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## **Legal aspects of Euro adoption in Slovak Republic**

### **Introduction**

I find it an honor to be here today to address the Conference on the Globalization, European Integration and Economic Crisis. The topic of my presentation is dealing with the legal aspects of Euro adoption in Slovak Republic and within its scope I will also deal with some fiscal stability issues. The presentation shall be divided into three major parts according to different stages of participation of Slovak Republic in the Economic and Monetary Union.

First part deals with political, economical and legislative measures that were to be undertaken in order to comply with the Maastricht Convergence criteria. The second part deals with the process of euro adoption itself as a process of monetary succession and all the legislative amendments that were implemented during that stage. Then, finally I will try to provide a brief overview of present situation and future challenges to Slovak fiscal law in respect to obligations arising from the membership in euro area.

### **The strategy of Euro adoption in Slovak Republic**

It is possible to frame the beginning of the path of Slovak Republic towards the euro adoption from legal point of view by the Strategy of Euro adoption that was published by the Slovak government on the 16<sup>th</sup> of July 2003. In this material, prepared by the Ministry of Finance and National Bank of Slovakia a clear decision has been made, that the Euro shall be adopted as soon as it is able to sustainably fulfill all convergence criteria. While the National Bank of Slovakia had already declared several times before, that it supports the euro adoption as early as possible; the reasons for this decision formulated by the government were the following:

- a) pressure for standardization of political and economical measures and reforms
- b) pressure for realization of fiscal policy in compliance with the Stability and Growth Pact and positive impact on financial markets arising from such policy

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- c) bigger price transparency
- d) intensification of international trade
- e) advantages arising out of the fixation of exchange rate for the stability of financial markets and for monetary stability
- f) stability of conditions for businesses and acceleration of real convergence (Euro adoption Strategy, 2003)

I would like to underline the first two reasons as these are the same reasons for which also central bankers in Czech Republic and Republic of Hungary pressed strongly for rapid adoption of Euro in the beginning of the millennium. As Johnson states, they “took this position out of weakness, not strength, viewing the external constraint of Euro adoption as the only way to ensure conservative fiscal and monetary policies in their own countries. “ (Johnson, 2004) At the time the strategy was issued, there were several reforms that were yet to be implemented and their outcome was crucial for fiscal stability of Slovak Republic.

From the perspective of compliance with the Convergence criteria, the starting position of Slovak Republic was as follows:

a) Inflation – the inflation rate was mainly influenced by administrative corrections of price relations and changes in the rates of indirect taxes. It was calculated that these two factors contributed to the price rise by four fifths from the beginning of transformation while the core inflation contributed only by one fifth. Although the inflation rate was constantly dropping, it has risen to 8 % in 2003 so the inflation criterion was exceeded significantly by the time the strategy was adopted.

b) Long term interest rates – the long term interest rates were constantly dropping mainly due to reduction of risk premium, inflation and also due to the reduction of interest rates on domestic as well as on foreign financial markets. However the rates were still above the convergence criterion and the most crucial for further development of this indicator was determination of government to improve the condition of public finances.

c) Exchange rate – The Slovak crown exchange rate was fluctuating only marginally during the fixed exchange rate period with the exemption of a period shortly before the change of exchange rate regime. After switching to the floating exchange rate regime the fluctuations were more significant but still the exchange rate of Slovak koruna to Euro maintained its position within a band of  $\pm 3\%$ .

d) Government deficit and government debt – the development of government deficit and government debt was less optimistic in the years following the transformation. Although with the help of income from privatization the government managed to reduce the overall

debt, the debt to GDP ratio was still 44, 3 %. The government deficit was declining slightly from the year 2000, but in 2002 the ratio of deficit to GDP was 7, 2 %. Taking into account the role of fiscal policy for the accession process to the EMU as well as for the sustainability of euro area itself, there was imminent need to reduce the amounts of government deficits.

### **Structural reforms**

In order to fulfill the convergence criteria and most notably the government deficit and government debt criteria, reforms were necessary, particularly those that would affect the spending side of the budget. Thus a reform of public finance was implemented in cooperation with World Bank from 2000 through 2006, pension reform was implemented in 2004 through 2005, reform of healthcare system started in 2004 and tax reform with the introduction of flat rate tax was implemented in 2003. The tax rate was unified at the rate of 19 % for income tax and for VAT as well.

