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IMPLEMENTATION OF EURO IN SLOVAKIA

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Summary: *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 as well as the impact of euro changeover on companies serving in passenger transport in the Slovak republic.*

Introduction

There are various opinions on the introduction of Euro expressed by academia and the entrepreneurial subject.

- Optimistic – there are uselessly wasted expenses (by the spirit of the slogan: „ If we were able to get over the year 1992, there is nothing more which could surprise us. " (In this year The Slovak republic was established as the result of separation of Czechoslovakia).
- Pessimistic – the whole process is too slow and the expenses are too high
- Realistic – the introduction of Euro is not only a potential opportunity but also a threat of losing welfare for the state, enterprises and inhabitants.

The implementation of Euro, with the stress on the mentioned risks and opportunities, can be characterised 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 [1,5] 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).

Maastricht criteria and the development of their fulfillment in Slovak Republic

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 sheet:

Sheet 1 Fulfilling of Maastricht criteria [9]

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.

The plan of Euro introduction in Slovak Republic and problem areas

Following table presents process of Euro introduction in Slovakia.

Sheet 2 The process of Euro introduction in Slovakia [4]

1. stage – till the entrance to ERM II – fulfilled	
2005	Going through access procedures for the entrance to the mechanism of exchange rates ERM II
2. stage – from the entrance to ERM II to the decision about the entrance of SR to Eurozone	
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
3. stage – from the decision about the entrance to Eurozone to the entrance to Eurozone	
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.
4. stage – after the entrance to the Eurozone	
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. In many subsidiaries euro packs were sold off on the first day. For this reason NBS recommended to restrict the amount of sold packs for one person. In spite of this fact euro packs were sold off. The main cause of this situation was the interest of not only the small entrepreneurs and inhabitants but also larger companies, communities and associations. They gave the packs as a present to their employees, members and to pensioners. The next phenomenon which occurred was the buying of packs with the purpose of doing business with them. E.g. on the Internet auction - on the auction portal eBay the euro pack was offered for 26 euro, i.e. Internet offer was 1.6 times more expensive than the real price and the seller could make a profit of almost 10 euro on one pack.

Impact of euro changeover on companies serving in passenger transport

The impact of euro changeover influenced not only companies serving in passenger transport but also software suppliers responsible for collecting the fare.

During the period from 1 to 16 January 2009 all entrepreneurial subjects had the obligation to provide a dual cash-flow. And so the drivers were supposed to accept the fare in Slovak crowns as well as euros but they had to give change only in euros. The consequence of this obligation- especially in transport for short distances- was that a passenger who wanted to pay with higher denomination banknotes caused problems for drivers who did not have enough euro cash for giving change. For this reason there was the delay in transport - especially on the first days of the year 2009.

Transport enterprises decided to solve the problems with the dual cash-flow also with the help and support of self-governing bodies. They made travelling with travel cards more advantageous - they decreased the fee for the issuance of a chip card to minimum and they also decreased the cost of card travels in comparison to the cost of current travel tickets by more than 50% in the municipal transport (current fee = 0,56 euro, chip card fee = 0,23 euro) and by more than 0,13-0,17 euro in intra-municipal transport. The enterprises started with the decreasing activities in August and September and finished their introduction in December 2008.

Passengers perceive this scheme of advantageousness very negatively. There is the hidden increase in travel fees – e.g. when a passenger buys a travel ticket - whose value was 11 SKK till the end of the year 2008- now he has to pay for it 0,37 EUR what is in conversion 11,15 SKK.

The problem with the dual cash-flow also occurred in connection with buying travel tickets from ticket machines. These devices could not accept banknotes or coins of one currency and return banknotes/coins of another one. Transport enterprises solved this problem in a following way: since 29 January they gradually set the ticket machines to accepting euro. Selling travel tickets – but only in new euro currency - has started since 1 January 2009.

The majority of companies providing intra-municipal or long distance transport use the unique equipment for printing travel tickets and reading chip cards when selling travel tickets. Its supplier comes from the Slovak republic. Euro introduction could be characterized mainly with the focus on the new equipment/software that could manage euro changeover and that was able to deal with both currencies (SKK as well as EUR). Preparation of transport enterprises for euro changeover started with a sufficient time allowance, i.e. in the second half of the year 2007. At present we can say that euro changeover was realized by transport companies without significant problems.

Conclusion

The introduction of euro in Slovakia in the context of advantages and disadvantages was not conflicting (the situation in Czech Republic was different). In general we can say that entrepreneurs understood the introduction of euro as a driver which would increase the entrepreneurial position of the enterprise as well as the Slovak economy. At the same time political parties (right, left) defended the introduction of euro. The representatives of Christian democracy expressed their critical attitude towards the introduction of euro but not in a noticeable way. A cost aspect connected with a conversion was considered the biggest disadvantage. At that time a question of stability of the currency was not „the topic of the day“. At present the consequences of the financial crisis have an effect also on the Slovak economy (dismissing employees, reduction of production and investigation programmes). Indistinctive height and influence of impacts are interpreted as the result of the decision of SR to adopt euro. Euro is interpreted as one of the factors which reduce the influence of the financial crisis on the Slovak economy.

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