



ARE SLOVAKS PREPARED FOR USING THE EURO?

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The last time our citizens were faced with a currency separation came when the Czech and Slovak Federal Republic split to become the Czech and Slovak Republics and the Slovak koruna replaced the Czechoslovak koruna at the rate of 1:1. From the monetary viewpoint, the Slovak Republic's EU integration process will culminate with the adoption of the European single currency. This is an irreversible and demanding process requiring nominal and to a certain extent real convergence. People are mainly interested to know what benefits the introduction of the euro will bring, but also what risks they will need to prepare for.

A questionnaire survey conducted at the beginning of this year on a sample of 150 respondents sought to find out what Slovak citizens think about the introduction of the euro and to discover the level of awareness about the integration processes. A similar survey has been carried out by the European Commission through the series of Eurobarometer public opinion surveys.¹

Introducing the euro

The first question was whether the euro should be introduced in Slovakia. By the signing of the agreement on accession to Economic and Monetary Union (EMU)², applicable between the ECB and NBS since 1 May 2004, Slovakia is committed to bringing the euro into use. A significant majority of respondents, 85%, thought the euro should be used in Slovakia, which is a figure in line with the fulfilment of the EMU mission. In the Eurobarometer survey, a majority of respondents in the E-10³, 44%, said their country would gain more than it loses by using the euro, while 41% thought the opposite.

Timetable for introducing the single currency

The second question concerned the date for introducing the euro into Slovakia's cash circulation. Almost half of the respondents, 48%, did not know the timeframe for euro adoption. The European Commission, in conjunction with other institutions, will need to develop an information pro-

gramme getting citizens acquainted with the practical preparation for introducing the euro.

The Visegrad Four and the euro

The third question focused on the possibility of Slovakia adopting the euro at the same time as the other countries of the V4. A majority of respondents, 78%, said the euro should be introduced simultaneously here and in the neighbouring Czech Republic, Hungary, and Poland. Others thought Slovakia should introduce the euro before the rest of the V4 (13%) and afterwards (8%).

Impact of the transition period

For the fourth question, the respondents were asked whether they expected any problems in connection with using the euro. A similar question was posed in the survey conducted in eurozone countries three years after the euro's adoption, but whereas the eurozone citizens had already been able to evaluate the single currency in actual use, the respondents in our poll were stating their expectations. That Slovaks still find the euro somewhat intimidating is indicated by the fact that more than half of the respondents, 56%, believed that using it would bring them problems to some extent. There is a marked difference between citizens of the SR and the eurozone in that only 38% of the former did not expect that using the euro would cause them any problems while 52% of the latter said that using the euro had not caused them any problems. The explanation for this probably lies in the natural fear people feel when faced with something new and unknown.

The price impact of euro adoption

The fifth question addressed expectations regarding the effect of the euro's introduction on prices of foodstuffs. Almost three-quarters of respondents, 73%, feared it would push prices up. According to the EC's statistics, the euro's actual impact on prices in the E-12⁴ was very small (0.1% – 0.2%), yet the public perceived the growth in prices to be many times higher.

Price differences between countries

Proponents of the euro often tend to the view that introducing the single currency leads to price transparency

¹ The public opinion surveys are published on the internet at http://europa.eu.int/comm/public_opinion/index_en.htm

² The Agreement was signed on 29 April 2004 between the European Central Bank and the national central banks of the Member States that are outside the euro area as at 1 May 2004.

³ The E-10 states comprise the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia.

⁴ The E-12 states comprise the states which on 1 January 2002 adopted the euro for cash transactions.



and the equalizing of price differences between countries. Responses to the sixth question show that Slovaks do not believe the euro's introduction will balance out price differences among eurozone countries. A relatively large proportion of the respondents, 17%, said they were not able to answer the question. The same question was put in the Eurobarometer survey, but in that case the response "Don't know" was not an option. Although the Eurobarometer survey showed an ambivalence in opinions on this question, a majority of respondents from the E-15⁵ had not noticed balancing of price levels among the eurozone countries even three years after the euro's introduction.