Especially the public finance reform was rated as a success by the World Bank and as Clarke (2005) proclaims, Slovak Republic got “among the most advanced of EU accession countries. “ Odor and Horvath (2009) recognize the following as the most successful moments of the reform:

- a) **Standardization of methodology**
- b) **Medium term approach**
- c) **Program based approach**
- d) **Realistic prognostics and two new panels** – Two new panels were created: panel for macroeconomic prognostics and tax prognostics panel. The purpose of this step was to separate political discussions from technocratic. We share the belief that macroeconomic and tax prognostics should not be an issue of political debates.
- e) **Improvement of analytic capacities** – Institute for Fiscal Policies was reorganized and now it provides widely accepted analyses.
- f) **Strict rules for using privatization incomes and state guarantees**
- g) **Fiscal decentralization**
- h) **Establishment of Treasury and Debt and Liquidity Management Agency**
- i) **Rule of 1 %** - the spending side of the budget may be corrected upwards only up to 1 % of its original value

j) **Rules for municipalities** – the debts of municipalities are not allowed to exceed 60 % of their incomes from the previous year and their loan costs are not allowed to exceed 25 % of their incomes from the previous year

k) **Overall increased transparency and accountability**

Although it is evident, that any government would eventually have to make the reforms it is doubtful whether there would be enough political will if it was not for the purpose of attaining the membership in the euro area.

**Development of nominal convergence**

**Inflation criterion** – the inflation criterion was attained for the first time in august of 2007, when inflation rate reached the value required by the Maastricht criterion and by the time the Commision was evaluating preparedness of Slovak Republic to join the euro area, the HICP inflation rate was 2,2 %, which was well below the reference value of 3,2 % (ECB, 2008).

The inflation remained below the reference value until February of 2009, where it exceeded the reference value by 0,2 percentage points. However, it is doubtful whether it makes sense to rate the inflation criterion in time of crisis while the three best performing members are in deflation.

**Long term interest rates** – The long term interest rates have been constantly dropping to a rate as low as 3,52 % in 2005 and from 2006 the decline had stopped and the rates maintained a level slightly exceeding average long term interest rates in the euro area. According to all convergence reports (ECB 2004, 2006, 2008), the long term interest rates were well below the reference value.

**Exchange rate** – Slovak koruna has been participating in ERM II with effect from 28 November 2005, so the Slovak Republic could be fulfilling this criterion successfully as early as on 28 November 2007. According to the convergence report of ECB (2008) “the Slovak koruna has been participating in ERM II for over two years prior to convergence examination by the ECB. “ The ERM II central rate was initially set at 38.4550 SK/EUR and it was revalued twice, for the first time to 34.4424 SK/EUR with the effect from 19 March 2007 and for the second time to 30.1260 SK/EUR with the effect from 29 May 2008. The latter central rate also became an official conversion rate by the Council regulation (EC) No 694/2008 of 8 July 2008 amending Regulation (EC) No 2866/98 as regards the conversion rate to the euro for Slovakia with the effect from 8 July 2008.

**Government deficit and government debt** – the government deficit reached its peak in 2000 with a value of 12, 3 % GDP, then in 2003 it declined steeply from 8,2 % to 2,8 % and it maintained a level close to the 3, 0 % criterion. According to the ECB convergence report (2006) in 2004 and in 2005 the deficit ratio exceeded the ratio of public investment expenditure to GDP. On the 4 July 2004 European Council has adopted a decision on the existence of an excessive deficit in Slovakia and thus the Slovak Republic entered the excessive deficit procedure. By the time the ECB issued its convergence report (2008), “Slovakia was still subject to EU Council Decision (2005/182/EC) on the existence of an excessive deficit. The deadline for correction of the deficit was 2007. In the reference year 2007 Slovakia recorded a fiscal deficit of 2.2% of GDP, i.e. below the 3% reference value.” However, “despite strong economic growth in Slovakia, the 2008 fiscal adjustment plan, as presented in the convergence program, is not sufficiently ambitious. In 2008 it does not fulfill the Stability and Growth Pact’s 0.5% annual structural consolidation benchmark, although strong progress with consolidation was achieved in 2007.” (ECB, 2008) Finally, on the 3 June 2008 EC Council has adopted a *Decision (2008/562/EC) abrogating Decision 2005/182/EC on the existence of an excessive deficit in Slovakia* on the grounds that the excessive deficit situation in Slovakia has been corrected.

