse when it is dealing with the problems of Greece and other members of the Eurozone. Overall, the Eurozone is perceived as an opportunity for Hungary if/when it reaches a certain level of development, when its economy is competitive enough etc. Last but not least, threats regarding the future development of the Eurozone are related to the present weaknesses and to the ultimate inability to tackle them properly.

5. Poland

Paweł Zerka

5.1 Overview

Poland is among those European countries that run the risk of losing the most as a result of the British referendum and the following consolidation of the EU's hard core. Ironically, the national right government of Law and Justice (PiS) seems to be relatively optimistic about what it entails. On a number of occasions, its representatives have suggested that Brexit confirms their earlier conviction about the EU's deep crisis and that it may open the door for the major European reform that they are pushing for. Such a reform (which Jarosław Kaczynski, the party leader, has named "a cultural counter-revolution") should in their view consist, above all, in the devolution of competences from Brussels back to Member States in such areas as justice or security.

However, the Polish government faces a hard task if it wants to promote its agenda across the EU. Not only is the country staying outside the Eurozone, with neither the current government's interest nor a clear timetable to join, but also – assuming that Brexit may come true sooner rather than later – with ever fewer partners in a comparable situation. Without the UK, non-Eurozone countries will account for just around 14% of the EU's GDP; or even less, if we consider Denmark and Croatia as de facto members of the common currency area given their fixed exchange rates vis-à-vis the European currency. Meanwhile, never-ending tensions between Brussels and the government of Law and Justice (PiS) over the "reform" of the country's Constitutional Court as well as over other manifestations of Warsaw's illiberal inclinations (e.g. controversial laws on police, counter-terrorism, the prosecutor's office, or public media) have substantially tarnished Poland's soft power within the EU. And if all that were not enough, an unfortunate and false-start announcement by the Polish Foreign Minister, Witold Waszczykowski, that Great Britain (not Germany) would become the country's most important political partner in the EU[11] has been remembered as an unpleasant surprise by its powerful Western neighbour.

Warsaw gives contradictory signals in respect to the future development of the EU: on the one hand, speaking openly about the possibility of a new EU Treaty[12]; while, on the other hand, failing to secure adequate Polish presence in Europe's key debates of the moment (such as those dedicated to the reform of the Eurozone, the Banking Union, or strengthened integration in the areas of defence and security, of late). Despite assertive announcements by prominent PiS leaders, pronounced just after the British referendum[13] and repeated regularly ever since, Poland (at least for the time being) becomes increasingly marginalised in post-Brexit discussions about the future of the EU's integration.

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[11] W. Waszczykowski, "Information of the Minister of Foreign Affairs on the Polish Government's foreign policy in 2016", Ministry of Foreign Affairs of the Republic of Poland, January 29, 2016, http://www.msz.gov.pl/en/p/msz_en/foreign_policy/goals_of_foreign_policy/annual_address_2011/

[12] For instance, commenting on the possible outcomes of the Bratislava informal meeting on the future of Europe, Minister Minister Waszczykowski said that „we [would] not hesitate to change the Treaty, if need be". "Interview with W. Waszczykowski", TVN24, September 8, 2016, http://www.tvn24.pl/jeden-na-jeden,44,m/witold-waszczykowski-w-jeden-na-jeden,674522.html.

[13] A. Rettman, "Poland to push for 'radical' new EU treaty", EUObserver, June 28, 2016, https://euobserver.com/institutional/134070.

5.2 Living with the Zloty (for Good and for Bad)

As things are today, any prospect of Poland's full or even partial membership in the Eurozone seems highly unlikely – and the topic is therefore politically non-existent. The country's earlier "wait-and-see approach"[14] is increasingly replaced by what could be described as a "no, thank you, we've seen enough" approach. An old controversy over the need to change the country's constitution and to call a national referendum before euro is adopted, continues to be discussed only among a narrow circle of constitutional experts, and almost by nobody else.

While Polish society has always been divided over the adoption of the common currency, opposition to the euro has been on the rise over the last few years, not just among Poland's political and economic elites but also within the society as a whole. This may be largely explained as an after effect of the economic crisis in the Eurozone. The case of Greece has been remembered as a particularly relevant "cautionary tale", demonstrating the risks of a premature Eurozone accession.

However, only recently did the above-mentioned trend translate into the opposition towards euro adoption surpassing public support for such a scenario. According to a yearly survey conducted by TNS Poland, in June 2016 47% of Poles opposed the country's accession to the Eurozone (up from 41% 2015) while only 37% were in favour (down from 46% in 2015). Other pollsters (including CBOS and Eurobarometer) had identified the preponderance of nay-sayers even earlier. During his 2015 presidential campaign, the current president, Andrzej Duda, resorted to an anti-euro rhetoric with the aim of attracting voters.