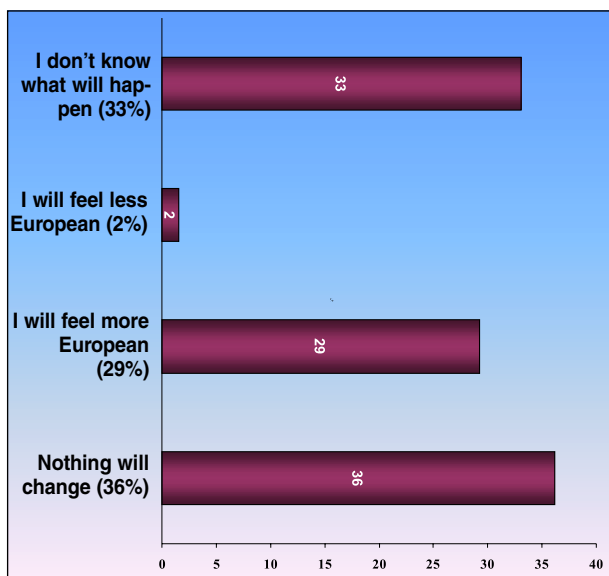
Dual price tags

The seventh question concerned the use of dual price tags (with prices given in Slovak koruny and euros). In Slovakia, there is no legal duty to display dual prices, though these will be required in the immediate run-up to the euro's introduction. A majority of Slovak citizens, 83%, would like retailers to use dual price tags as soon as possible before eurozone entry. The eurozone citizens were also asked whether they agreed with the continued use of dual price tags; the result, it seems, is that they have become used to the euro over the past three years and have no need for dual price tags.

People's feelings about the single currency's introduction

For question eight, respondents were asked what they

Graph 1: What Slovak citizens feel about the euro's introduction



⁵ The E-15 states comprise the Member States of the EU prior to its enlargement by the accession of Cyprus, Malta and countries from Central and Eastern Europe.

felt about the single currency and to what extent they identified with it. As Graph 1 shows, the largest segment of the respondents, 36%, said that the euro's introduction would not change anything. The eurozone citizens were also asked what they felt about the euro's use in their respective countries: the share of those who felt that nothing had changed was significantly higher, 78%. One-third of the Slovak respondents, 33%, had no idea about what would happen as a result of the euro's introduction. On the other hand, 29% expressed the view that the euro would make them feel more European. The eurozone citizens were more restrained in this regard: only 19% of the respondents said that using the euro over the previous three years had made them feel more European.

The Maastricht Criteria and the Stability and Growth Pact

Any country that adopts the single currency must first fulfil the nominal convergence criteria, the so-called Maastricht Criteria. The ninth question ascertained whether the respondents had heard of the Maastricht Criteria and the Stability and Growth Pact. A majority, 61%, had heard something about these documents, though the figure would probably have been different had the respondents been asked to describe their content. The Eurobarometer survey asked respondents whether they had heard of the Stability and Growth Pact only. Compared to the eurozone citizens, 55% of whom had heard of the pact, the Slovaks fared well. The eurozone respondents who gave a positive answer to this question could further specify whether they also knew something about the pact (36%) or not (16%).

Paying in euros abroad

Although Slovakia has still not introduced the single currency, a number of Slovaks already have experience of using the euro, largely on visits to E-15 countries. A majority of these respondents found payment in euros to be easy: 46% said it was "very easy" and 48% said it was "more easy than not". It appears that Slovaks are not afraid of using the new currency, having undergone a similar transition when the Slovak koruna was introduced in 1993.

Paying in euros in Slovakia

The use of euros in Slovak retail outlets and restaurants is already a reality. The question remains whether this step has been taken for the benefit of local people or foreign tourists. The hypothesis on which we based the eleventh question – that the vast majority of Slovaks have never used euros in Slovakia – was confirmed: only 8% of the respondents admitted to having paid in euros in this country.

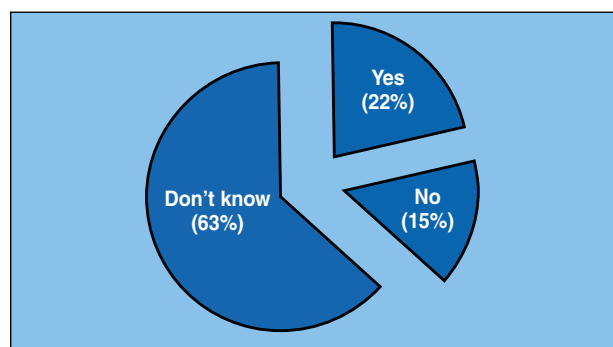
Charges for credit card use in the eurozone

The single currency could ensure that the system for



using credit cards and payment cards is unified throughout the eurozone. The experience has been otherwise, and it is a fact that card payments made in particular eurozone countries are subject to various additional charges. Most respondents, 63%, were not able to answer the question about these charges, and it may therefore be deduced that Slovaks visiting eurozone countries are not using credit cards. One reason could be the high charges imposed on ATM withdrawals abroad – most commercial banks charge between 1.5% and 3.5% of the transaction value and at the same time set a minimum withdrawal amount. Interestingly, the number of eurozone citizens who noted the additional charges related to credit card payments corresponds to the number who were not able to answer this question.