### **The general delimitation of the legal process of introducing the Euro in Slovak Republic**

On the 1<sup>st</sup> January 2009 Slovak Republic adopted the Euro currency, while it was put at the same time into cash and non-cash circulation without any transitional period, by the so called way of “Big-Bang”. Euro became the legal tender in Slovakia; and so Slovak Republic has become the 16th member of the Eurozone.

The introduction of the single European currency as a legal tender in our country has affected every citizen intimately. However, not everybody is aware of the legal difficulty of this transformation, since the most attention has focused on the economic aspects - discussion about the advantages of adopting the Euro and concerns of rising inflation. The legal complexity of this process illustrates the quantitative fact that the introduction of Euro required a revision of statutes in over 320 Slovak Acts of different legal force. Therefore, in this part of presentation I would like to draw the attention briefly to the fundamental legal aspects of introducing the Euro in Slovakia, since that process was a challenge also for law and its science. The example of Slovak Euro succession, the replacement of the original

currency by the new currency - Euro, may be a guide for other Member States, which will introduce the Euro in the future.

The route of Slovakia into the Eurozone, however, started on the 1st May 2004 by the accession to the European Union. Slovak Republic, like the other acceding countries, had already committed to the currency changeover (if all of the Maastricht criteria fulfilled) by the Treaty of Accession to the EU. The current EU legislation does not contain provisions that would allow a Member States, in relation to monetary union, exceptional status of non-participating clause (so called „opt-out“ clause) as that of Denmark and Great Britain possess. Countries accessing to the EU in the period since the signing of the Maastricht Treaty are automatically committed to the future membership in the Eurozone, which is subject to compliance with the Maastricht criteria.

The new Member States since joining the EU become Member States of the Economic and Monetary Union of the European Union (EMU) automatically with derogation (exception) to adopt the Euro, where the time horizon for entry into the Eurozone is not explicitly specified, but it depends on economic conditions. This temporary exemption in connection with the obligations having origins in the EU legislation means, that Slovakia among the other things, is obliged to ensure the compatibility of the Slovak legislation with that of the EU in relation to the Economic and Monetary Union. For the adoption and implementation of the Euro, as well as the cancellation of the above mentioned temporary exemption, it was necessary to meet the convergence criteria.

The implementation of the Maastricht criteria were analyzed and evaluated in its convergence reports by the European Commission and European Central Bank, which published its final report on the 7<sup>th</sup> May 2008, by which they concluded that Slovakia meets the convergence criteria in a sustainable manner. On this basis, the Commission recommended to the Ministries of Finance and EU leaders to endorse the accession of Slovakia into the Eurozone. On the 17<sup>th</sup> June 2008 supported the entry of Slovakia into the Eurozone the European Parliament and two days later, the political leaders of the EU at the summit of the European Council in Brussels.

Fixed and irrevocable key parameters for the replacement of Slovak koruna for the Euro was officially and definitely determined by the Council of the EU for the Economic and Financial Affairs (ECOFIN), which on the 8<sup>th</sup> July 2008 adopted the decision and two regulations:

- Council Decision (EC) No 2008/608 of 8 July 2008 on the adoption by Slovakia of the single currency

- Council Regulation (EC) No 693/2008 of 8 July 2008 amending Regulation (EC) No 974/98 as regards the introduction of the euro in Slovakia
- Council Regulation (EC) No 694/2008 of 8 July 2008 amending Regulation (EC) No 2866/98 as regards the conversion rate to the euro for Slovakia

The repeal of the temporary exemption for Slovakia to adopt the Euro came into force on the date of introduction of the Euro in the Slovak Republic, and that is on the 1<sup>st</sup> January 2009.

