

# USE OF THE EURO IN SLOVAKIA

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This article focuses on the evaluation of a questionnaire survey, the aim of which was to identify the rate of use of the euro in businesses, evaluating the manner of its use and estimation of the expectations concerning the future development of the euro in Slovakia. We have analyzed the share of the turnover invoiced in various currencies, the impacts of introducing the euro on the pricing policy, exchange rate, the use of the euro in payments. We have concentrated in particular on the advantages that may result from introducing the single currency. The advantages of an early adoption of the euro include savings in transaction expenses for businesses, a reduction in exchange rate volatility and together with further growth in the economy's openness this would support real economic growth.

The questionnaire survey took place in business entities in Slovakia from November 2002 to January 2003. We addressed 30 enterprises from various industries of the national economy. The questionnaire contained 17 questions. We selected only those businesses that operated activities in international trade.

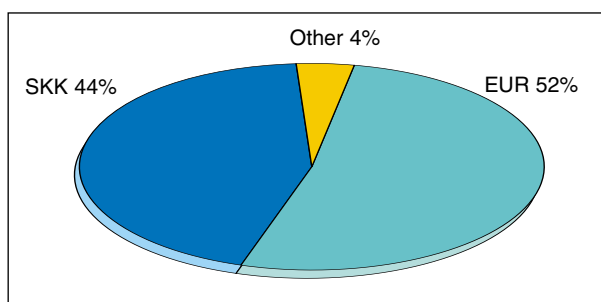
## Business ownership

The first question concerned ownership of the business. 45.5% of the enterprises under consideration marked ownership as being from the eurozone. This marked share of the foreign ownership demonstrates the high degree of openness of the small Slovak economy. The motivating factors for foreign investors were production efficiency (cheap workforce), increasing market share and diversification of risk.

## Exports to Europe

The second question focused on the export activities of Slovak enterprises. The turnover share of the businesses questioned comprised a 60.3% share exported to EU countries. It is in the interest of the businesses to adopt the patterns and rules for business conduct in the European market and begin to exploit its advantages in export, creating joint ventures, as well as in a larger choice of customers, suppliers, employees and banking services. Freedom of competition enables them to offer goods and services to a wider sphere of customers. There is an interest in the products and services provided from Slovakia and Slovakia's products are competitive on foreign markets.

Share of turnover invoiced in various currencies of a selected set of businesses



## Share of turnover invoiced in different currencies

The results of the survey are given in the graph below. A 51.18% share of turnover is invoiced in euro. The domestic currency has a share of 44.35% and other currencies represent 4.47%. The euro clearly has the largest representation. It is becoming the leading currency used by the business subjects in trade. The businesses surveyed expect an increase of 5.32% in the average turnover invoiced in euro by 2004. The expected increase can be seen especially in the case of larger enterprises. The increased growth may be connected to the gradual increase in the importance of the single currency.

## Use of the currency in the price offer

The transition to the new currency in the EMU countries has affected the stating of prices for goods and services in the price offer also in the case of Slovak exporters. More than half of the businesses (72.7%) use euro for quoting the price for goods and services in the price offer and 27.3% state it in the domestic currency. One of the enterprises analyzed uses both variants.

## Exports and invoicing in euro

The businesses surveyed were asked to answer the question which countries they export their goods to and which countries they are currently invoicing in euro. The results are evaluated in the table below. Most products were exported to Germany and exclusively the euro is used in payment for goods.

## Imports from EU countries

A 91% share of businesses questioned stated that they purchase goods or services from EU countries.



This is shown by the large demand of Slovak businesses for raw materials and intermediate products from the EU. Slovak businesses will gradually lose their price-based competitive advantage and will have to learn to promote themselves on the basis of high manufacturing productivity and quality, innovation, speed, servicing and customer care.

#### **Reasons for the forecast increase in purchasing and invoicing in euro**

The existing borders are becoming ever more permeable to goods, services and capital. Slovak firms must thus, from the aspect of their finding their place in the common market, face a demanding competitive environment. The access of advanced European competition to the Slovak market will be limited only by the barriers of language and distance.

An important factor of the expected increase in purchasing and invoicing in euro is, according to 66.7% of respondents, the requirement of their own customers. The answer "the introduction of the euro was business's own decision" was marked by only 33.3%. The increasing needs of domestic customers are related to the increased imports from EU countries.