Unsurprisingly, only a handful of political leaders – notably Ryszard Petru, leader of the liberal Nowoczesna party, currently the fourth political force in the Polish Parliament – continue to defend euro adoption openly.[15] There's a general feeling (strengthened by such persons as Joseph Stiglitz of late[16]) that the euro is in a state of crisis whose resolution might demand a step backwards and a return to national currencies. A similar argument, currently widely discussed among Polish economists and policy-makers, has been presented recently by Stefan Kawalec: former deputy minister of finance and one of the initiators of Poland's liberal economic reforms in the 1990's. In his new book he suggests that an organised dismantling of the Eurozone should be carried out in order to save Europe's most important post-1945 achievements, namely the EU itself and the Single Market.[17] To be sure, there are also other influential voices in the public debate, including a recommendation by Jan Barcz, a lawyer, that Poland should enter the Eurozone as soon as possible in order to remain in the mainstream of European integration; not just for political reasons (i.e. remaining in the EU's decision-making circle) but also for economic ones. In his opinion, a belief that the Single Market (and not the euro) could become the focal point of the EU's integration is delusive and false because the capacity of one's country to benefit from the Single Market depends increasingly on whether it belongs to the Eurozone or not.[18]

Aside from the government's firm reluctance to adopt the euro (a project that is openly described by Kaczynski as one of the EU's chief mistakes), the narrative which transcends Poland's public debates on the common currency is still mostly one about the need to wait until the Eurozone puts its own house in order, and then –

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[14] D. Kałan, P. Toporowski, "Eurozone Enlargement Frozen: The Deepening Crevasse between Central Europe and the EU", Strategic File No. 16 (79), PISM, Warsaw, September 2015.
[15] "Interview with R. Petru", TVN24, June 27, 2016, http://www.tvn24.pl/wiadomosci-z-kraju,3/petru-boje-sie-europy-trzech-predkosci-z-wegrami-i-polska-na-oucie,656571.html.
[16] J. Stiglitz, "The Euro: How a Common Currency Threatens the Future of Europe", W W Norton & Company, London and New York, 2016.
[17] S. Kawalec, E. Pytlarczyk, "Paradoks euro. Jak wyjść z pułapki wspólnej waluty?", Poltext, Warsaw, 2016
[18] J. Barcz, "Ustrój lizbońskiej Unii Europejskiej. Podstawy traktatowe, struktura, instytucje", Wszechnica IJM, Piaseczno, 2016.

if need be – choose the right moment to enter the club, thus fulfilling the country's Treaty obligations. It should not be expected that this overall attitude could change substantially as long as bad news continues to arrive from the Eurozone. Especially since there's also a general conviction that Poland's competitiveness will, for the time being, suffer too much in the case of euro adoption. Meanwhile, the other side of a potential economic trade-off (e.g. in the form of Poland's privileged access to international markets, lower transaction costs, or increased attractiveness for foreign investors) continues to be seen as dubious or insufficient, in particular given the lasting uncertainty surrounding the future of the common currency area as such. Several post-crisis developments in the Eurozone, including the creation of new short and long-term stabilisation mechanisms and the introduction of the Banking Union, have not yet translated into a significant shift in Poland's estimate of costs and benefits. Their effect may even be the opposite, with the Eurozone's "new corset"[19] further discouraging Poland from joining the club because of the restraints on the country's regulatory sovereignty that it would entail.

In January 2016, just two months after the constitution of the new government, PiS eliminated the office of the country's plenipotentiary for the adoption of the euro. The party's conviction that Poland should stick to the zloty is reinforced by the importance that it attaches to identity and sovereignty issues, seeing national currency as a crucial instrument of the country's autonomous monetary and development policy as well as a source of national pride. Warsaw's rigid approach would thus limit the government's future willingness as well as its internal political capacity to agree to any variant of Poland's eventual euro membership, be it on a full or on a partial basis (e.g. maintaining the zloty but with an ERM-style fixed exchange rate vis-à-vis the euro).

A week after the British referendum several leaders of the Civic Platform (PO) – now the main opposition party – suggested that a return to the debate on euro adoption is necessary, yet without prejudging that the solution should consist in a quick accession. Officially, the party has not changed the position that it has held for years, believing that Poland should adopt the euro once both the Eurozone and Poland as its prospective new member are ready, which in PO's opinion they are not. Still, we should not expect that the PO will focus significantly more on this topic, as in the party's assessment this may not help them much in regaining credibility and public support.