Legally, the process of transferring the Slovak currency sovereignty started without generally binding legal norm adopted by the parliament, but by the political decision of the government, based on the autonomous decision-making power of the executive. Of course, this decision was coordinated in close cooperation with the Central Bank – the National Bank of Slovakia.

The legislative process of leaving the national sovereignty of the currency and its replacement with European monetary sovereignty, started with the administrative normative decisions as individual legal Acts. Specifically, by the adoption of the government resolution No. 678/2003 from the 16<sup>th</sup> July 2003, by which government as the highest executive body took note of the *Strategy of adopting the Euro in Slovak Republic*, which was prepared by the National Bank of Slovakia and the Ministry of Finance of SR and which ordered to develop the realization of this strategy. Government in a joint statement with the NBS stated that the advantages of the Euro in Slovakia clearly outweigh the disadvantages, and there was accepted the strategy for the earliest possible introduction of the Euro, after Slovakia sustainably meet the Maastricht convergence criteria. Following, by a decision of the government from the 8<sup>th</sup> September 2004, was by the resolution No. 862/2004 approved the *Concretization of the strategy for adoption of Euro in Slovak Republic* and the Ministry of Finance of SR was appointed as the national coordinator of the process of introducing the Euro.

This concretization expected meeting of the Maastricht criteria in 2007 and as the earliest date of entry into the Eurozone was determined the 1<sup>st</sup> January 2009. Government then on the 12<sup>th</sup> January 2005 decided by resolution No. 34/2005 about the *Conception of developing the National Plan of the Euro introduction in SR*, which contains the basic tasks associated with the introduction of the Euro in the structure of "what - who - when." From this decision began the creation of domestic legislation, especially by the implementation of the principles contained in the European legislation. For the development of various parts of the national plan were established six working groups (Informatics and Statistics, Legislation,

Banks and Financial sector, Public administration, Non-financial sector and Consumer protection and Communication), whose scope was limited in both - the time factor (the adoption of a national plan) and their focus (preparing the national plan). Concretization also defined the general framework of the areas (Banking sector, NBS, Non-bank business subjects and Non-profit organization, Population and Public administration), which carried out the necessary activities.

*National Plan of the Euro introduction in SR* is a document that has a form of binding resolution of the Government of SR, where are contained in a concentrated form the main tasks and needs related to the organizational and technical security of the Euro introduction, in order to prepare the changeover to run smoothly, so that on the day of the Euro introduction, the entire population is ready to use the new currency in cash and cashless transactions reliably. Therefore, National Plan dealt only with the technical and organizational aspects of introducing the Euro. Control of meeting the Maastricht criteria, the analysis of the impact of the Euro introduction or the economic policies, which secure the Euro are not part of the plan. Draft of the National Plan was submitted to the Bank Board of the NBS and to the Ministry of Finance of SR and its final version was approved by the Government in the resolution No. 525/2005 on the 6<sup>th</sup> July 2005. In the part D.5 of the plan are specified the legislative requirements of the Euro introduction, under which the Euro in Slovakia was introduced directly by the decision of the EU Council, which also means that on the territory of Slovakia has become effective all the EU Council Regulations about the introduction of the Euro, as well as certain provisions relating to the introduction of the Euro and its exchange rates.

### **Slovak General Act on The introduction of Euro**

Slovak currency law governing the Slovak koruna has never been stipulated by an act of codex type, but by an indirect regulation. This, however, has changed due to the adoption of the Euro in Slovakia. Paradoxically, when Slovakia was the sovereign in area of currency and had its own currency, it was governed by only three paragraphs in the National Bank of Slovakia Act. In process of the introduction of Euro, namely when Slovakia lost the sovereignty in the monetary area, it adopted a separate monetary law in the codex form. The fact that this Act may be designated as a Slovak codified form of monetary legal framework points to the compactness of its content and legal coverage of all the relevant aspects of the Euro introduction. This is mainly due to the fact that it was being prepared in a strict

accordance with the community frame of the European monetary statute, i.e. with the primary and secondary EU law governing the single currency and monetary policy.

