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Thesis

Analysis of Euro Currency in Slovakia

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Summary

This bachelor thesis mainly deals with the analysis of the Euro currency in Slovakia since its introduction on January 1, 2009 until the January 2015. Thesis further deals with the brief history of the European monetary integration, integration of the Euro in Slovakia and how the development of the Slovak economy was since its independence in 1993 until the introduction of the Euro. It presents how Slovakia was dealing with the meeting of Maastricht criteria and the preparation of citizens of Slovakia for a new currency. In thesis is also stated the impact of the economic crisis on Slovak economy and the impact of the crisis on public finances of the whole Eurozone. It explains European rescue funds the European Financial Stability Facility (EFSF) and the European Stability Mechanism (ESM) and how Slovakia dealt with the introduction of these funds. The analysis itself deals with the development of the Slovak economy, especially the development of the foreign trade and the GDP. The analytical part of the thesis compares the current situation in Slovakia concerning the inflation, growth of minimum wages, labor productivity per hour, growth of the GDP, total public debt and unemployment with the situation in other countries of the Eurozone. In the last chapter are stated opinions of experts about the present and the future situation of the Euro.

Keywords: Slovakia, Euro, Currency, Maastricht criteria, Eurozone, EFSF, ESM, ECB, ECU

The aim of the study and the methodology

The basic aim of the thesis is an analysis of the development of the Slovak economy under the influence of the Euro since its introduction in 2009 until present, and to try to come up with some predictions concerning the Euro currency in the future.

The methodology is based mainly on the study of documents. These documents are professional literature concerning history of the monetary integration in Western Europe, monetary integration in Slovakia and the current literature that captures the current situation concerning crisis. The professional literature is supported by internet resources, especially articles from online newspapers and statistical offices. Further the methodology is based on interviews with experts and SWOT analysis that sums up strengths, weaknesses, opportunities and threats of the topic.

Research

The first chapter includes the brief history of the European monetary integration. It captures the whole development from the first idea of the common currency, until the introduction of

the Euro in the Europe. After the Werner's plan which failed due to unwillingness of countries to participate on the "Snake in the tunnel" and European Monetary Cooperation Fund which failed due to unwillingness of countries to hand over powers to the central organ, it was introduced the European Monetary System based on the European Currency Unit (ECU) which is the direct forerunner of the European Monetary System based on the Euro. The Euro was firstly introduced on January 1, 1999 by first eleven countries and it replaced the ECU in proportion 1:1.

The second chapter describes the brief development of Slovak economy after it got independent and the integration of the Euro in Slovakia including fulfilling of Maastricht criteria and the information campaign in Slovakia. Slovak economy had quite a rough beginning of its independence when it had to face a high inflation and outflow of foreign exchange resources. However, after the introduction of certain measures the economy of Slovakia stabilized and after year 2000 it became one of the fastest growing economies. Therefore it was possible to join the European Union what was a basic move to be allowed to introduce the Euro. Slovakia started to work on conditions of the introduction of the Euro as soon as it was possible. After the joining of the European Union, Slovakia was continuing in its growing trend and it managed to fulfill the Maastricht criteria so well, that it was possible to start the information campaign more than one year before the introduction of the Euro. The information campaign took place without complication and it was possible to introduce the Euro on January 1, 2009.

The third chapter captures the development of the Slovak economy after the introduction of the Euro with the influence of the economic crisis. Unfortunately for Slovakia, together with the introduction of the Euro began the economic crisis which muted many benefits that it could have had. It is possible that if the Euro was not introduced, the crisis could have had bigger impact on Slovak economy. Obviously, the impact of the crisis was muted also by a well-set economy that would probably expand even more if it was not for the crisis. In 2009 appeared a big fell in the decrease of the annual GDP, growth of the unemployment and the public debt. However, Slovak economy was able to stabilize relatively fast and until these days it has maintained the status of one of the fastest growing economies in Europe, and on the contrary of other countries it has managed to avoid recession (except for 2009 when the recession was recorded in all countries in the world).

The fourth chapter compares the current situation of the economy of Slovakia with the other countries of the Eurozone. Currently Slovak economy is in a better state than economies of the most countries of the Eurozone. It is the sixth fastest growing economy in the Eurozone. It is better from the point of view of the total public debt which is on the level of 54.6% of the GDP which is still passing in terms of the Maastricht criteria, while the average total public debt of the Eurozone is over 100% of the GDP. It is relatively better in terms of inflation. The whole Eurozone currently contends with the deflation and in Slovakia it is currently only 0.5% while the average deflation of the Eurozone is currently 0.6% and in some countries it is even over 1%. On the other hand, the purchase power parity is still only on the level of 76% of the average of the GDP of the European Union, and in Slovakia is also one of the highest levels of unemployment in the Eurozone (12.5%).

In the last chapter are stated opinions of the experts about the future of the Euro, which is closely related to the future of the Slovak economy. Most of them are quite pessimistic. They do not deny benefits that the Euro has brought to Slovakia (reduction of transaction, higher credibility of the country, monetary stability etc.), but they do not agree with solutions and steps that Germany and the European Central Bank have offered, claiming, that they might possibly have destructive consequences. They do not offer any particular solution, but according to them the key is a cooperation and a compromise especially between the European Central Bank, Germany and the black sheep of the Eurozone, Greece.

Conclusion

After the consideration of all advantages and disadvantages which Euro has brought and possibly will bring to Slovakia, it was in my opinion a good decision to introduce the Euro in 2009 in terms of overcoming of the economic crisis, but it was a bad decision in terms of the future of the Euro, which is currently uncertain and brings possible threats.

Slovakia has more stable monetary policy than other countries of the V4 and the other fundamental strengths are reduction of transaction costs and higher lending credibility which attracts investors (although the crisis made these strengths less significant). On the other hand, Slovakia lost an opportunity of using monetary tools to influence the economy. Further, there is an obligation to participate in rescue projects (EFSF, ESM) for countries which irresponsibly used their financial resources. In my opinion it is important to solve current state concerning total public debt which currently appears to be the biggest problem of the Eurozone. In fact, there are many threats concerning the future of the Euro, what strongly

relates to the future development of Slovak economy. If big countries of the Eurozone and the ECB are not able to cooperate and agree on a solution that would suit all sides as soon as possible, it will possibly lead to the collapse of the Eurozone. If the Eurozone collapsed, the most of the Europe would face the bank crisis, meaning high unemployment, high inflation, recession, decline in living standards, stop of economic development, outflow of investors, bank failures because people and companies would not be able to repay loans, and other negative impacts. In my opinion the result would be as same as it was after the economic crisis in the interwar period. The power would get populist radical political parties what would possibly lead into war which might have devastating consequences all over the world.

Sources

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