Instead, Nowoczesna could take a silent lead in the promotion of euro adoption by Poland, thus confirming its position as a liberal alternative to both PiS and PO. In such a case, however, they will have to tread carefully lest their euro argument should become easily knocked down as neoliberal and therefore unreliable. That is why we should rather expect them to try to "sell" their support for euro adoption as part of a wider package of not-just-economic liberal reforms which would also include greater openness towards migrants or renewed entente with Germany and the EU's mainstream. All these issues are supposed to be discussed during the meetings of the Parliamentary Group on the Future of the EU, which was created on the initiative of Nowoczesna in June 2016 and has gathered 40 members (though none of them from the ruling party or from a right-wing and populist party, Kukiz'15, which is currently the third political force in the Polish parliament).

[19] P. Toporowski, "A Post-Crisis Eurozone: Still and Attractive Offer for Central Europe", Policy Paper No. 22 (124), PISM, Warsaw, July 2015.

5.3 Weimar and Visegrad: New Openings or Wishful Thinking?

In the aftermath of the British referendum – as part of Warsaw's apparent "Plan B" – the Polish government has aimed at the re-invigoration not just of cooperation with the V4's "usual suspects", but also within the Weimar Triangle (with France and Germany).

The latter event is particularly noteworthy. For example, Poland could become one of the crucial players in the EU's new push for security and defence integration, being a particularly attractive partner for France and a complementary member to the Franco – German tandem. Leading proponents of Weimar have been advocating that the Triangle should declare security and defence policy to be a priority of its collective action. There's a widespread perception that "Germany, France and Poland are on the same page in their analysis of the situation in important areas of foreign and security policy"[20], such as the need to resolve the conflicts in Syria and Iraq, and to stabilise the situation in Libya, in order to bring the refugee crisis under control. Even more, a generalised European sense of indignation about Russia's recent actions in Syria has created a rare window of opportunity for the three Weimar partners to be on the same page also on topics related to security in the East.

Yet, the government of Law and Justice is giving very ambiguous signals in its foreign and European policy, to say the least. It says it wants to push Weimar cooperation forward, but at the same time seems not to care too much when entering into an open diplomatic spat with France over the cancelled Airbus Caracal helicopter deal. Worse still, political relations between Poland and Germany – which experienced their moments of "entente cordiale" over the last years – have gone from bad to worse over the last year, as a consequence (among other things) of Warsaw's decision to present London, and not Berlin, as its crucial political partner in the EU, its firm reluctance to take on a requested share of the burden in the resolution of the EU's refugee crisis, as well as frequent unpleasant comments of the PiS's leading representatives aimed at Germany and its real or presumed hegemony in the EU.

Criticism of Germany has always been a hallmark of the party's rhetoric. For the last few years, Jarosław Kaczynski has criticised the previous government for transforming Poland into a "German vassal" and for allowing its powerful neighbour to gain a dominant position in the country's economy and in the media business. That rhetoric has been maintained and was promoted to the official level after October 2015, when PiS won the parliamentary election. Even if many graceless comments about Germany by government officials are aimed mainly at the national political audience, or even constitute just an element of internal political rivalry within PiS, it would be misguided to expect that they would have no effect on Poland's relations with external partners.

To be sure, Poland has several reasons to fear the shift in Europe's balance of power after Brexit. With the UK outside the EU, we may expect a weaker emphasis on the development of the European Single Market or the EU's trade liberalisation agenda. Warsaw will surely strive to secure the interests of non-Eurozone countries, given that the post-Lisbon majority voting system creates a real risk that Eurozone members will outvote the other countries even on issues that concern not only the currency area.

In this context, Poland can either strengthen its relations with the European mainstream in the hope of maintaining at least some impact on the course of the EU's reforms (as might be the approach of PO or Nowoczesna, if they ruled), or it may intend to create counter-proposals, albeit with limited chances of success. PiS

[20] M. Koopman, "Europe needs Weimar: Perspectives on the Weimar Triangle in times of crisis", Genshagener Papiere nr. 18, Genshagen Stiftung, July 2016.

seems to have opted for the latter, although without cutting away the communication channel with Berlin. The government has demonstrated evident enthusiasm for the revival of the Weimar Triangle.[21] It has also presented Angela Merkel's late August visit to Warsaw as a proof of Poland's engagement in the EU's top-level consultations. Warsaw may be counting on Berlin at least supporting some Polish postulates on EU reform, based on the recognition of both countries' interest to secure a "breadth" of European integration and not just its "depth". However, much would depend on Warsaw's capability to pursue a pragmatic foreign policy; something that should not be easily expected form the current government whose foreign policy has, so far, been highly ideologized and largely subordinated to internal political goals.

Meanwhile, it is within the framework of the Visegrad Group that Warsaw is trying to build up some form of an alternative to the "German Europe". In the past, the V4 proved itself as a suitable platform for a coordination of policies with other countries of the region, within the so-called "V4+" formula. This kind of a cooperation is very consistent with Warsaw's ambition to foster cooperation in the region between the Baltic, the Adriatic and the Black Sea.