The basic legal preconditions for the introduction of the Euro in Slovakia and the integration into the Euro system were reflected in the **Act No. 659/2007 Coll. On the introduction of Euro in Slovakia and on the amendments of certain laws**, which from the perspective of the Slovak legal system is a general legal framework for addressing all key issues related to the changeover from the Slovak currency to the Euro, both in the preparation, as well as the implementation of the Euro itself.

By the Act was achieved full compatibility of the Slovak legal system with European monetary legislation, taking into account the related judicature of the European Court of Justice, which is the basic standard for the interpretation and application of relevant EU regulations. Rounding rules laid down by regulation No. 1103/97 were often subject to doubts, and the ECJ had to interpret them. In particular, it concerns the judgments in the cases: *Verbraucher-Zentrale Hamburg v O2 Germany* - No. 19/03 of 2004, *Estager* - No. 1103/97 to 1997 and *Pressetext Nachrichtenagentur GmbH v Republic of Austria* - No. 454/06 of 2008). The Act is in most of the provisions effective from 1<sup>st</sup> January 2008 (the year before the Euro introduction), excluded are only the provisions that are directly binding on the day of the Euro introduction in Slovak Republic.

**General provisions of the Act include mainly the following:**

- general provision on the changeover of the Slovak currency to the Euro
- method of converting the Slovak currency to Euro
- rounding rules
- rules for the dual display of prices
- empowering provisions
- control and surveillance as regards the monitoring of prices and the dual display of prices

General Act in accordance with the European legal framework for the Euro and the judicature of the European Court of Justice establishes that in all relationships (including the interpretation and application of laws) must generally be applied the **three interrelated and interconnected basic principles**:

The principle of neutrality in the change and the conversion of money, prices, payments and other figures from the Slovak koruna to Euro are often referred to as the principle of price neutrality. This means that the transition from the original currency to the euro should be

financially and economically neutral to all persons and other entities, especially for citizens and consumers. Calculations should be performed as accurately as possible and without an effect to the increase in their real financial value and price levels, in essence, it would merely be a technical operation without any substantial financial and economic impact on existing legal relationships. In this regard, the General Act in § 23 sub. 1 establishes that, because of costs and expenses associated with the introduction of the Euro should not be raised prices, including the unit prices, fees or other financial transactions, or to require special charges, increases or any other supplies to cover the costs associated with the introduction of the Euro, including the costs related to the conversion of property values from Slovak koruna to the Euro.

The principle of continuity of the legal relationship means that as a result of the changeover to the Euro, the existing legal relationships will remain and will be maintained without any changes to their conditions, and other content, except for the necessary adjustment of the legal relations objectively changed according to the external circumstances. This principle respects the autonomy of disposition of the particular legal relations affected by the Euro, which may be agreed on any mutually balanced and legal change of the conditions and content of their legal obligation relations.

The principle of protection the economic interests of citizens and consumers means that in the whole process of preparation and the changeover to the Euro should be taken particularly into account and protect the economic interests of citizens and consumers, whose protection is the most important key objective of the EU law, which strictly applies the principle of protection of weaker parties in legal relations.

The overall concept of law is based on the following basic principles that are the building backbone of the General Act:

- system of the „Big-Bang“
- short dual circulation
- clarity of the conversion rate
- rounding rules
- avoid the price increase and perceived inflation, monitoring and control
- minimizing the costs
- retention of material and financial responsibility

The **gradual change of the rules for cash circulation** in connection with the Slovak changeover to the Euro took place in three main time periods:

- a term of exclusive cash money circulation of Slovak currency, which lasted throughout the year 2008 until the introduction of the Euro, so from the 1<sup>st</sup> January 2008 until the 31<sup>st</sup> December 2008, when the Slovak notes and coins were the sole legal tender cash in their nominal value in all of the cash payments,
- a period of dual currency circulation, which was a short and temporary period of the first sixteen calendar days after the introduction of the Euro, so from the 1<sup>st</sup> January 2009 until the 16<sup>th</sup> January 2009, when were temporarily the legal tender in their nomination value not only the Euro notes and coins, but also all the Slovak banknotes and coins
- a term of the exclusive cash circulation of the Euro currency in which the sole legal tender in their nomination value became only the Euro banknotes and coins, while the duration of this period began from the date of termination of the dual currency circulation, so from 17<sup>th</sup> January 2009