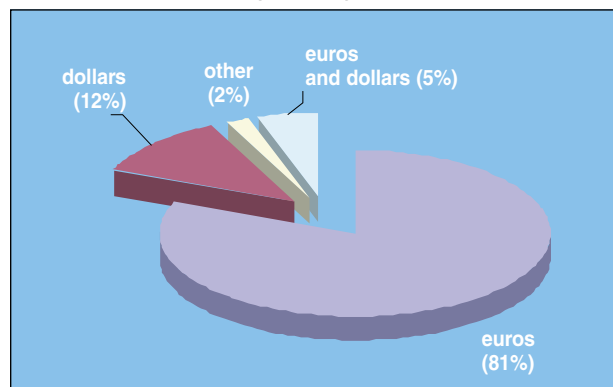
Graph 2: Are there charges related to credit card use in the eurozone?



Which currency to take abroad?

One indicator of the importance of this or that currency is whether people think they should take it on trips abroad. A majority of respondents, 81%, said they would take euros when going abroad. With eurozone citizens, the currency of choice for foreign visits was less clear-cut: as many as 30% would take a currency other than the euro or dollar.

Graph 3: Which currency would you take on a trip abroad?



Forecasts for the SKK/EUR exchange rate

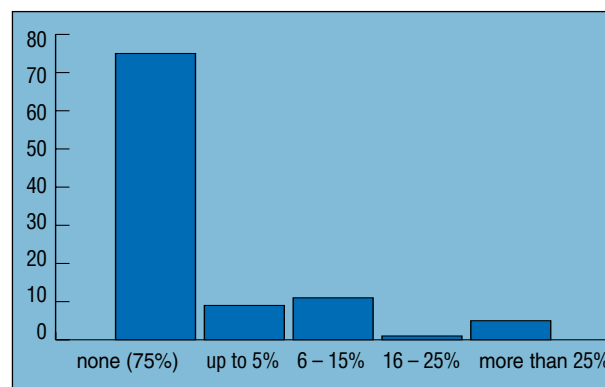
The fourteenth question looked at expectations for the development of the Slovak koruna, which prior to entry

into ERM II has followed a firming trend.⁶ Almost three-quarters of the respondents, 72%, predicted that this trend would continue over the next three years, while 14% did not expect the exchange rate to change. Related to the firming of one currency against the other is the tendency of people to keep their bank savings in the appreciating unit. Similarly, the interest rate differential attracts people to save in those countries which have higher real interest rates.

Savings in euros

Three-quarters of the respondents, 75%, did not have any savings in euros, according to answers given to the last question. On the other hand, 11% of the respondents kept between 6% and 15% of their savings in euros, and 5% of the sample used euros for more than 25% of their savings. On average, Slovak citizens hold 4.4% of their savings in euros, but given the high standard deviation (13.3%), it is not possible to attach substantial statistical significance to this figure.

Graph 4: What percentage of your savings are in euros?



Are Slovak citizens prepared for using the euro?

The survey findings show that the vast majority of Slovak citizens take a positive stance towards the single currency, although little more than half of the respondents are aware of when Slovakia is expected to join the eurozone. There is a preference for acceding at the same time as the other V4 countries, and most citizens are familiar with terms such as the Maastricht Criteria and the Stability and Growth Pact. It is interesting that a majority of the respondents consider paying in euros abroad to be “easy” or “more easy than not”, yet at the same time fear that using the euro at home will cause them problems to some extent. In particular, there is concern that the euro’s introduction will raise the prices of foodstuffs, which probably reflects the negative responses that followed the euro’s introduction in several eurozone countries. With

⁶ The SKK/EUR exchange rate as a half-year average has appreciated from June 2002 to June 2005.



regard to this experience, it is likely that most respondents would like retailers to use dual price tags as soon as possible prior to eurozone entry. The respondents do not expect that the euro's introduction in Slovakia will change anything, nor that it will balance out price differences across eurozone countries. Although it is possible to use the euro in Slovakia, only a tiny percentage of the respondents have done so. Nor do Slovaks have much experience of using credit cards in eurozone countries, as was shown by the inability to answer the question on additional charges related to credit card payments. While the respondents need euros on journeys abroad, they show no preference for keeping their savings in this currency. This is connected with the continuing firming of the domestic currency, which the respondents expect will persist over the next three years.

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