However, any plan to build a strong coalition of countries willing to come back to an inter-state EU (and constitute an opposition to Germany) may turn out to be "wishful thinking". First, there are clear and rather insurmountable divergences among the CEE countries. Even inside the V4, the governments of the Czech Republic and Slovakia oppose Warsaw's call for a "cultural revolution", while Victor Orban's government demonstrates a far greater pragmatism in its foreign and EU policy when compared to its Polish counterparts. Secondly, a belief that CEE alone could shift the course of the EU's developments may anyway have poor chances of success due to the region's rather limited significance vis-à-vis the EU's older members.

Poland can hope that the EU's new bargain will be decided in a triangle. Most notably, Club Med countries are increasingly vocal in their criticism of German (or Northern) propositions on the future of the Eurozone. This might to some extent strengthen Poland's bargaining power. However – to quote Ryszard Petru, Nowoczesna leader – the end result may just be a "three-speed Europe" (i.e. Eurozone's hard-core, Eurozone's periphery, and the rest). In any case, much would depend on the V4's (or V4+'s) capacity to act in a concerted way.

5.4 In the Distant Background: Banking and Capital Markets Unions

Neither the Banking Union nor the Capital Markets Union constitute today a major subject of political controversies in Poland, to say the least. Watched from the banks of the Vistula river, both initiatives seem to belong to a parallel reality, with no evident linkage between their progress and the advances in other areas of the discussion on a post-Brexit EU; especially since the Polish government does not intend to enter the Eurozone in the foreseeable future.

While Poland's former government (PO) signed an institutional agreement on the creation of the Banking Union in 2015, it never ratified it. Formally, it needed more time to analyse all costs and benefits related to the country's participation in the proposed scheme. But Warsaw simply considered it as disadvantageous for its control over the Polish banking sector. The country's financial supervisor (KNF) has had a relatively good track record after 2008, especially when compared with some countries of the Eurozone's southern periphery (e.g. Spain, Italy). The ownership structure in the Polish banking sector (controlled today around 60% by foreign stake-

[21] "Germany, Poland and France revive 'Weimar Triangle' in wake of Brexit vote", Euractiv, August 29, 2016, https://www.euractiv.com/section/future-eu/news/germany-poland-and-france-revive-weimar-triangle-in-wake-of-brexit-vote/.

holders) may give rise to serious doubts when it comes to the impartiality of external supervisors.

For the current government the Banking Union is simply a "no go". The main task of the Minister of Economic Development, Mateusz Morawiecki, is to ensure that Poland overcomes several development traps so that its growth is fuelled by innovation rather than low wages or EU funds. The government is going to implement a development strategy (known as the "Morawiecki plan"[22]) which involves a crucial role being played by the state and its national champions. The strategy promises a departure from the liberal, EU-oriented development model that Poland has pursued for the last two decades, and as such may increasingly lead to tensions between Warsaw and Brussels or other EU capitals, for example on environmental regulations, energy policy and competition law.

In its ambition to "re-Polonize" the national economy, the government (inspired by Hungarian earlier ambitions) intends to focus on the financial sector in the first place, as Jarosław Kaczyński reminded us during his public debate with Viktor Orbán at the 2016 economic congress in Krynica.[23] Therefore, not only is the government uninterested in joining the Banking Union at this moment, but it may also be expected to search for even greater control over the national banking sector, be it through the acquisition of foreign stakes in Polish banks (e.g. there have been talks of UniCredit's controlling stake in Pekao Bank to be bought by the Polish insurer PZU SA[24]) or by taking a firmer grip over banking supervision.

The story is slightly different in the case of the Capital Markets Union. On the face of it, Warsaw sympathizes with the idea because it is in many ways consistent with the objectives of the "Morawiecki plan", for instance when it comes to the development of venture capital markets. Potential benefits related to the harmonisation of investor protection rules and an increased transparency on the market are also recognised, although – at the same time – some experts argue that the idea of harmonising the listing and corporate governance requirements is fundamentally flawed as it does not take into account the specific conditions of local capital markets.

However, the advances of the Capital Markets Union are only observed from a distance by Poland. The government is disproportionally focused on internal issues and fails to secure adequate presence at EU debates. There is also a general feeling that Poland should now wait and see whether the entire initiative will be continued at all, given that one of its chief proponents, the City of London, seems now to be out of the game.

Therefore, we should not expect that Warsaw will dedicate much of its political attention to this uncertain initiative, or to a distant one of the Banking Union. In theory, Poland's participation in both of these projects could be treated as a way to "keep a foot in the door" and thus make sure that the country does not lose too much of the distance separating it from an increasingly integrated Eurozone. Earlier Polish governments used to act according to that logic. However, there is no visible interest on the part of PiS to remain in the mainstream of European integration, to put it mildly. The government's calculation may change only if it sees the Eurozone's "integration leap" as unavoidable, which it does not yet consider to be the case.