The Act provides that the exchange of Slovak banknotes and coins for Euro is made compulsory for the National Bank of Slovakia and commercial banks operating in Slovakia. Banks had been doing so in the case of coins for the six months period from the date of introduction of the single currency Euro, and in the case of notes for a one year, for both free of charge. Thereafter, the exchange of Slovak currency is performed solely by National Bank of Slovakia, where the coins can be exchanged in five years and notes indefinitely.

Part of the General Act is also the Amendment of the National Bank of Slovakia Act, which was essential for fulfilling the institutional conditions of Slovakia's entry into the Euro system. Without its adoption, the EU institutions could not issue a positive opinion in the evaluation report. The amendment treats mainly the integration of the Slovak Central Bank to the ECB particularly in the following form:

- the submission of the legal acts of the ECB
- delegation of the monetary policy to the ECB, in accordance with the Statute of the ECB
- changes in foreign exchange operations and foreign exchange policy, or the management of foreign reserves
- the right to issue banknotes and coins
- definition of monetary unit
- specifying the functions, operations and instruments of the European System of Central Banks

### **Other groups of laws adopted in connection with the entry of Slovakia into the Eurozone**

With the introduction of the Euro was adopted also separate, so called **the second group of legal Acts** that address other important legal issues up to date of the introduction of Euro. The amendment to this legislation was important for a smooth transition from the Slovak currency to the Euro, due to their objective was to increase the legal certainty, as well as within the frame of the legislative and economic transparency, not to burden the legal system by a number of sub-amendments to the legislation. Overall, there were passed 12 Euro Acts that contain a total of 133 amendments of the specific Acts, and they were passed together by the National Council of SR on the 28<sup>th</sup> October 2008.

Most of the amendments so far only addresses to the transition of the Slovak currency to the Euro, in accordance with the rounding rules laid down by the General Act. In general, principle that had been used is together with the calculation according to the conversion rate from the current change, the amount of the sum is also rounded to fifty cents for the benefit of the citizens or the parties concerned. Only the case of the Criminal Code is not concerned with a conversion according to the conversion rate with the mathematical rounding to the nearest cent, but with the rounding to the nearest tens of Euros down to the benefit of the citizens concerned. I have to note that such conversion lost the sense of identifying the financial limits that were previously determined with a view to the certain rounding and the largely also the psychological impact - such as fines, legal or financial limits or ranges. These conversions, however, are based on the basic principle of the conversion, which is also supported by decisions of the above mentioned ECJ, that conversion is no reason for the change of the real values. The practice is, however, that in the next amendment to the Acts in question that have no connection with the changeover to the Euro, is coming to the gradual rounding - example is the revision of the Roads Act, where fines for traffic offenses were rounded to the nearest tens of the Euros even in the course of the 2009.

It is noteworthy to mention also two specific legal revisions, which were adopted on the initiative of the Government with a view to prevent an unjustified increase in price levels on entry into the Eurozone. The need to protect consumers in the changeover to the Euro, there was created the idea of an **adjustment of Slovak Criminal Code**, implemented by the Act No. 497/2008 Coll., which changes and amends the Act No. 300/2005 Coll. Criminal Act. This amendment reinforces the elements of the Slovak legal system to protect the consumer as to respond to the potential impact of the Euro - an unjustified rise of the prices of consumer

