

# EURO IN THE SLOVAK REPUBLIC

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**Abstract:** *The implementation of Euro is linked with risks and opportunities. In the paper is described readiness of the country for the adoption of the common currency – Maastricht criteria.*

**Keywords:** *euro, Maastricht criteria, Euro changeover*

## 1. Introduction

The implementation of Euro can be characterized in the following way:

- § Euro (money) has the function of „lubricant“ of economy and it is not decisive for its successfulness; (however on the other hand in [1,4] there is stated :” Overall the introduction of Euro after 20 years could raise GDP by approximately 13 % in comparison with the situation without the introduction of Euro.“
- § The major effect of implementation of Euro can be seen in elimination of transaction expenses and market risk.
- § The loss of independence of the National Bank of Slovak Republic (NBS) during the decision-making process connected with interest rates is a risk (also in relation with a relatively small and just transforming Slovak economy).

## 2. Maastricht criteria and the development of their fulfillment in SR

The formal condition of readiness of the country for the adoption of the common currency is the meeting of nominal convergence criteria – Maastricht criteria. Meeting of these criteria will ensure a balanced economic position of member countries of the European monetary unit.

The first two **criteria** are connected with the sphere of government finances; the ratio of the annual [government deficit](#) to [gross domestic product](#) (GDP) must not exceed 3% at the end of the preceding fiscal year. The ratio of gross [government debt](#) to GDP must not exceed 60% at the end of the preceding fiscal year.

**Inflation rate criterion** is important from the viewpoint of maintainability of the price level of the entering country. According to it the average inflation for 12 consecutive months (measured in accordance with HCIP), must not exceed the average of 3 EU countries with the best results in the sphere of price stability more than 1.5 %.

The next criterion is **the stability of long-term interest rates**. The nominal long-term interest rate must not be exceeded in more than 2% in the three member states with the lowest inflation.

Apart from these four criteria, the entering countries have to prove **the stability of currency** by the participation for a period of at least two years in the European Exchange Rate Mechanism, ERM II before joining the [Euro zone](#). The ERM is based on the concept of fixed currency exchange rate margins, but with exchange rates variable within those margins.

On the basis of the data of Eurostat, the Ministry of Finance of SR and NBS, the analysts of VÚB have worked out the analysis of the fulfilling the convergence criteria and its results are summed up in the following chart:

Chart 1: Fulfilling of Maastricht criteria [6]

Criterion and its fulfilling	Period of time			
	2005	2006	2007	2008
Government deficit (% GDP)	2,8	3,7	2,2	2,0
Fulfilling	✓	✓	✓	✓
Government debt (% HDP)	34,1	30,4	29,4	31,0
Fulfilling	✓	✓	✓	✓
Measure of inflation (%)	2,8	4,3	1,9	2,9
Fulfilling	✗	✗	✓	✓
Stability of long-term interest rates (%)	3,5	4,4	4,7	4,5
Fulfilling	✓	✓	✓	✓

At the beginning of July 2008 Slovakia reached the last important „milestone“ on its way towards Euro – the exchange rate determination. Before this date the financial analysts estimated it on the basis of premise that all the countries which were adopting the euro (with the exception of Portugal and Greece), were changing their national currencies on the basis of the stated central parity. This assumption was correct. On 8 July 2008 the Council of EU stated the official exchange rate which was the same as the 40-day-old central parity (30, 1260 SKK/EUR).

However the conversion rate was officially declared in the order of the official document of EU on 24 July 2008. This day was the most important for the entrepreneurs because 30 days after the declaration of the conversion rate they were obliged to use a dual price system, the prices had to be recounted and rounded to 1 cent according to mathematical rules. So since Sunday, 24 August 2008 the shopkeepers in Slovakia have had to state prices on the price tags both in euro and Slovak crown. In their shops they have also had to make the information about the conversion rate visible. This conversion rate has been applied on all the items in the shop.