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[22] "Action plan for responsible development of Poland", Ministry of Economic Development, February 16, 2016, https://www.mr.gov.pl/media/14909/ResponsibleDevelopmentPlan_pressrelease.pdf.
[23] "Jarosław Kaczyński i Viktor Orban - Panel dyskusyjny Prezesa PiS oraz Premiera Węgier w Krynicy", Prawo i Sprawiedliwość, September 6, 2016, https://www.youtube.com/watch?v=ds87ceaool8.
[24] G. Legorano, M. Sobczyk, "PZU in Talks Over Buying UniCredit Stake in Bank Pekao", Wall Street Journal, August 23, 2016, http://www.wsj.com/articles/pzu-in-talks-over-buying-unicredit-stake-in-bank-pekao-1471973610.

5.5 The Euro Quandary

Before the UK referendum, Warsaw could reasonably expect that Britain would remain its valuable partner in seeking an EU of variable geometries, with a stronger role for national capitals and a greater emphasis on the Single Market vis-à-vis the Eurozone. Some experts argued that PiS's government could hope to count on Britain even in the case of Brexit.[25] However, the Polish government had to develop a "plan B", as the EU-pessimism of the PiS's doctrinaires[26] has not been corroborated by the course of political events.

A crucial miscalculation by Warsaw may consist in the belief that major Treaty change in the EU is possible, enabling Poland and other Member States to mould the EU anew according to their preferences. Rather, the UK's divorce with the EU would have to be regulated in a small reform treaty which would take the form of a protocol attached to the current treaties. However, it is highly doubtful that the Eurozone countries would use this opportunity to push forward their political integration. A new Treaty would open the "Pandora's box" of a ratification process in each and every Member State, which in several countries would demand a national referendum. From the perspective of the current EU's political elite, that would simply be shooting themselves in the foot.

The EU's internal differentiation may now take the form of a flexible integration which, according to Jan Barcz[27], could either translate into a strengthened Eurozone (with stricter convergence criteria and a limited number of members), or consist in a wider Eurozone (without the ambition to create a political union and instead with a larger number of members in order to boost the efficiency of the EU as a whole). Either way, Poland will become increasingly marginalised in the EU as long as it does not start implementing a viable plan of euro adoption. And even if – in the absence of the UK – it becomes a leader of the non-Eurozone, this club may progressively transform into a sort of a "consolation union".

We should thus expect a rising pressure to be exerted on Poland (both from the West and from amongst its regional partners, like Slovakia) to accept at least some sort of integration with the Eurozone, if not its full membership. Of course, that would be particularly hard to swallow for the PiS government which has made its mark as the defender of the country's sovereignty and national identity. That is why Warsaw may further intend to turn the European discussion to other subjects, such as institutional relations, justice, security or the Single Market.

Nevertheless, Warsaw also runs the risk of becoming increasingly alienated, especially if (for several other reasons) it stops being trusted or taken seriously by its partners, or if it demonstrates no willingness to search for a European compromise (as its low contribution to solving the EU's migration crisis may have been interpreted by Berlin or Rome). Some countries from the region, like Romania, have already reacted to Brexit by seeking more and not less integration, accelerating their efforts to enter the Eurozone. Besides, no country in the region (even Hungary) seems to enjoy the idea of ending up in the EU's second-line "consolation club" led by Poland.

At the end of the day, confronted with a point-blank "take it or leave it" euro adoption dilemma, or simply watching as the Eurozone becomes the EU's sole centre

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[25] A. Gostyńska-Jakubowska, "What would Brexit mean for Poland?", CER, May 19, 2016, http://www.cer.org.uk/in-the-press/what-would-brexit-mean-poland.

[26] A. Balcer, P. Buras, G. Gromadzki, E. Smolar, "Change in Poland, but what change? Assumptions of Law and Justice party foreign policy", Stefan Batory Foundation, May 2016, http://www.batory.org.pl/upload/files/Programy%20operacyjne/Otwarta%20Europa/Change%20in%20Poland.pdf.

[27] J. Barcz, "Główne kierunki reformy ustrojowej post-lizbońskiej Unii Europejskiej", Wszechnica IJM, Piaseczno, 2016.

of gravity, Poland may either have to yield (as politically unpalatable as it would be for the governing party), or risk its geopolitical position being eroded, both in Europe as a whole and in its own backyard.

6. Slovakia

Vladimír Bilčík

6.1 The Euro and Slovakia

Slovakia is a unique case among the V4 since the country has completed its main post-2004 membership goals and institutionally has entered the core of the EU since its Eurozone entry in 2009. Until the onset of the migration crisis the debate on the EU was framed largely by the country's membership in the Eurozone and there was still a relatively high degree of public consensus about the continued benefits of European Union membership. While more than 60 percent of Slovaks continue to view the EU as beneficial, the political consensus around the positive image of the EU has gradually weakened since the beginning of this decade.