#### **The impact of introducing the euro on pricing policy**

A technical problem in introducing the single currency is rounding. The rules for rounding between the euro and the national currencies of the member states were provided for in Articles and of the ES Regulation no. 1103/97 of the Council of the European Union. Our question concerned the stabilisation of prices and its task was to obtain an answer as to whether the business thought that if the price in Slovak koruna was converted to a price in euro, it would be more convenient to round it up. This could ignite an inflationary spiral. Of the businesses surveyed 81.8% expressed their opinion that the rounding up of a price in SKK converted to a price in euro is not advantageous and 18.2% thought otherwise. According to Article 5 the principle applies that amounts converted between national currencies and the euro according to the fixed conversion coefficient are rounded in the euro toward the closest cent. In converting the euro to the national currency the rounding rule applies that rounding is made to the closest lowest unit of the national means of payment. Generally it must not be rounded by more than EUR 0.005.

#### **Expected impact of introducing the euro on the exchange rate in the SR**

The question of the exchange rate regime of the domestic currency is solved in various ways among the acceding countries. Until October 1998 a fixed exchan-

ge rate regime was applied in Slovakia, where the koruna was tied to a basket of currencies. The fluctuation band was set at 14%, in the framework of which the exchange rate of the koruna could fluctuate. As of 1 October 1998 the NBS decided to cancel the fixed exchange rate regime and introduce a managed floating regime with the reference currency – Deutschemark, since 1 January 1999 replaced by the euro. In the transitional period the Slovak koruna will be a part of the ERM II system until the time Slovakia fulfils the Maastricht convergence criteria. In connection with the fluctuation of the exchange rate we asked respondents, whether the notification on the introduction of the euro will have an effect on the exchange rate of the koruna against the euro. 81% of respondents answered positively without stating the direction of the exchange rate movement.

#### **Impact of introducing the euro on a change in prices for goods purchased**

Adoption of the single European currency and the replacement of the Slovak koruna by the euro brings both potential advantages and disadvantages. On the one hand it would mean simplified and cheaper procedures in foreign trade. This advantage would be important for small and medium-sized businesses that are not able to sufficiently effectively defend themselves against exchange rate risk. On the other hand for the NBS it would mean a loss of the possibility to influence monetary policy. 81.8% of respondents said that after the euro's introduction price shifts had occurred.

#### **Opening a bank account in euro**

In introducing the euro into the non-cash system of payments in 1999, all banking institutions in Slovakia began to provide customers with euro accounts. Our hypothesis in the field of the administration of the euro accounts has been confirmed. 91% of businesses have a euro account and use it actively.

#### **Use of euro in payments**

For Slovak companies it is advantageous that they do no longer have to keep on account for example French francs and Deutschemark and be prepared for exchan-

#### **Export and invoicing in euro**

Country	Export to individual countries (share in %)	Invoicing in euro (share in %)
France	5.3	10.5
Germany	42.1	42.1
Portugal	5.3	5.3
Italy	10.5	10.5
Austria	26.3	35.7
Poland	5.3	5.3
Switzerland	5.3	–



ge rate risk between these or any other currencies, where these have been replaced by the euro. They may pay from the euro account similarly to a French, German or Italian supplier and at the same time use the same currency. 91% of businesses in payment use a bank account in euro in the system of payments for settling suppliers' bills. 9% use such a bank account also for domestic payments. All businesses surveyed use a euro bank account for the collection of receivables.

#### **Assistance and support in issues concerning the introduction of the euro currency in the EMU**

The prevailing part (72.2%) of respondents stated that they use the Internet in searching for assistance and support in issues concerning the introduction of the euro. These business entities may in the case of their interest search for assistance and support on web sites ([www.europa.sk](http://www.europa.sk), [www.euroservis.sk](http://www.euroservis.sk), [www.eu.sk](http://www.eu.sk), [www.nbs.sk](http://www.nbs.sk), [www.europea.eu.int](http://www.europea.eu.int), [www.euro.ecb.int](http://www.euro.ecb.int)), further information is provided by the European Information Centre in the SR, seated in Bratislava and having branches in regional towns.

The results presented are rather an inspiration for further, more detailed, research and with regard to the number of respondents we cannot deduct from it any general conclusions applicable to the SR. The questionnaire survey undertaken is, despite the reasons above, a suitable tool for the business, banking and state spheres for the future monitoring of the use of the euro in conducting business.

The euro is the single currency of a large and liquid financial market and a world reserve currency. Payment for and transport of goods in the framework of the EU member countries is faster, more reliable and cheaper. Traders and consumers benefit from the transfer to the single currency due to greater safety – concerning in particular the price for which goods are sold. If it is paid for goods and services in the same currencies, competition is also increased in the common market, from which the whole area of the community benefits. The single currency thus helps to stimulate economic growth and employment. This benefit does not relate only to traders, but also to travellers crossing Community countries, who do not have to exchange money and in this way lose a percentage on each transaction.