### 3. The plan of Euro introduction in SR a problem areas

Chart 2: The process of Euro introduction in Slovakia [3]

<b>1. stage – till the entrance to ERM II – fulfilled</b>	
2005	Going through access procedures for the entrance to the mechanism of exchange rates ERM II
<b>2. stage – from the entrance to ERM II to the decision about the entrance of SR to Eurozone</b>	
28.11. 2005	Entrance to ERM II
till May 2008	Convergence reports of EC and ECB
May – June 2008	Evaluation procedure in European institutions
June 2008	Decision of Council of EU about the cancellation of exception
June 2008	Determination of conversion rate SKK/EUR by the Council of EU
<b>3. stage – from the decision about the entrance to Eurozone to the entrance to Eurozone</b>	
July – December 2008	Providing with the necessary amount of euronotes and mintage for the cashflow of SR

September – December 2008	Providing NBS and commercial banks with euronotes and coins
December 2008	Providing retail sector with euronotes and coins
July 2008 – December 2009	Compulsory dual pricing – all retail prices, payslips, pensions etc. will be compulsorily stated both in euros and Slovak crowns.
till 31 December 2008	Conversion of cashpoints, automatic and other coin and banknote operating machines.
<b>4. stage – after the entrance to the Eurozone</b>	
1 January 2009	Euro is introduced at the same time to the cashflow as well as the cashless flow without the interim period by the so-called „Big-Bang Scenario“ and becomes a legal currency on the territory of SR. Slovak crown becomes a partial unit of euro in the conversion rate stated by the Council of EU.
till 16 January 2009	Dual cashflow – during a short period of a dual cashflow on the territory of SR it is possible to use euro as well as Slovak crowns as means of payment. However the Slovak crowns are not put back into the circulation but are gradually withdrawn from it, and processed on the premises of NBS.
from 17 January 2009	Continuation of exchange of Slovak crowns for euro coins and notes in the commercial banks and NBS. Slovak circulation euro coins are the valid currency in all countries of eurozone and circulation coins of other countries of eurozone are the valid currency in Slovakia. Banknotes are the same in the whole Eurozone.
till 31 December 2009	Compulsory dual pricing
till June 2010	Recommended dual pricing

The first problems with the fulfilling the plan of the introduction of euro occurred in August 2008 and were connected with the assignment of the date when it was compulsory for economic subjects to state prices in both currencies – in Slovak crown as well as euro.

Initially a 30-day-period since the determination of official conversion rate by the Council of EU was stated. But according to the above mentioned information, the dual price system is compulsory 30 days after the declaration of the official conversion rate in the order of the Council Regulation (EC) – that means since 24 August 2008. Economic subjects reacted to these problems more or less positively because they had 2 more weeks for the alteration of price tags and for other preparations.

Correctness of dual pricing and the stating of the conversion rate is controlled by the Slovak Commercial Inspection in cooperation with Trade Licensing Offices. At the beginning the problems seemed to be more striking. There was uncertainty not only in the depiction of prices but also in the depiction of exchange rate.

During the period 8-10/08 approximately a quarter of more than 20 thousand controlled shops struggled with shortcomings. The biggest problems were expected especially in small shops. And it proved true.

Another problem which became striking in December 2008 was the problem of the forward buying of eurocash. Entrepreneurial subjects had the possibility to order the

necessary eurocash in commercial banks till the end of March 2008. A lot of smaller entrepreneurs did not use this possibility. According to the advice of bankers they decided to use euro packs. NBS prepared 1 200 000 pieces of starting euro packs which contained 45 pieces of euro coins with Slovak motifs. The value of one pack was 500 SKK (16,6 EUR). The number of euro packs was fixed following the Slovenian experience – there was a very small interest about the packs there. The situation in Slovakia was opposite.

#### 4. Genesis of the attitude of entrepreneurial subjects and inhabitants to the introduction of euro

The published surveys were concerned with the analysis of the attitude of inhabitants and entrepreneurial subjects - [2, 5].