In 2011 Slovakia's coalition government led by Prime Minister Radičová fell over a disagreement about supporting the EU bail-out mechanism for Greece. While the single-party government led by Prime Minister Robert Fico from 2012 to 2016 initially defended Slovakia's place in the EU's core and was keen to focus on overcoming the financial and debt crises, its attitude vis-à-vis the EU has been shaped heavily by external events, such as the conflict between Russia and the Ukraine and especially the migration crisis of 2015. Discussion over migration, especially tied to the distribution of migrants on the EU's territory, delineated clear domestic limits to Slovakia's willingness to pass new competencies to the EU when it comes to asylum and migration policy. Moreover, the result of parliamentary elections in 2016 brought to the legislature local neo-Nazis and other anti-establishment forces questioning both EU membership and its benefits. Hence, the hitherto dominant political consensus around the European Union has been weakened. One example is the petition by Slovakia's neo-Nazis to gather signatures for a referendum on Slovakia's membership of the EU.

Brexit, however, is an event that has focused the domestic debate on the existential question of the European project in Slovakia. The UK's vote to leave the EU coincided with final preparations for Slovakia's EU Council presidency in the latter half of 2016. Consequently, the fear of the EU's disintegration has been the leitmotif of public debates in the run-up to the Bratislava Declaration and Roadmap adopted in September 2016. Slovakia's main priority now is to help keep the EU together. Prime Minister Fico who has been leading a new coalition government since spring 2016 expressed his concerns that Hungary, Italy and the Netherlands could follow the UK with their own respective exits.[28]

If we look back at the time before the migration crisis, the crisis in the Eurozone was the main variable in the formulation of V4 countries' positions towards the ongoing institutional debates. The factor that has mostly limited the scope for a co-ordinated V4 response was, apart from the domestic preferences of individual member states, structural. Slovakia is already a member of the Eurozone, thus it is directly influenced by the measures introduced or proposed – whether it be financial commitments (such as participation in the European Stability Mechanism), or stricter rules applied to Eurozone members (automaticity of sanctions under revised Stability and Growth Pact, enhanced oversight in case of the macroeconomic balances procedure etc.). At the same time, it participates in the decision-making as a fully-fledged member, particularly in the Eurogroup, which has been pre-empting major decisions in the realm of economic and financial matters endorsed by the Council.

[28] "Fico: Hungary, Italy or Netherlands could also leave EU", EU Observer, October 27, 2016, https://euobserver.com/tickers/135692.

Assessments of the political consequences of the Eurozone's closer integration differ among the Visegrad Group. For Slovakia as an insider, it represents a guarantee that it will remain within the mainstream of the integration. It has already made the strategic choice in balancing the costs and benefits which the other three countries face and which won't be so easy to make.

Since 2012 Slovakia has articulated a clear political line vis-à-vis EMU. Slovakia's leaders view the year 2012 as a crucial time for the Eurozone when in addition to crisis management the EU began to work on systematic steps toward a new EMU architecture.

Slovakia has firmly positioned itself as a part of the northern group of countries (together with the Netherlands, Finland and Germany) emphasizing economic and fiscal responsibility and calling for more Europe in economic and monetary matters[29]. Slovakia's Ministry of Finance has been playing a crucial role in delineating the country's strong position on fiscal responsibility. However, the 2012 government of Prime Minister Fico defended a more balanced approach in support of measures favoring stronger economic growth. This reflects in part potential domestic difficulties with sustaining Slovakia's fiscal commitments.

Hence, the image of a country belonging to northern EU economies could suffer in the years to come. With respect to the overall future architecture of the Eurozone, Slovakia has consistently raised two main points. First, the country is concerned about the fragility of new rules and weakness of the institutions designed Minister and Foreign Minister Miroslav Lajčák was openly critical of the European Commission's lenient approach toward the problem of France's deficit. Second, Slovakia has consistently underscored the principle of openness in the EMU. The crisis should not entrench new dividing lines within the EU and within the Eurozone. Hence, Slovakia is ultimately keen to see the other V4 countries in the Eurozone.

6.2 Post-Brexit EU and Germany

Relations between Slovakia and Germany enjoy a historical absence of conflicts unlike Czech-German or Polish-German relations. In recent years, bilateral relations are best characterized by increasing institutional, economic and political interdependence, principally inside the European Union and the Eurozone. Differences in political preferences of the two countries have to do with such factors as the size and level of socio-economic development, rather than entrenched attitudes.