goods and services. The amendment added the possibility of legal penalization against the unlawful acts of an unjustified increase in prices of goods or services, as opposed to the rules laid down by the Act directly about the prices or decisions on price regulation. The offense of harming the consumers set the punishment of the imprisonment between six months to three years. Other increases the profit margin, or value added is not a crime, because of the market principle of the free contractual prices. Means of preventing the unjustified price increases in connection with the changeover to the Euro was also a **warning of price regulation**. Ministry of Finance of SR prepared in accordance with the government strategy the *amendment of the Act No. 18/1996 Coll. Price Act*, which enabled to take measures to prevent unwanted price trends, and in borderline situation possibly also to accede the price regulation. The adjustment brought also a possibility to monitor the price developments by the individual Ministries within their jurisdiction. Any price regulation, which should be the last solution, was designed in a way that was based on the economically justified costs of the entities and reasonable profit. These facts were required to be proved by the businessmen with the accounting documents, calculations of costs and profits, or other documents justifying the level of prices, or with the documents required by the price authority. The amendment of the Act allowed to use specified scope of regulation exclusively only by the end of 2009, which in practice was not used at all. One of the cases where the competent authorities may proceed to the price regulation was an emergency situation, which could have a direct impact on the prices of goods on the domestic market and it would undermine price stability and availability of goods. Another possible reason of the price control may be the price deformations due to underdeveloped competitive environment. Regulation of prices was possible either by the official authority to set the prices or by material guidance of prices, or eventually by the combination of both.

Finally, the last so called the **third group of the legislative measures** are legislative amendments, which were by the introduction of the Euro affected only marginally. Their adoption was performed continuously from the 1<sup>st</sup> January 2009, due to fact they only intervene in these rules that contained only the edge reference to the original Slovak currency. In this group of regulations were gradually amended legislation of the lower legal force than government regulations, ordinances, decrees and actions of Ministries and other central government bodies, legal rules made at the local level.

### **Economic crisis as a challenge for fiscal policies of euro area members**

As for the undergoing economic crisis many of the euro area member states found their public finances in poor condition and the government deficits as well as debt to GDP ratios are increasing rapidly. Slovak Republic is no exemption; in fact the actual fiscal deficit in 2009 was 6,77 % of GDP and the planned deficit for year 2010 is 5,5 % GDP. This, in connection with fiscal problems of other member states may pose a serious threat to sustainability of economic convergence and to euro area itself.

There are already new proposals for tighter control of national budgets emerging. EU finance commissioner Olli Rehn has already stated he would like Brussels to have more of a say over budget policies of member states. (SPIEGEL, 2010) According to Citigroup's analysts "The euro region is headed for break-up without steps by the European Union to integrate its member states politically and fiscally, even if a solution to Greece's debt crisis is found"(LEVISOHN, 2010)

This in fact may be one of the outcomes of economic crisis and fiscal federalism is to be considered as a serious option. The other option may be to implement new fiscal institutions on the national level which is, after all what European Commission already proposed earlier (2009). Odor and Horvath (2010) under fiscal institutions recognize the following:

- a) fiscal policy rules
- b) rules for budget preparation
- c) transparency rules
- d) independent institutions

Out of the above mentioned I would like to focus on fiscal policy rules and independent institutions.

Kopits and Symansky (1998) define fiscal policy rules as permanent limits for development of some aggregate fiscal indicators (e.g. deficit, debt, expenditures). I have to admit that Poland is ahead of Slovakia on this issue as according to Article 216, sec. 5 of The Constitution of the Republic of Poland it shall be neither permissible to contract loans nor provide guarantees and financial sureties which would engender a national public debt exceeding three-fifths of the value of the annual gross domestic product. However, several political parties in Slovakia have implemented similar constitutional amendment propositions in their election programs for the nearing elections in June. I can only express hopes that these pre election vows shall become reality.

As for the independent institutions, these are meant to overcome the information advantage of ministry of Finances. They help to inform the public economic consequences of proposed legislation and long term impacts of budgetary issues. As an example of such institutions may be Congressional Budget office in USA or Institute for Fiscal Studies in Great Britain. At this point I find it a sensible proposition that the European Commission shall be granted powers to consult the national budget proposals as long as it is not allowed to alter it and thus the Commission shall fulfill a role of independent institution sui generis.

The point is to show that the issue of healthy public finances is not a political issue but a technocratic one. The fiscal institutions may play a crucial role in attaining this goal and now it may be the right time to rethink the old and maybe dated fiscal structures. As Rahm Emanuel, Mr. Obama's new chief of staff, told a Wall Street Journal conference of top corporate chief executives: „You never want a serious crisis to go to waste." (SEIB, 2008)

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