The main positives connected with the introduction of euro for enterprises stated by respondents (in %) [1, 4 -shortened]:

Chart 3: The main positives connected with the introduction of euro

	SME**	Big enterprises
Elimination of transaction costs	42,5	81
Elimination of exchange rate risk	33,7	85
Simplification of doing business with partners in eurozone	28,2	24
New markets acquisition	15,8	0

\*every respondent stated 3 most important positives

\*\* small and medium enterprises

It results from the chart that SME found in the introduction of euro the strategic opportunity for acquiring the new markets. From this point of view big enterprises (global players) did not find any contribution.

The main negatives connected with the introduction of euro for enterprises stated by respondents (in %) [1, 4]:

Chart 4: The main negatives (risks) connected with the introduction of euro

	SME	Big enterprises
Increasing of competitive pressure	46,5	22
Cost rise influenced by introduction of euro	57,4	54
Loss of markets	8,6	0
No or different negatives	10,7	15

It results from the chart that SME perceived the introduction of euro as a potential threat of the competition rising. Big enterprises perceived this risk at 50% in comparison with SME. The attitude of SME and big enterprises to the threat of increasing the costs under the

influence of the introduction of euro was quantitatively balanced. Analogically big enterprises did not perceive the introduction of euro as the risk of the market loss.

In the period from March to June 2008 a repeated questionnaire survey was carried out with the Slovak entrepreneurial subjects. Its aim was to monitor the dynamics of the development of attitudes towards the introduction of the euro (as far as the possibility of its use the quality of handed back questionnaires varied). From the limited sample of respondents the following data were obtained:

- § Elimination of the exchange rate risk, price transparency in the eurozone and simplification of doing business with the partners in the eurozone were three most important positives mentioned by the respondents;
- § As far as the impact of the introduction of euro on the enterprise turnover, 43 % respondents expected the increase in the range from 1 % - 20 %. However 46% did not expect any change;
- § As far as the impact of the introduction of euro on the export of the enterprise 26 % respondents expected the increase in the range from 1 % - 20 %. However 67 % did not expect any change;
- § As far as the impact of the introduction of euro on the profit of enterprise 50 % expected increasing in the range from 1 % - 20 %. However 41 % did not expect any change;
- § The balance of for and against answers signalizes the uncertainty of respondents in anticipation of consequences of the introduction of euro;
- § according to respondents cost rise and increasing of competition pressure are the negatives connected with the introduction of the euro;
- § as far as the question of the identification of the problem area up to 75 % respondents stated the adaptation of the information systems, 68 % of them stated price fixing, 69 % of them stated the conversion of the accountancy, and 60 % of them stated the cashflow;
- § as far as the question of the expected costs 62 % respondents expect costs in the range from 0,1 % - 1 % of the annual turnover. However up to 22 % of them do not expect any additional costs;
- § 25 % respondents intended to start preparation in the second half of the year 2008 and 39 % of them did not intend to appoint the competent person (project group) responsible for the preparation and introduction of the project in the enterprise;
- § marketing expectations of respondents: 70 % of them did not expect any impact of the introduction of the euro on the number of customers.

From the obtained answers and their comparison with the results from 2007 we can come into the conclusion that:

- § with regard to the objectively changed situation in SR the number of entrepreneurial subjects which assumed the preparation for the introduction of the project was rising,
- § in the context of project managing the judging of the introduction of euro did not markedly change (however this fact could be influenced by a relatively high amount of respondents in the category *Micro enterprise* with 0 - 9 employees),
- § as far as the expected impacts (turnover, profit, export) respondents were more uncertain in comparison with the past,

- § when defining the negatives of the introduction of the euro there was no change (cost rise and increasing of the competition pressure).