Slovakia approved the EU's permanent bailout fund – the European Stability Mechanism (ESM) – months before Germany's Constitutional Court ruled on the matter. It also supported the fiscal compact treaty as a basis for the EU's fiscal union, which was initiated by Germany. During debates on the so-called EU banking union, Slovakia pledged to support the project (but not at any price).[30] Just like Germany, Bratislava wanted to see a good agreement, rather than just a quick agreement. The Slovak government was keen to keep some competencies for the national banking regulator. It feared a scenario whereby the foreign owners of Slovakia's banks could freely transfer debts and deposits across the EU and thus undermine the relatively healthy state of Slovakia's banking sector.

There are political issues where Germany and Slovakia diverge. Examples include energy security – especially with regards to the building of the North Stream II gas pipeline that threatens the supply and transit of natural gas via Ukraine. Slovakia

[29] "Potrebujeme viac Európy, zhodli sa Fico a Merkelová", Zoznam.sk, July 3, 2016, http://openiazoch.zoznam.sk/cl/122322/Potrebujeme-viac-Europy-zhodli-sa-Fico-a-Merkelova.
[30] "Plenárne zasadnutie Národného konventu o Európskej únii", Globsec, May 9, 2013, http://www.europeanaffairs.sk/sk/events/plenarne-zasadnutie-narodneho-konventu-o-europskej-unii-o.

also fears the potential consequences of Germany's decision to get rid of nuclear power plants, particularly regarding the position of nuclear power in the EU and the availability and quality of the electricity supply in the Union. Slovakia also remains more openly committed to the policy of enlargement, especially in the western Balkans. However, on the whole, the process of integration, particularly in the EU, has led to greater common understanding of strategic priorities in both countries.[31]

While the migration crisis increased tensions between Slovakia and Germany, the Eurozone crisis has made it especially clear that Germany remains Slovakia's crucial political partner in the European Union. Slovakia actively seeks out and shares many of Germany's positions. In July 2013, Foreign Minister Miroslav Lajčák wrote in an article published in the German daily newspaper "die Welt" that Slovakia has no fear of economic Grossdeutschland.[32] Slovakia together with the Netherlands and Finland belonged to a group of countries that supported Germany's approach to the resolution of the Eurozone crisis.

Brexit has been an important concern for Slovakia for some time. In June 2014, State Secretary Peter Javorčík, in charge of EU affairs at the Ministry for Foreign and European Affairs, stated that it was important to keep the United Kingdom inside the European Union. However, Slovakia respects Brexit as solely the UK's decision. Bratislava has always viewed the UK as an ally on policies and institutions guarding the Single Market and Enlargement. At the same time, Slovakia's position and priorities are tied to the country's Eurozone membership, which it does not share with London. Bratislava is also very keen on continued solidarity and certain flexibility with respect to structural funds as opposed to the UK's calls for a smaller EU budget, outlays and London's continued rebate.

On the other hand, the UK's exit could undermine the overall political and economic balance in the EU in favour of more southern views and preferences. Hence, Slovakia, like most Central European member states, has a strategic interest in keeping the UK closely tied to the EU.

Slovakia has also been afraid that the question of repatriation of competences could open a Pandora's box where different member states could make claims to re-nationalise some of the existing policies' competencies. While the question of the UK's exit may have some clearer answers in 2017, Slovakia already has some clear interests vis-à-vis the UK's departure from the EU. First and foremost these include continued access of Slovaks to the UK labor market as well as continued access of locally produced cars and electronics to the UK. Since there are no relevant direct ties between banking sectors in Slovakia and the UK, Slovakia should not have any strong interests with respect to a future position of the British financial industry. Above all, Slovakia as a smaller member state has a strategic interest in preserving the rule-based economic and political system in Europe. Hence, any disorderly Brexit could undermine the already fragile rules further.[33]

Moreover, Slovakia's diplomacy may over time be concerned about Scotland's possible departure from the UK. Should Scotland opt to leave the UK, this may not only open new issues for London's relations with the EU. It could also accelerate the process of internal dissolution in other countries like Spain with Catalonia and could thus have repercussions on border and minority issues in Central Europe. Slovakia, especially with its sizeable Hungarian minority (some 10 percent

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[31] V. Bilčík, "Slovak-German Relations: From "Absence" to Discovery through Multilateral Integration", in: A. Sprüds (ed.) "Friendship in the Making: Transforming Relations between Germany and the Baltic-Visegrad Countries", pp. 163-174, Latvian Institute of International Affairs and Friedrich Ebert Stiftung, Riga, 2012,
[32] M. Lajčák, "Keine Angst vor Berlin", die Welt, July 1, 2013, https://www.welt.de/print/die_welt/debatte/article117588305/Keine-Angst-vor-Berlin.html.
[33] M. Beblavý, V. Bilčík, "Slovakia and Brexit: A gentle approach to tough love", in: C. Wyplosz, (ed.) "What to do with the UK? EU Perspectives on Brexit", pp. 117-124, VoxEU, http://voxeu.org/content/what-do-uk-eu-perspectives-brexit.

of the population), is ethnically the most heterogeneous country in Central Europe. Bratislava has for years stressed a strong interest in stable EU internal borders.

6.3 Position towards Current and Further Integration in the Eurozone

Slovakia as a Eurozone member sees very tangible benefits of a Banking Union with common banking supervision if the scheme is going to include "Slovak eyes" that may help guard domestic interests in a much wider European context.[34]

For Slovakia as a Eurozone member it is politically important to move forward with all pillars of the Banking Union. Yet, the scepticism and disagreements over the common resolution mechanism are not unique to the V4 but are also present within the Eurozone. The biggest question at the moment is Germany's position, which will be decisive for any progress in this matter.

In Slovakia since the assumption of power by Robert Fico in 2012, there has been a more balanced approach to both the growth agenda and fiscal austerity. Slovakia does not see growth and fiscal consolidation as two mutually exclusive policy goals.[35]

Slovakia, for instance, has welcomed an open political debate on common bonds or greater solidarity in the EU, which it sees as rather a long-term affair.[36] In the Slovak view the Commission has simply done its homework in sketching out some long-term proposals, without examining its political viability.

What has been happening over the past years, at least in the area of economic governance, is the emergence of a new, hybrid method, whereby the key strategic and political decisions are taken by the European Council, and subsequently implemented – or put into legislative process – by the Commission. The Commission has indeed lost its driving role in this process: it cannot autonomously decide whether or not it will propose the legislation, as this is decided by the European Council, and also the framing of the new measures is relatively clearly confined.

On the other hand, the Commission's role has been formally strengthened in the case of preventive as well as corrective measures relating to economic governance (six-pack, two-pack, macroeconomic imbalances procedure etc.). The big question that arises is whether the Commission will enjoy the necessary political clout to properly exercise its new powers. Slovakia has already been critical of the Commission's lenient approach toward France's fiscal deficit.

The question thus is whether the Visegrad countries should support the Commission in its search for a more political legitimacy (not necessarily the same as its politicisation) to become a stronger gatekeeper of the new measures of economic governance and in what ways, and whether these new powers should be more clearly inscribed in the treaties. None of the Visegrad countries prefers politicisation of the Commission and rightly so: in the current context, its politicisation would likely make its sensitive decisions (such as those relating to the strengthened oversight of the Stability and Growth Pact) less readily acceptable by the member states. These issues are obviously more pressing for Slovakia, as the Commission's enhanced role currently applies to the Eurozone countries. But for the other three they should

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[34] P. Javorčík, "Oberá nás prehlbovanie európskej integrácie o suverenitu?", EurActiv.sk, July 16, 2013, http://www.euractiv.sk/komentare-000338/komentar/obera-nas-prehlbovanie-europskej-integracie-o-suverenitu-000156.

[35] "Rast a fiškálna konsolidácia nie sú v protiklade", EurActiv.sk, May 23, 2015, http://www.euractiv.sk/buducnost-eu/interview/rast-a-fiskalna-konsolidacia-nie-su-v-protiklade-019313.

[36] "Rast a fiškálna konsolidácia nie sú v protiklade", EurActiv.sk, May 23, 2015, http://www.euractiv.sk/buducnost-eu/interview/rast-a-fiskalna-konsolidacia-nie-su-v-protiklade-019313.

constitute an important point in their strategic thinking of where the balance among the institutions is shifting.

There are various other elements that the V4 countries should start addressing, with a view of the shifting balance among the institutions. Many of them have to do with some centralization of economic policy within the EMU. The decisions taken at the EU level often touch upon the very prerogatives of the national parliaments and governments which seemingly are often reduced to the execution or rubber-stamping of EU-agreed measures. This can probably be sustainable in the short-run when such measures are perceived as crisis management, but not if they are to become a standard new method of decision-making in the economic policy coordination realm. It is difficult to envisage specific outcomes, but some elements of possible solutions have already been proposed.

Slovakia seems, however, to be convinced that although changes within the existing treaty framework will be attempted, not everything can be achieved within the current system and a treaty change will eventually become indispensable. However, this is not the issue of the day.

For Slovakia, the importance of the Single Market lies in the economic interconnectedness with the three other V4 countries currently outside of the Eurozone, so negative effects of Eurozone consolidation of the Single Market could have a negative consequence for Slovakia's economic relations with its Visegrad neighbours. But the Single Market also represents a set of opportunities to improve the overall economic performance in the EU and improve the competitiveness of the European economy – an idea shared by all the V4 governments. Making a coherent Visegrad block that would – together with other like-minded countries - ensure that the emerging EMU does not negatively encroach on the Single Market thus becomes a potential opportunity.

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