## **5. Euro changeover in the Slovak Republic - experience**

Experience concerning euro changeover can be summarized in the following way:

- § Dual cash flow has represented a significant marketing aspect – its mastering has been a proof of abilities and preparation of the enterprise which has presented its reliability and respectability. Many entrepreneurial subjects (mainly small entrepreneurs) closed their plants and shops during this period.
- § „Big Bang Scenario“ policy in euro changeover decreases costs but increases pressure on preparation of entrepreneurial as well as non-entrepreneurial subjects.
- § Resetting of ticket machines, cashpoints and other machines was solved by compromise – impossibility of application of dual cash flow was replaced by immediate euro changeover. Similarly the information function of gas stations was solved.
- § There was a very good preparation for euro changeover and its implementation in shops and stores. The biggest problems were in the shops in regions with a higher percentage of non-adaptable citizens. There were some problems with dual pricing and application of dual cash flow, i.e. with accepting cash in both currencies but giving change only in euro.
- § One big problem was with certificate stamps – market demand was higher than the real amount of printed stamps.
- § Implementation of euro changeover was really one of the greatest investments of banks. The evaluation of this investment can be seen in a higher demand for credit cards and in the offer of products that take into consideration the specific situation in Slovakia, i.e. a huge amount of coins and ineffective and insecure manipulation with them.
- § In the sector of passenger transport service the implementation of euro changeover caused delays mainly in the intra-municipal bus transport and it made transport companies to introduce payment by cards. Payment cards have reduced manipulation with cash which was strenuous especially for bus drivers.
- § Conversion in banks was managed very smoothly – cashpoints operated from the very first day; but not all the denominations of banknotes were available. However, this was accepted by customers without problems. Conversion of banking systems did not make it possible to update e.g. permanent transfer order during the first three days of the year 2009.
- § Promotion campaign (its costs were about 260 million SKK) was successful and met its target.
- § Euro changeover had also positive effects on banks – during the first three quarters of the year 2008 deposits of citizens increased by about 51 billion SKK. The reason for it was a free and comfortable possibility of cash conversion on accounts.
- § There were introduced so-called euro packs (the value of euro coins in the pack was 500 SKK) within euro marketing campaign. The original function of packs - new coins recognition - was changed into a suitable Christmas present which was in short supply. The same activity with euro packs in Slovenia was judged as unsuccessful–

citizens did not have an interest in it. In Slovakia – on the other hand - one local government gave euro packs as Christmas presents to their retired citizens.

§ Slovak people still face a dilemma: “How much money are we supposed to give a waiter as a tip in euro currency?”

§ Terminology and using slang expressions in connection with new euro currency is in development, too.

After introduction of euro currency and the period of dual cash-flow a gas crisis started in the Slovak republic. Gas crisis together with financial crisis broke out into economic crisis and changed the priorities of many entrepreneurial subjects as well as their attitudes to euro.

At the beginning of the euro project (also discussed in European Commission) the sustainability of inflation was stressed. At present time inflation in the Slovak republic is under the level that was before euro changeover. Other currencies of Vishegrad countries (Czech Republic, Poland, and Hungary) have been losing their value and there are opinions of experts saying that in case that the Slovak republic did not apply euro, the exchange rate would be about 40 SKK/EUR. However, the situation in pro-export economy is not unambiguous - a weak Slovak crown would give exporters advantage over importers. The reality of economic crisis is that the car market (as the most important commodity of Slovak economy) is in the strong competition. And at the same time because of decreasing the purchase effectiveness of target markets, the market potential which would eliminate the advantage of lower value of Slovak crown decreases, too. The actual question is the future after recovery. It can be assumed that markets will increase their requirements and at the same time the crisis will support mergers and acquisitions and it will also increase the competitive pressure on the car producers (Slovak-French-German - Korean).

## 6. Conclusion

Economic crisis has come to Slovakia in the third quarter of the year 2008. The consequences have been seen in decrease in economic growth, production (especially in the car industry) and in demand decrease. During the year 2008 many entrepreneurs invested money with argument that euro changeover would bring inflation. This attitude together with psychological affects has caused decrease in demand, GDP, and turnover; unemployment rise, and production cutting. A new framework of economic situation on micro and macroeconomic level has been created.

At present time euro is a factor of the financial stability of Slovak economy. However, the role of euro in the Slovak economy after the economic crisis ending is questionable.

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